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## Consultation response

Ref 3012

# The Retail Market Review: Domestic Proposals

February 2012

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This consultation from the energy regulator, Ofgem, is the second in their market review and give more detail on their original proposals with regard to enhancing tariff comparability and strengthening the remedies identified in their Energy Supply Probe in 2009. This response should be read in conjunction with our responses to both these previous consultations.

## Key points and recommendations

- We welcome the proposals to put a number of matters on a legal basis by incorporating them into the energy supplier licence conditions
- We particularly welcome the emphasis throughout the document that Ofgem will regularly monitor suppliers to ensure they are implementing the new measures.
- We urge Ofgem to introduce their simplified tariffs as soon as possible.
- We do not think social and environmental obligation costs should be included in the standing charge on a per household basis. Instead we believe that they should be levied on the basis of consumption as low income households tend to use less energy.
- Customer satisfaction should only be included on the Tariff Information Label if the methodology for establishing it is common across all suppliers
- We support having a six month price guarantee for customers who switch energy supplier
- We particularly welcome the proposal that the annual statement should be sent separately from the bill and that no marketing materials should be included in the price notification letter
- We welcome the proposal that Ofgem will continue to monitor price divergence between standard and non standard tariffs

### 1. Introduction

1.1 Age UK welcomes the opportunity to comment on this consultation. Given the central role energy suppliers will play in the success of the Government's flagship policies such as the roll out of smart meters and the Green Deal it is imperative that consumer trust in energy suppliers is materially improved. We think the proposals in this consultation will help in this process.

1.2 We are pleased that Ofgem has recognised that it is no longer possible to leave important issues to voluntary measures and welcome their proposals to put a number of matters on a legal basis by incorporating them into the licence conditions. We particularly welcome the emphasis throughout the document that

Ofgem will regularly monitor suppliers to ensure they are implementing the new measures.

- 1.3 We are very pleased that Ofgem has based their proposals on consumer research. We support the preferred options in sections 2, 3 and 4 on the basis these were the preferred options supported by the consumer research.
- 1.4 We are disappointed that it does not look very likely that the simplified tariff regime will be introduced as quickly as we had urged in our response to Ofgem's consultation on their Retail Market Review issued in March 2011 (March RMR). Given there is a separate consultation on how the standard charge should be calculated with an April 2012 deadline, it will clearly be some time before the simplified tariff regime will be implemented.
- 1.5 We think the simplified tariffs proposals need to be introduced as soon as possible. Recent research<sup>1</sup> has found that many older households on low incomes had real difficulty in making accurate fuel price comparisons. The complex, opaque information from energy suppliers resulted in 'confusion, anxiety and in being unable to manage their energy bills.' The report concluded there was a need for energy companies to provide 'simple, clear information and advice about energy prices and a way of being able to compare different tariffs that is not only internet based. We urge Ofgem to introduce their simplified tariffs as soon as possible.

## **2. Improving tariff comparability. Questions 1 to 7**

2.1 We strongly supported the proposals in the March RMR consultation to simplify the standard tariffs by allowing suppliers to offer only one tariff per payment method. However we were concerned that this would affect the Economy 7 tariff and welcome the decision to allow this to be included in the standard tariffs. Given they are time limited, we agree that legacy social tariffs should be exempted.

2.2 We also agreed that there should be no automatic rollover or adverse unilateral variations allowed in special fixed term tariffs and that customers should receive notification prior to the end of the fixed term that they will automatically be transferred to a standard tariff unless they wish opt for a new fixed term contract. We are pleased these proposals have been retained.

2.3 We supported Ofgem setting the regional standard charge which would be the same for all suppliers. However we think there will be a need for some information to explain to consumers why there are variations in the standard charge depending on where they live. We doubt that most consumers understand that this is the case. We think they will have to be given information that will explain this is legitimate because of the differences in transmission and distribution costs in different areas.

2.4 We are concerned that by putting all social and environmental costs into the standing charge low income consumers will pay for these items disproportionately.

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<sup>1</sup> Mediating the risk of fuel poverty in pensioner households. Liz Sutton and Katherine Hill. Funded by Chesshire Lehman Fund and Age UK. February 2012

We agree with the Fuel Poverty Advisory Group (of which we are a member) that it would be less regressive if these charges were levied on the basis of consumption rather than per household as low income households tend to use less energy. As we have argued in the past, social and environmental charges should be itemised separately on energy bills but we do not agree they should be contained in the standing charge.

2.5 We favour the assessment of the standing charge be limited to the costs over which suppliers have no control i.e. the narrow basis. While we are attracted by two of the advantages of having a wide standing charge – that it would ensure low users do not become unprofitable and it would avoid consumption-based cross subsidies between consumers - we think these are outweighed by the disadvantage that it is likely to lead to a higher standing charge than currently faced by households on standard tariffs.

