



The Retail Market Review: Domestic Proposals

Response from Citizens Advice to Ofgem

February 2012

Introduction

Citizens Advice welcomes the opportunity to respond to Ofgem's consultation on the Retail Market Review (RMR).

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. The service aims:

- to provide the advice people need for the problems they face
- to improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of over 400 independent advice centres that provide free, impartial advice from more than 3,000 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2010/11, the Citizens Advice service in England and Wales helped over two million people with over seven million problems. Citizens Advice Bureaux dealt with 40,300 enquiries about fuel in 2010/11 (including gas, electricity and oil) including 8,000 enquiries about billing and meter reading, 2,000 enquiries about switching supplier and 3,700 enquiries about the price of fuel and/or tariffs.

In 2010/11 15 per cent of CAB clients were from Black, Asian and Minority Ethnic backgrounds, and 23 per cent identified themselves as disabled or having a long term health condition. Our statistics and case studies are drawn from the diverse communities we serve.

General comments

We support Ofgem's efforts to improve the way in which energy markets work for consumers and broadly agree with the methods proposed to achieve this. We strongly welcome Ofgem's commitment to being bold in its reforms. The market is currently failing to meet the needs of consumers and suppliers have consistently demonstrated that they cannot be relied upon to act in the best interests of consumers, therefore decisive action is needed. While engagement with the market can (and should) bring benefit to active consumers, however, it should not unduly penalise 'sticky' consumers and it is crucial to ensure that the proposed changes do not inadvertently penalise vulnerable or low income consumers.

We wish to see suppliers complying not only with the letter, but also with the spirit of regulation and standards and therefore welcome Ofgem's proposals for enhanced monitoring, particularly the regular naming and shaming of companies that fail to comply. This should go hand in hand with public recognition of those companies which do provide a good service and which treat their customers – even the less profitable ones – well.

We have limited our response to those questions which cover areas in which we feel our evidence and experience are most relevant.

Section 2: Improving tariff comparability

Question 1: Do stakeholders agree that we should introduce the RMR core proposal?

Citizens Advice agrees that Ofgem should introduce the RMR core proposal which help to reduce the proliferation of tariffs and reduce complexity. We particularly welcome the proposal to prohibit the use of auto-rollovers at the end of fixed-term contracts. We raised this issue in our response to Ofgem's initial RMR consultation in March 2011 and are pleased that Ofgem has integrated this into the proposals.

However, we do have some concerns about the current RMR proposals, particularly Ofgem's decision not to place a limit on the number or type of non-standard tariffs each supplier can offer. One of the key aims of the proposals is to create a simpler energy market in which a wider range of consumers feel confident enough to engage and switch supplier. While limiting suppliers to one standard tariff would help to achieve this, progress in this area may be impeded if the number of non-standard tariffs are not also limited. We are not convinced that ensuring that price information is present in a 'standard equivalent' format will entirely mitigate the complexity of selecting between a wide range of tariffs with subtle variation in price and features. Therefore Ofgem should consider placing a limit on the number of non-standard tariffs each company can offer. How many tariffs this should be would be for Ofgem to decide.

Question 2: Which cost elements should be included in the standardised element of standard tariffs?

As we stated in our response to Ofgem's previous consultation on these proposals in June 2011, it is essential that any standardised charge is clear, consistent and fair. We strongly believe that the standardised charge should include only those costs over which the supplier has no control, such as those imposed by network operators. We would be disappointed to see other costs, such as those for maintaining suppliers' call centres or maintaining and reading meters, included in this charge. These costs are not fixed and suppliers are able to exert some control over them, therefore they should be included within the per kilowatt hour price on which suppliers would compete.

We also raised our concern about the inclusion of environmental levies in the standardised charge. Applying environmental levies in the standardised charge at a flat rate per household is a significantly regressive policy which sees the poorest household paying the most as a proportion of their income. Therefore, we are disappointed to see that these costs remain included in the estimated range of costs to suppliers in the current consultation document.

We would also question the rationale behind limiting the standing charge to standard tariffs. The purpose of the standing charge is to improve transparency and consumer trust and understanding of the market, therefore it would seem sensible to extend the standing charge to include both standard and non-standard tariffs.

Question 3: Do stakeholders agree that our information remedies would help consumers engage effectively? If not, what would be more appropriate remedies?

We strongly agree that information provided to consumers, including bills, annual statements and price rise letters, should be provided using consistent language with standardised terms and presentation. We regularly receive evidence that energy bills are overly complex and are intelligible to many consumers, causing confusion and distress amongst consumers. For example:

A CAB in Central England reported the case of a man who had the same supplier for gas and electricity and paid his bills quarterly. He had recently received two bills, dated on consecutive days, which contained a mixture of figures and types of readings with results that confused the client. He was unsure how much he was actually meant to be paying and felt confused and upset at the lack of clarity. He was trying very hard to budget and keep up with his outgoings but the unclear bills from his supplier were making it very difficult for him to do so.

