

16th June 2010

RE: An ERGEG Consultation Paper on Draft Guidelines of Good Practice on Indicators for Retail Market Monitoring

Bord Gáis Energy (BG Energy) welcomes ERGEG's endeavour to provide a harmonised monitoring environment which will harness greater competition in the single European Energy market. It will be helpful for existing and potential market participants to understand the nature of competition in each of the different markets and indeed for it to be comparable across different markets. This will act to give participants greater confidence in the market and the future development of the market.

Please find below BG Energy's comments and suggestions with respect to certain questions posed by ERGEG in its consultation paper.

Question 1: Are ERGEG's suggestions a comprehensive approach to assessing market development?

BG Energy agrees with the general approach set out in ERGEG's consultation but believes that there are some other factors that have been overlooked while others have not been given sufficient attention and which BG Energy feels are important in a competitive analysis of retail markets, namely:

- A meaningful high-level overview of the market environment;
- Market barriers, and
- Market entry.

High Level Overview of Market Environment

As a starting point, when conducting a review on the status and development of competition in the relevant markets, the Regulatory Authorities (RAs) should outline the high level status of competition in the market. This would involve market share and market concentration details on the different customer segments in the market – not solely the domestic segment. Typically market participants with significant stakes in other customer segments provide the basis for more sustainable competition in a market as they are less likely to be priced out of the market by the actions of an incumbent or other participants.

As part of this general overview and also to better understand the nature of competition, a report should also look at the characteristics of competitors in the market. That is to say, the size of the relevant participants, their history in the market or in other markets, the products offered and any other such information which informs the ability of participants to actively compete in the market. This will provide a better understanding of the nature of competition and indications on the ability of market participants to compete against the incumbent, thereby giving a clear picture of the sustainability of competition in the market.

Market Barriers

Where the RAs review of the market identifies barriers impeding market entry and/or the further development of competition, the RA's should highlight these in their review and outline a plan with strict timelines to address these barriers. Not alone would such an obligation accelerate market developments it would also improve market participants confidence in the market such that anomalies will be addressed in a coordinated and timely manner.

Market Structure

Wholesale market liquidity is a key component of retail market competitiveness and should be a central feature in any analysis of retail markets. The ability of market participants to provide efficient and stable prices to customers depends on the quality of wholesale market arrangements. Furthermore, non-integrated new entrants depend on the wholesale markets to enter the market and to provide services to customers. For this reason, any analysis or review of a retail market would not be meaningful without an analysis of liquidity levels in the wholesale market.

Question 4: Should any indicators be measured differently?

Section 4.3 proposes the tracking of reliable comparison websites as an indicator for the availability of information for customers. A price comparison website can be a useful tool for customers to access information in a simple and understandable format. It is important however that the website is truly independent and that the party responsible for the website has an obligation to reflect the true nature of offerings for customers. The reliability of the website is key. Without service guarantees, price comparison websites risk being abused and used as a gaming tool to the detriment of customers' interests.

Related to customer information, another indicator should be included to assess customer education initiatives. That is to say, whether customer education initiatives are being undertaken and if so by whom. This would give a helpful insight into how informed customers are on their energy requirements and how effectively they can process information and product offerings made available to the market. It is BG Energy's view that education of customers is imperative if competition is to be sustainable in a market. In general, it is best if education initiatives are lead by the independent RA(s), but they may also be undertaken by new entrant market participants seeking to attract customers from the incumbent.

Retail margins will be very difficult to capture in a competitive market as it is most closely related to the hedging strategy of individual companies, which are commercial in nature and will not be shared by individual retailers. Attempting to reasonably assume energy costs for the purposes of understanding the cost reflectivity of tariffs could be informative but this can't be used as an indicator of margins as retailers may be in a position to increase/decrease margins by changing their hedging strategies or taking a commercial position on future wholesale market movements.

Finally, market structures are not uniform across the EU. Certain markets are smaller, larger than others and therefore appropriate and sustainable concentration levels may differ across the board. For instance, the Irish market is a small market and in reality could not sustain the same number of competitors as the UK or French market. BG Energy would therefore suggest that each regulatory authority conducts a market saturation analysis for their relevant market to better understand the acceptable level of concentration in the market and therefore be in a position to report meaningfully on market concentration levels.

In **summary**, BG Energy supports ERGEG's proposal to introduce guidelines on retail market monitoring. If implemented across all markets in a consistent manner it will be a useful tool in harnessing competition in the internal market. To further add to the review and its effectiveness in building confidence in the relevant retail markets, BG Energy suggests that the scope is slightly broadened to examine other important aspects such as; a) wholesale market liquidity, b) customer education and c) market saturation. BG Energy also feels that the guidelines should place an obligation on RAs to act within reasonable timeframes where barriers to entry and/or competition are identified.



I hope you find the comments above helpful to your review. Please do not hesitate in contacting me should you wish to discuss any of the points or comments further.

Yours sincerely,

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