

Workshop on the conclusions of the domestic gas and electricity supply competitive market review and the review of BGT's price regulation

Background

On Thursday 14 December 2000, Ofgem held a public workshop to discuss the conclusions of our review of the development of competition in domestic gas and electricity supply markets, and our initial proposals for BGT's price regulation from April 2001.

Representatives of gas and electricity suppliers, gas shippers, government, other regulators, consumer groups and other interested parties attended the workshop.

Ofgem presented the conclusions of the competitive market review and the initial proposals for BGT's price regulation (see attached slides). BGT then presented its initial thoughts on our proposals (see attached slides). We answered questions throughout the workshop. The main focus of questions was on the proposals for debt blocking. We have summarised below the views expressed at the workshop.

Views expressed

Some representatives queried the specific information used in the competitive market review. BGT signalled its broad agreement with the conclusions of the review. The main comments made at the workshop concerned our proposals that price controls should only be removed for LatePay and PrePayment customers if 'substantial' progress was made to allow customers in debt to switch supplier.

One supplier was concerned to understand the position for debt blocking in electricity. It also asked how we proposed to take forward debt assignment. Ofgem said that we wanted to make progress on electricity and would write to interested parties to clarify the position. Ofgem believed that the current assignment rules for final bills had proved to be ineffective.

If Ofgem's proposals were adopted, it could be expected that suppliers would react to commercial incentives to develop bilateral or multilateral arrangements, without the need for regulatory rules.

Energywatch explained that it was aiming to address the issue by looking at debt management and ensuring that customers did not get themselves into debt in the first instance. Ofgem recognised its concerns and believed that changing the debt blocking provisions would incentivise suppliers to review their debt prevention and management processes.

An interested party asked that if BGT agree to the special condition, will it be extended to all other suppliers, raising a concern that a BGT customer in debt would be able to move, but would be blocked from moving to another supplier in the future. Ofgem explained that we hoped that the different treatment of non-BGT customers would only last for a short time, and up to a maximum of 2 years.

A supplier enquired what Ofgem would define as 'substantial' progress in getting customers in debt to benefit from competition, e.g. would it be measured by the number of customers in debt subsequently transferring away from BGT. In addition, it expressed concern that there may be a lack of incentive for prepayment customers to switch as there was a lack of competition for these customers compared to those paying by other methods. Ofgem indicated that 'substantial' progress would involve a consideration of not just the number of customers with an opportunity to switch, but also the incentives on suppliers to make the new arrangements work, including the length of time for which new arrangements would apply and the level of any thresholds. Ofgem explained that the lack of switching amongst prepayment customers was in part due to the lack of incentive for suppliers to market to customer groups containing a large proportion of customers whose transfer could be blocked.

A supplier asked if Ofgem would be able to impose a special condition on BGT. After Ofgem indicated that we could not impose such a change, it asked what incentive there was for BGT to agree to such proposals. Ofgem explained that failure to make progress on

debt blocking would mean that BGT remained subject to formal price regulation, thereby restricting its freedom to operate in the market. It would also be subject to a further review of its price control arrangements next year.

BGT indicated that it was broadly supportive of Ofgem's desire to make progress on the debt blocking issue. It expressed concern about how the proposals would work in practice and was concerned that customers would 'debt-hop' between suppliers. BGT suggested that it would be better if suppliers could reach agreement between themselves on how best to address debt blocking. Ofgem agreed that if the industry came up with a proposal we would consider it carefully, but so far we had not seen a proposal that came close to meeting our requirement for 'substantial' progress.

Next Steps

Respondents have until 10 January 2001 to respond to both documents. Ofgem will be issuing final proposals in mid-February. As explained above, Ofgem agreed to clarify our position on debt blocking reforms for the electricity sector in a separate letter to interested parties.