The remedies proposed by Ofgem, such as a tariff information label with standardised terminology and a price comparison guide can reasonably be expected to make it easier for many consumers to engage effectively and we would support their introduction. However, these remedies are unlikely to be sufficient to encourage and enable all consumers, particularly those who are vulnerable, to engage. Therefore, alongside these remedies it is important that investment in projects such as Energy Best Deal, which can provide additional support to vulnerable consumers to engage in the market and switch to a more appropriate tariff, is maintained.

Question 4: Do stakeholders consider that the price comparison guide should be presented in p/kwh, a £ per month figure or both?

Our preference would be for price comparison guides to be presented in both p/kwh *and* £ per month to allow consumers to make comparisons between tariffs in a way that they feel is most useful and easy to understand.

We do, however, have some concerns regarding the feasibility of producing a price comparison guide that will allow consumers to quickly and easily establish which tariff is most suitable. Even if only standard tariffs are included in the guide, there will be up to 17 standard tariffs for consumers to choose between based on the current number of active domestic suppliers. Furthermore, the amount charged for an evergreen tariff by each supplier currently varies across the 14 electricity distribution regions, adding further complexity. Therefore, assuming that the practice of charging differential across regions is retained, a price comparison table detailing only the standard tariffs would be 18 columns long and 15 wide. In our view such a tool would not necessarily be simple enough to drive consumer engagement. Ofgem may wish to consider obliging suppliers to provide the relevant information for the relevant distribution area for the consumer to help to overcome this issue to help to overcome this issue.

Question 5: Do stakeholders agree that the proposed exceptions for legacy social tariffs and extremely high consumption domestic consumers are appropriate?

We agree that the proposed exceptions for legacy social tariffs are appropriate.

We are, however, concerned about the proposed exceptions for extremely high consumption consumers. It is important that Ofgem and suppliers consider *why* a particular consumer may have extremely high consumption before the decision is taken to exclude them from particular tariffs to ensure that vulnerable groups are not unfairly penalised. For example the consumer may have a large number of dependent children or may have a disability and use more electricity than others due

to charging an electric wheelchair. Therefore, while we do not necessarily object in principle to suppliers not being required to offer standard tariffs to consumers with extremely high usage levels, suppliers should be required to investigate the reasons behind the level of usage and explore ways in which the impact on vulnerable consumers can be mitigated.

Question 7: Do you believe it would be appropriate to introduce a six-month price guarantee for standard tariffs, or do you consider that this would undermine the simplicity of the RMR core proposal?

We strongly support the introduction of a six-month price guarantee for standard tariffs. In the context of rising costs of living and unemployment, consumers, and particularly those on a low income, are very concerned about budgeting and keeping costs under control. Despite a small recent reduction, energy costs remain high and consumers are concerned about their energy costs. A six month price guarantee for standard tariffs may help these consumers to feel more confident about switching in the knowledge that their energy costs will not increase for at least six months.

Section 3: Strengthen probe remedies - domestic

Question 8: Do stakeholders agree with our recommended proposal of Option 3 ('Introduce more prescriptive rules') for bills and annual statements?

We agree that Option 3, amending SLC s1A and introducing more prescriptive rules for bills and annual statements, should be taken be forwards. Options 1 and 2 are insufficiently prescriptive to ensure that information is provided to consumers in a clear, standardised format which consumers will easily be able to understand. Suppliers have thus far made little progress in this respect and, if this proposal is taken forward, Ofgem should regularly review bills and annual statements of suppliers to ensure that they are complying with this provision,

Question 9: Do stakeholders agree with our recommended proposal for SLC 23 notifications including price increase notifications of option 3 (Additional information plus prescribed format') and option 4 ('Tighten and clarify policy intent')?

Yes. We welcome a more prescriptive approach from Ofgem and agree that an improved, consistent way of present information can support improved decision-making by consumers and encourage engagement. We also agree that information relating to any change to unit rates or standing charges should be presented in a clear, standardised format in order to make it as easy as possible for consumers to understand the cost implications and the options available to them if they wish to switch tariff and/or supplier. Similarly, we agree with the recommended proposals outlined in option 4. We also welcome Ofgem's suggestion that suppliers will be expected to ensure that customers are made fully aware of the effect of any other variations in a 'transparent manner', but would welcome more information on what is meant by a 'transparent manner' and how this may be enforced.

Question 10: We seek views from stakeholders on the additional requirements outlined in option 3 ('Additional information plus prescribed format') for SLC 23 notices including price increase notifications.

We agree with the proposed changes to bills and annual statements and believe that they will help to make these communications simpler and easier to understand.

Question 11: We seek views on any proposals to restrict the inclusion of additional materials (e.g. marketing material) along with SLC23 notifications.

We would support the inclusion of a restriction on the inclusion of additional materials along with SLC23 notifications. The RMR proposals are designed to simplify the energy market, improve consumer confidence and make it easier for consumers to engage. In our view, the inclusion of superfluous, information may be confusing and intimidating to consumers, therefore discouraging engagement. Including additional information, such as marketing material, also risks consumers mistaking the communication for promotional material and discarding the communication without reading the important information the supplier is trying to convey.

