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## Response to The Retail Market Review: Domestic Proposals

### Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS works with both the Scottish and the UK Governments on energy efficiency programme design and implementation.

EAS welcomes the opportunity to respond to Ofgem's Retail Market Review.

### Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 756,000 (35.6%) in 1996 to 293,000 (13.4%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improve energy efficiency of housing<sup>1</sup>. The most recent figures<sup>2</sup> from the Scottish House Condition Survey Key Findings Report show that there were 770,000 households living in fuel poverty in Scotland in 2009, representing 34% of total households.

According to figures produced by the Scottish Government<sup>3</sup> early in 2008, for every 5% rise in fuel prices an estimated 40,000 more households will become fuel poor. Based on these figures EAS estimates that there are currently 900,000 households, more than four in ten, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic fuel prices and EAS is very concerned about the impact on vulnerable customers.

EAS notes that Ofgem now acknowledges that the measures previously instigated as a result of the Energy Supply Probe have largely failed to improve things for domestic consumers. EAS believes that while tariffs need to be better understood/simplified, first and foremost there is a fundamental requirement to provide targeted support and information for consumers to facilitate understanding and engagement. EAS particularly welcomes Ofgem's proposals to improve the quality of information provided to consumers.

#### **Q1. Do stakeholders agree that we should introduce the RMR core proposal.**

On the whole, EAS believes that the RMR core proposal provides an opportunity to better inform consumers in their decision-making. However, there are a number of issues that do not seem to have been fully addressed or whose import appears to have been 'minimised' and EAS therefore has some reservations and concerns.

- Ofgem's core proposal is founded on the basis of qualitative and quantitative research. This research was conducted with 2,300 consumers – or the equivalent of only 0.009% of UK households (or 0.0005% of individual domestic energy bills). Whilst the research obviously does not claim to be empirical, the sample size seems alarmingly small.

<sup>1</sup> Fuel Poverty in Scotland: Further Analysis of the Scottish Housing Condition survey 2002

<sup>2</sup> Revised Scottish House Condition Scotland Key Findings Report 2009

<sup>3</sup> Estimate of Fuel Poverty Households in Scotland: Scottish House Condition Survey March 2009

- Ofgem's quantitative research (Ipsos MORI October 2011) presented participants with sets of hypothetical tariff structures. However, these sets are in turn derived from preferences expressed by a mere 106 participants from previous qualitative research!
- For those already engaged/engaging in the tariff market, their main aim is invariably the most competitive tariff. Unless the core proposal is complemented by an effective support infrastructure designed to reach 'sticky' consumers, the majority of consumers will remain on the less competitive tariffs. Furthermore, it is unlikely that suppliers would be incentivised to compete for these consumers. Those already actively engaged by the switching process are unlikely to have an interest in a new set of standardised tariffs.
- The price comparison process is complex and undoubtedly acts as a deterrent to switching for some. The proposal to standardise tariff structures to allow comparison on a per unit price is therefore welcomed. It is not clear however, how Ofgem intends to address the non-standard elements of off-peak tariffs for example, leaving aside 'specialist' tariffs (dynamic teleswitch – controlled tariffs such as Total Heat Total Control), most suppliers offer different off-peak hours. Unless this is also made standard, consumers will not be comparing like with like.
- As part of the previous RMR consultation, Ofgem acknowledged that the introduction of standard tariffs and products might lead to a two-tiered market and might also stifle innovation. There is no evidence in either the current consultation document or the accompanying impact assessment that this issue has been addressed.
- Ofgem maintains that its quantitative research proves a higher likelihood of switching if common standing charges and a price comparison metric is introduced i.e. 74% of non-Ec7 respondents. In reality, the increase is only 3% more than for an alternative tariff structure that offered no price comparison metric. The research respondents were provided with only 4 specific alternatives. If every supplier can offer only one standard tariff per payment method, this equates to approximately 216 tariff options (assuming 18 suppliers, 3 fuels each, 4 main payment methods each). The 'quantitative' research involved an absolute minimum of participants and in presenting participants with so few options, seems to have been geared up to reach a pre-determined conclusion. It would be interesting to know whether the research participants were made aware that price comparison guides are already widely available, or that they were being presented with a very limited set of options when in reality they would be expected to select from 200+ more such options.

