



Campaigning for Warm Homes

Energy Supply Probe – proposed retail market remedies

Comments from National Energy Action (NEA)

Background

NEA recognises the recent efforts on the part of Ofgem to remedy market failure in the domestic energy retail market, and welcomes the intention behind these further proposals to address difficulties faced by disadvantaged energy consumers. Effective consumer protection is at the heart of the Ofgem proposals and the specific recommendations have the potential to deliver beneficial outcomes provided the proposed remedies are implemented in a supportive manner by suppliers and effectively monitored for compliance by the regulator.

NEA's comments on individual elements of the proposed retail market remedies are set out below.

Improve the information they [suppliers] give to their customers by: stating on each bill the name of the customer's tariff and their annual consumption; and sending each customer an annual statement.

It is remarkable that in the mature competitive energy market there is a need for such basic requirements. However, in a market where several thousand energy tariffs may be applicable, providing the name of the consumer's existing tariff is of limited value. It is unclear how this suggestion will facilitate price comparisons unless it is proposed that tariff names simply reflect the payment method *e.g.* prepayment, direct debit or online direct debit.

NEA agrees that annual consumption presented in the form of £ expenditure and kWh consumption is the most helpful and relevant information for consumers.

Reduce confusion surrounding their tariffs and improve how tariff information is presented.

NEA supports the proposed form of the pricing metric in allowing straightforward price comparisons. In terms of comparative pricing data much will depend on the integrity of the individual presenting the information. The competitive market has developed an unenviable reputation for misleading sales practice and rigorous objectivity will require a major cultural change in the attitudes of sales staff. Oversight of this process will be crucial and Ofgem will have to undertake significant and ongoing sampling of the sales and switching activities of suppliers.

Provide customers with confidence about the switching process by introducing a guarantee that changing supplier will be a safe process.

NEA is not convinced by the suggestion that since smart meters should facilitate a seamless switching process there is no pressing need for suppliers to improve existing systems. Nor are we persuaded by the rather complacent view that customers can be assured of the integrity of the process as a result of suppliers' 'clear and robust commitment to consumers that switching supplier is a safe process.' We accept that some of the concerns around switching are based on customer perception rather than reality but believe that this results from the understandable doubts felt by consumers about the good will and competence of energy suppliers.

Help vulnerable and indebted consumers who are currently blocked from changing suppliers due to outstanding debt, including by:

- **Permitting them to switch where a debt is the result of supplier error**

It is bad enough that supplier error should have resulted in customer debt in the first place without compounding the injustice by blocking supplier switching. Ofgem has constantly argued that consumer switching is based on factors other than financial advantage and that one such factor is the relationship between customer and supplier. It seems reasonable that supplier incompetence should not be endorsed by allowing them to retain unhappy and disillusioned customers against their will and to their economic disadvantage.

- **Increasing the threshold below which PPM customers are free to switch supplier and transfer debt to the new supplier, from £100 to £200**

There is an intrinsic contradiction in blocking indebted customers from switching supplier and transferring debt. It is self evident that many households in debt are in this situation because of unaffordable energy costs and Ofgem consistently advocates switching supplier as a good and beneficial act. The benefits of reduced energy costs are of greatest relevance to disadvantaged customers yet these are the households specifically excluded from achieving a better deal. Where suppliers insist on retaining prepayment meter customers against their will Ofgem should insist that a portion of the remaining debt be written off to compensate for the missed opportunities for cost savings on the part of these customers.

- **Permitting them to switch where they would avoid unilateral contract variation by switching**

This is a matter of fundamental equity and is endorsed by NEA. In general NEA also supports the Ofgem proposals relating to this issue at 3.67.

When attempting to sell on the doorstep

- **Provide the consumer prior to any sale with a written quotation and, in certain circumstances, a comparison with the consumer's current deal**

NEA adopts an ambivalent position to doorstep selling. We recognise that this sales method is most open to abuse whilst acknowledging that it has brought significant benefit to many households who lack access to information on the

potential savings available through the competitive market. However, as Ofgem recognises, there are grave problems in this approach and the outcome for the customer is rarely optimal. We also agree that it is of particular importance that prepayment meter users be prevented from switching to disadvantage.

NEA endorses both the requirement for a written quotation and for a process that allows identification of the individual sales agent. The integrity of the written quotation can be verified subsequently – but only where some degree of malpractice has been identified and a complaint issued. With regard to the individual sales agent, NEA believes that commission-based staff, whether employees of the energy supplier or ad hoc recruits, will always be tempted to manipulate the situation. Clearly this is more likely to occur where agencies or individuals with no regard for the reputation of the energy supplier are engaged for this purpose. Effective training and development of a culture of honesty can contribute to a necessary change in the perception and reality of doorstep sales. Despite this, it will be essential that Ofgem maintain ongoing sample testing of the process to ensure the principled exercise of the regulator’s proposals.

- **Provide additional information at the point of sale**

We agree that the requirement to provide additional information at the point of sale has some merit. Again, this is what would have been expected of a well regulated market from the outset and certainly a market for an essential commodity and where so many users are clearly socially and economically disadvantaged.

Whilst it is understandable that the existence and role of Consumer Focus should figure in this additional information it is less certain that any existing agency can fully cope with continuing large-scale failings within the energy market. Greater resources should be available across disparate areas of consumer protection including that for energy consumers and, in the latter case, additional in-depth advice and guidance should be provided. In this context, it would be useful to obtain some feedback on the current progress and achievements of the Energy Best Deal initiative since this may be an appropriate model for resolving some of the more intractable problems afflicting the competitive energy market and vulnerable consumers.

- **Establish the basis for the customer’s agreement after the sale**

NEA supports the suggestion that some form of post-sale verification be adopted. However we are less supportive of this verification being carried out by energy suppliers and of the position that the method of compliance should be individually devised by suppliers. NEA does not see any reason to endorse the supplier view that there are different ways of achieving post-sale verification and would take the view that any basic follow-up should be both independent and consistent in form.