Question 12: We seek views along with any supporting data or evidence for our proposals for information signposted to consumers for option 4 ('Tighten and clarify policy intent') for SLC 23 notifications including price increase notifications.

The proposed categories appear to us to contain all of the relevant information a consumer would require to make an informed decision about whether to change tariff or remain on their current tariff despite the increase in price. It is crucial that this information is presented in a clear, easy to understand format and, in our view, Ofgem should regularly review the letters sent by suppliers to consumers to ensure that this is the case.

Question 13: We seek views on any additional recommendations which stakeholders consider relevant for bills, annual statements and SLC 23 notifications.

We do not have any additional recommendations. We would, however, urge Ofgem to ensure that that providing clear, simple, transparent information that is consistent across the energy market remains a key priority for the regulator and that suppliers are held to account where they fail to reach these standards.

Question 14: We intend to consult on the content of the Confidence Code separately if and when we take over the governance responsibility for it. However at this stage we welcome any early views on developing the confidence code.

. We believe that Ofgem should look into the possibility of expanding the Confidence Code to include other products and services, such as telecommunications and banking products, rather than restricting it to energy tariffs. Developing a multi-sector code for switching sites governing how information is displayed would allow consumers to feel confident that the site they are using is reliable and trustworthy. If this were to happen, Ofgem will need to consider whether it is the most appropriate organisation to be responsible for the Confidence Code.

Question 15: We welcome views from stakeholders on our proposals for enhanced monitoring.

We strongly welcome Ofgem's proposals for enhanced monitoring, particularly the proposal to name and shame companies that fail to reach the standards expected by the regulator and look into

publishing more detailed complaints data. As Ofgem's Retail Market Review and Citizens Advice evidence has consistently shown, suppliers can not always be relied upon to treat customers fairly and abide by the spirit and letter of regulation. Therefore, if the RMR proposals are to be effective in simplifying the market and improving consumer confidence an enhanced, more effective monitoring and enforcement regime is essential.

Section 4: Standards of Conduct

Question 17: Do you consider the revised SOC's will help achieve our objectives? AND Question 18: Do you agree that the revised SOC's should apply to all interactions between suppliers and consumers? AND Question 19: Do you agree that the SOC's should be introduced as an overarching, enforceable licence condition?

We strongly support Ofgem's proposal to incorporate the Standards of Service into the licence conditions. When the standard were originally proposed following the probe, we called for them to be licence backed, so that they would be directly enforceable, but Ofgem chose not to do this at the time. It is a sad indictment of the energy market that suppliers must be told not to sell customers products that they do not understand and that they must act courteously to resolve mistakes. However, experience indicates that it is indeed necessary and we believe that it is no longer appropriate to give suppliers the benefit of the doubt when they have failed on so many occasions to prove themselves worthy of it.

Given that the proposed Standards of Conduct do not require a standard of conduct beyond what one may reasonably expect of a supplier, we strongly believe that that the revised SOC's should apply to all interaction between suppliers and consumers.

We would welcome more clarity regarding condition (c)(i) in the proposed new Standards of Conduct. What exactly is meant by 'make it easy for a Customer to contact the licensee', this is currently too vague. We would hope that this would include accessibility, for example telephone systems that are easy for consumers to navigate and making access to a human being, rather than a complex automated system, as easy as possible.

Section 5: Vulnerable consumers

Question 21: Do you agree with our analysis of the impact on vulnerable consumers?

We share Ofgem's concern that limiting suppliers to one evergreen tariff per payment method could result in the evergreen tariff becoming increasingly poor value compared to the fixed term deals as suppliers compete for the more active consumers who are more likely to switch, putting those vulnerable consumers who may struggle to engage in the market at a disadvantage. We would not wish to see this happen, and, as acknowledged in the consultation document, Ofgem must be careful to avoid unintended negative consequences for vulnerable consumers. We do, however, accept that with improved tariff comparability any adverse impact on vulnerable consumers will be easier for Ofgem and consumer organisations to detect. We welcome Ofgem's commitment to monitor the situation and take action to rectify any such issues that may arise.

We also agree that effectively communicating the RMR changes to vulnerable consumers will be challenging. Therefore we welcome Ofgem's commitment to continuing to run the Energy Best Deal campaign in partnership with Citizens Advice.

Question 22: What are your views on the need for further interventions?

As noted above, it is not yet clear whether vulnerable consumers will benefit or be disadvantaged as a result of the RMR proposals. Therefore, as noted above, we believe that Ofgem should monitor this issue closely and take action to rectify any issues that arise, whether this be through the introduction of a 'back stop tariff' or other measures.

Question 23: Who in particular should any additional support be targeted at?

Additional support should be targeted at vulnerable groups who will find it particularly difficult to engage in the energy market, for example; individuals with mental health problems; the elderly; and those whose first language is not English.