2.6 While we agree with the principle of having a price comparison guide we have some concerns about the detail. We are not sure that most consumers would know whether they are a low, medium or high consumer. While we suspect most consumers do not understand their energy consumption in terms of KW/h and agree that the guide should use the £ per hour approach, we urge Ofgem to undertake more consumer research on this. In the interim we think suppliers should be required to provide the information in both formats. However we think there should be further research on consumer understanding of both formats to see if having both options will continue to be necessary.

2.7 While agreeing with the concept of the Tariff Information Label and most of the information items it is proposed this should include, we disagree with the inclusion of a consumer satisfaction rating unless the methodology for establishing it is common across all suppliers. The consultation gave no guidance on how this rating was to be measured. We strongly support the proposals in this consultation that standardise the terms and language used but it is not clear whether consumer satisfaction will also be measured in the same way for all suppliers, making it a fair comparison. Without such assurance we do not support the inclusion of a consumer satisfaction rating on the Information Label.

2.8 Given that many older people tend to be 'sticky customers' being less likely to switch suppliers, we agree that they will benefit from the fact that suppliers will not be able to set higher tariffs for some consumers than others that use the same payment method. We also agree that 'sticky' consumers will benefit from others being more encouraged to switch, so encouraging competition which should lead to lower prices overall.

2.9 We think having a six month price guarantee when switching suppliers would attract more people to switch. It would give them greater certainty that there would be some merit in switching. We would also support there being a green tariff.

### **3. Strengthen domestic probe remedies. Questions 8 to 16**

3.1 It is disappointing that Ofgem has found that energy suppliers have not introduced the remedies Ofgem proposed following its Probe investigation. We are pleased Ofgem now propose to put these remedies on a statutory basis. Suppliers

have failed to perform under voluntary arrangements, and we agree that the Probe remedies should be incorporated into the licence conditions.

3.2 We agree with standardising the terminology used in bills, annual statements and price increase notification letters. With regard to bills and annual statements our preferred option is Option 3 in the document. This will tighten the drafting of certain elements of licence condition SLC 31A and introduce more prescriptive rules to ensure consumers receive information on both bills and annual statements in a clear and standardised format. We particularly welcome the proposal that the annual statement should be sent separately from a bill.

3.3 With regard to price increase notification letters we support the proposal to combine Options 2 and 3 in the document. This will mean suppliers will be required to provide additional information in a prescribed format which will be included in amendments to licence condition SLC 23. We particularly support the proposal that marketing material should not be included in a price increase notification letter.

3.4 We are pleased that as part of their response to the Government's proposed changes to the consumer landscape Ofgem has offered to take on responsibility from Consumer Focus for the Confidence Code for on line switching sites. We think it is totally appropriate for the regulator to undertake this and it should encourage consumers to use switching sites since the regulator cannot be anything but impartial.

3.5 We strongly agreed with the proposals in the Government's 'Better Choices: Better Deals' which suggested there should be more naming and shaming by regulators on complaints and performance data they hold. We therefore strongly support Ofgem's proposal that they will take over the responsibility for publishing company performance currently undertaken by Consumer Focus when it is abolished.

3.6 We also strongly support the proposals that Ofgem will enhance its monitoring of suppliers' performance.

#### **4. Standards of conduct. Questions 17 to 20**

4.1 For similar reasons given in paragraph 3.1 above, we support the proposal to incorporate the Standards of Conduct into the licence conditions (Option 1). Again suppliers have not adhered to the spirit of these Standards on a voluntary basis and we think it makes sense to put them on a legal footing where they can be enforced by Ofgem. We also agree with the proposal that they should be extended to cover all interactions between supplier and their customers.

#### **5. Vulnerable consumers. Questions 21 to 23**

5.1 We are aware that many older people have never switched energy supplier and so are likely to be paying more for their fuel than those who have. We strongly support the proposal in paragraph 5.4 that Ofgem should continue to monitor price divergence between standard and non standard tariffs to ensure the former do not become more expensive than the latter. We hope that the significant simplification of

tariffs will make it easier for Age UK and local Age UKs to produce information and provide face to face help for older people about switching supplier where appropriate.

5.2 As stated in paragraph 2.9 above if more people are encouraged to switch, non switchers will also benefit from the lower prices this should achieve. However we welcome Ofgem's proposal to consider a back stop tariff should those vulnerable households that tend not to switch continue to pay higher prices than those that do. We also have concerns for consumers when Time of Use tariffs are introduced as the result of the introduction of smart meters. We want to ensure that older people who are in a better position to use energy off peak will benefit from lower time of use tariffs.