**Q2. Which cost elements should be included in the standardised element of standard tariffs?**

The 2011 Vulnerable Customer Research (FDS International for Ofgem) pinpointed the fact that many consumers had difficulty understanding the options presented and highlighted the fact that initiatives such as insisting on a common charging structure will only be effective if people understand what such a structure means. The same report found that Ofgem's initial proposal to control some of the tariffs prompted the response that "If Ofgem controls it but the bills were difficult to decipher anyway that wouldn't make a difference because it's the simplicity of being able to understand what you're looking at on a bill which makes it easier ..... to think about switching company". This underlines EAS's belief that there is first and foremost a fundamental requirement to provide better-targeted support to facilitate an improvement in consumer understanding and engagement. EAS has no

specific opinion on which cost elements should be included in the standardised element of standard tariff, but would reiterate the belief that standing charges themselves create a disproportionate disadvantage for those already limiting their energy use (i.e. self-regulated use of fuel by low income households). With regard to the inclusion of environmental levies, EAS believes this is a form of regressive pricing that penalises the fuel poor and/or low income households. These same households will not all benefit from the energy efficiency and fuel poverty schemes funded by the levies. EAS also has some concerns and reservations relating to this element of Ofgem's proposal i.e:

- If Ofgem's core proposals are implemented, Ofgem will take responsibility for a significant part of the retail energy market price. Given the high (and rising) profile of domestic energy prices along with a specific government intent to increase utility investment in new technologies, EAS believes that Ofgem must offer assurances that in consulting (with the government, as appears inevitable) on price, they will not be influenced by current political will.
- Ofgem intends to apply the same standing charge for all suppliers despite the fact that smaller suppliers will not incur ECO costs. Ofgem's decision is driven by a wish to ensure that tariffs can be more easily compared. EAS believes that this approach creates greater inequities and while some prices might be more easily compared consumers will not be comparing on a like for like basis.
- Ofgem does not intend to set a specific element of the standing charge based on the remaining Green Deal administration costs, though they note that suppliers will not be able to recover some of the Green Deal costs through administration charges. EAS is concerned that there is an intention to recover any Green Deal costs via supplier overhead charges attached to fuel bills. EAS seeks assurances that this will not be the case. Green Deal administration costs must be fully incorporated into the Green Deal process. (The standardised Element of Standard Tariffs under the Retail Market Review – paragraphs 1.29 and 1.30 refer).
- EAS notes that Ofgem does not intend to allow suppliers to apply additional charges to IDNO or IGT customers. Whilst this is understandable given Ofgem's intention to simplify tariffs, EAS feels that this decision creates inconsistencies.

**Q3. Do stakeholders agree that our information remedies would help consumers engage effectively? If not, what would be more appropriate remedies?**

EAS supports all efforts to provide clearer information to consumers.

**Q4. Do stakeholders consider that the price comparison guide should be presented in a p/KWh figure, a £/per month figure or both?**

Price comparisons should be presented in both p/KWh and £ formats. A high proportion of vulnerable consumers pay for fuel via prepayment meters or weekly payment schemes and EAS believes that Ofgem should consider additional alternatives to a £ per month format. EAS would also emphasise the importance of clarifying the meaning of p/KWh. Many consumers are not aware and the issue is further confused by gas units having to be converted.

**Q5. Do stakeholders agree that the proposed exceptions for legacy social tariffs and extremely high consumptions domestic consumers are appropriate?**

EAS supports Ofgem's approach to allowing derogations for social and discounted tariffs. EAS appreciates Ofgem's concerns regarding domestic consumers with

extremely high consumption levels. However, it is not clear how a high user will be defined, nor by whom. Ofgem suggests that eligibility could be based on profile classes for electricity “e.g. domestic customers that have a meter of Profile Class 3 or greater”. EAS’s understanding is that domestic customers fall under profile classes 1 and 2. Profile classes 3 to 8 all apply to non-domestic customers (profile class 3 is specifically a non-domestic unrestricted customer).

**Q6. Do stakeholders agree that we should not allow an exception for suppliers to offer a green standard tariff in addition to an ‘ordinary’ standard tariff?**

EAS considers that since Ofgem intends to allow an unlimited number of alternative tariffs, any green variation on standard tariffs can be offered as an alternative (rather than as an addition to ‘ordinary’ standard tariffs). In common with the wide range of tariffs currently offered, a price comparison metric would be available via comparison websites so potential ‘green’ customers would not be disadvantaged.

**Q7. Do stakeholders believe it would be appropriate to introduce a 6-month price guarantee for standard tariffs, or do you consider that this would undermine the simplicity of the RMR core proposal?**

Leaving aside the fact that there is no real simplicity to the RMR proposal, EAS believes that this would simply create another set of fixed price tariffs.

**Q8. Do stakeholders agree with our recommended proposal of Option 3 (introduce more prescriptive rules) for bills and annual statements.**

EAS welcomes the proposal to introduce greater clarity and standardisation to the information received by consumers, particularly with regard to annual statements. Ofgem acknowledges that further changes are likely to be required as and when the smart meter rollout (and consequent impact of a range of time of use tariffs) gathers pace, also when the Green Deal starts. Whilst Ofgem feels that option 3 allows for changes and additions to be incorporated, EAS believes that too many successive changes notified to consumers may have a negative impact in terms of trust, confidence and engagement.

