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Media Advisory

Utilita responds to latest Energy Review

SUMMARY

Utilita has urged the Government to permit a release of energy to small suppliers to stimulate competition and innovation. The UK market has six large players that are slow to innovate and are not reaching the high levels of customer service that consumers deserve. By releasing just 1.0% of UK energy to small suppliers, a significant improvement in new entry and innovation could be achieved. Release programmes have been used before by the UK Government and are often used in international markets to achieve the same result.

Utilita entered the UK gas and electricity supply industry in 2004, based on the notion that markets were competitive and that suitable transparent mechanisms were in place to prevent unforeseen, precipitous and unprecedented rises in wholesale energy prices.

Utilita was wrong and its assessment failed to adequately deal with the uncertainties around government agencies meeting their stated objectives. When these agencies failed to deliver their objectives Utilita could not operate in the market and had to transfer its customers to another (large) supplier.

Utilita was founded to pursue the objectives laid out in the 2003 Energy White Paper and its first product 'do you get it' was an energy efficiency product under an innovative trial directive set out by Ofgem (relaxation of the so called 28 day rule). It still has products ready to launch and is

pursuing means to achieve these goals. The single greatest barrier to achieving them is access to stable energy prices at affordable credit guarantee levels. Responding to the Energy Review we argue therefore:

- Innovation has failed in the energy supply market. Young new entrant companies are the only ones likely to deliver innovation to a timescale that is relevant, but cannot compete on a level playing field with the six large vertically integrated energy companies. We call on the government to provide an incubation scheme whereby new entrant companies can access fairly priced energy on a secure basis without the need for multiple millions of pounds in financial resources. This requires a pricing mechanism that reflects market conditions and does not expose Government to excessive cost.

- The pricing mechanism we propose is a “netback” arrangement, whereby the government secures supplies of energy from the market and offers that energy to qualifying new entrants on the basis of a retail price marker (the incumbent retail price) with a deduction for transparent third party costs such as transportation and distribution.

A qualifying new entrant for such a scheme would have to be privately owned with less than 50,000 customers possessing all necessary licences and systems in place to operate in the market.

Such incubation would enable new entrant companies to offer energy efficiency products, smart metering solutions and micro-generation schemes as well as many others at a highly competitive price. All such innovation requires dedicated resources, entrepreneurial spirit, small scale and bespoke solutions - none of which suit large unwieldy organisations that still carry the operational baggage of the former monopolistic regime.

ENDS

EDITORS NOTES

[1] Utilita is the first domestic energy supply company in the UK to offer an energy services contract requiring no an additional customer investment or contribution