**Q9. Do stakeholders agree with our recommended proposal for SLC23 notifications including price increase notifications of Option 3 (additional information plus prescribed format) and Option 4 (tighten and clarify policy intent)?**

In general terms, EAS agrees with this proposal.

**Q10. We seek views from stakeholders on the additional requirements outlined in option 3 (additional information plus prescribed format) for SLC23 notices including price increase notifications.**

EAS believes that improvements in communications with consumers has the potential to improve empowerment (if not engagement), but would recommend that full consideration be given to the volume of successive communications. EAS believes that failure to do so might further reduce consumer trust, confidence and engagement.

**Q11. We seek views on any proposals to restrict the inclusion of additional materials (e.g. marketing materials) along with SLC23 notifications.**

EAS believes that SLC23 notifications must be stand-alone documents. Their issue should not be accompanied by any additional materials.

**Q12. We seek views along with any supporting data or evidence for our proposals for information signposted to consumers in option 4 (tighten and clarify policy intent) for SLC23 notifications including price increase notifications.**

EAS believes that price increase notifications should incorporate an apportionment breakdown.

**Q13. We seek views on any additional recommendations which stakeholders consider relevant for bills, annual statements and SLC23 notifications.**

EAS has no further recommendations at this stage.

**Q14. 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.**

EAS would welcome additional information and detail on Ofgem's plans to use the Confidence Code as a mechanism to aid supplier compliance. EAS has some concerns with regard to Ofgem's implication (under the Standards of Conduct) that suppliers be responsible for switching sites that act as their representatives (where the supplier has a direct or indirect relationship with the switching site). EAS believes that this 'link' would detract from the Confidence Code being viewed as a mark of trustworthiness and independence.

**Q15. We welcome views from stakeholders on our proposals for enhanced monitoring.**

Given that the proposals for enhanced monitoring are relatively vague (and that no mention is made of enforcement processes or similar), EAS has no comment to make at this stage.

**Q16. We invite specific views on costs and other implications if we were to introduce our proposals. Please provide details and cost estimates where appropriate broken down by each proposal.**

EAS does not feel that there is sufficient detail to enable a realistic estimate or breakdown of costs. In the interests of greater clarity for consumers however the eventual pass-through cost of these proposals to consumers should be itemised on the annual statement.

**Q17. Do you consider the revised Standards of Conduct will help achieve our objectives?**

EAS does not believe that the revised SOC's will have a significant or material impact on Ofgem's stated objectives (improving levels of trust in the energy industry, encouraging higher levels of consumer engagement, promoting competition). Nevertheless EAS welcomes the revised SOC's in terms of their impact on clearer communication processes.

**Q18. Do you agree the revised SOC's should apply to all interactions between suppliers and consumers?**

Yes.

**Q19. Do you agree that the SOC's should be introduced as an overarching, enforceable licence condition?**

Yes. EAS would welcome an indication of what the proposed enforcement process (and penalties resulting) would be.

**Q20. Do you have information regarding potential costs this may impose on suppliers?**

No. Again, EAS believes that the pass-through costs for this element should be itemised and included on the annual statement.

**Q21. Do you agree with our analysis of the impact on vulnerable consumers?**

EAS remains largely unconvinced that there will be a 'ripple effect' whereby vulnerable consumers will benefit. Such measures as reintroduction of social tariffs – or 'backstop tariffs' – would reintroduce an additional cost to all consumers (including those least able to pay). These consumers are already paying for the additional costs of the Warm Home Discount which the vast majority of vulnerable consumers do not qualify for.

**Q22. What are your views on the need for further intervention?**

As per Q21, above. EAS remains concerned about the potential impact of time of use tariffs and Green Deal and does not feel that sufficient consideration has been given to these issues.

**Q23. Who in particular should any additional support be targeted at?**

EAS believes that Ofgem must consider how best to cascade information to 'hard to reach' consumers as well as those who are fuel poor (preferably without resorting to introducing new proxies for fuel poverty!).

**Additional Information**

It is not clear how standard tariffs will impact on those consumers whose fuel prices are governed by Special Condition 18. The pricing of gas supplied in SC18 areas is restricted by licence to be equivalent to the average for on-gas, however those connected to these LPG and LNG local networks are unable to take advantage of switching supplier as they are effectively part of a local network. EAS seeks assurances from Ofgem that the 'average' on-gas cost will not be negatively impacted by the introduction of standard tariffs and that SC18 area consumers will not have to pay more for their gas supplies as a result.

**Conclusions**

EAS understands the need for, and welcomes, greater clarity with regard to tariffs and the information provided to consumers. However, the introduction of standard tariffs effectively sanctions the creation of more than 200 new tariffs. EAS does not believe that the introduction of standard tariffs will trigger a reduction in the number of alternative time-bound tariffs offered.

EAS retains its belief that consumer empowerment (and potentially consumer engagement) is key and that Ofgem must continue to focus its actions on improving consumer understanding.