Campaigning for Warm Homes

Ofgem Consultation

The Retail Market Review: Domestic Proposals

Comments from National Energy Action (NEA)

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

NEA welcomes, and agrees with, Ofgem's perception that consumers are disillusioned with, and to some extent alienated from, the energy market. We do however feel that this issue is more fundamental than disengagement resulting from a multiplicity of complex and confusing offers.

We note Ofgem's continued faith in the ability of the competitive market to exercise price restraint, but believe that this does not reflect or address the considerable degree of scepticism on the part of consumers, politicians and the media all of whom perceive the energy market as operating almost entirely in the interests of suppliers.

NEA recognises that all suppliers operate in a global market which is the fundamental driver of retail costs and that, consequently, there will be limited scope for the market to deliver affordable energy costs to financially disadvantaged households. In this context we welcome Ofgem's intention to monitor closely the impact of reform proposals with particular reference to vulnerable consumers and the concept of a 'backstop' tariff.

In general, NEA is supportive of the RMR core proposals and believes that their effect would tend to address some of the difficulties currently faced by domestic consumers.

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

As a national charity concerned with the provision of services essential to the health and well-being of vulnerable households, NEA would advocate minimal disparity in costs faced by households based on their geographical location. However if this is deemed unavoidable, NEA is in principle supportive of Ofgem's assuming responsibility for setting standing charge levels provided that cost-reflective factors are valid. This is of particular importance since a high standing charge with relatively low unit costs will militate against the case for energy efficiency improvement and consequent reductions in consumption.

Equally, the issue of a fixed standing charge has always been contentious in that it is seen to operate to the general disadvantage of low-consuming households and, in particular, of low-income pensioners. We would expect Ofgem to take account of these issues in fulfilling its wider duties to protect the welfare of vulnerable households.

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

NEA endorses Ofgem's proposed information remedies as an initial stage and would see tariff and price comparison data as an important element in encouraging further engagement with the competitive market. NEA believes that Ofgem must be highly prescriptive in terms of format and wording in order to optimise clarity and consistency.

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

Whilst the p/kWh representation does represent a superior model for strict price comparison this is likely to confuse many consumers. Similarly, NEA recognises the potential weaknesses of presenting hypothetical expenditure based on low, medium or high consumption levels whether on a monthly or annual basis. In the former case, of course, there is also scope for confusion where there is significant disparity between weekly costs associated with seasonal factors.

Overall, NEA believes that the guide should endeavour to cover all of these elements and that comparative data should be shown as p/kWh and £ per month and £ per year.

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

In the case of social tariffs, derogation would seem a rational approach given the short timescale for full implementation of the mandatory Warm Home Discount. The case for excluding those consuming high amounts of gas or electricity on the grounds of potential disadvantage as a result of bad debt or supplier switching is not clearly made. We do not see how a commercial transaction of this type is compromised by the consumption level of an individual household.

Question 6: 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?

Since conscious adoption of green tariffs is invariably a lifestyle choice, NEA is not greatly concerned by this issue and recognises the wish to avoid complexity by, for example, doubling the number of 'standard' tariffs. However, in the case of specialist niche green energy suppliers we would expect this environmentally benign offering to be identified as such within the standard tariff.

Question 7: Do stakeholders 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?

The introduction of a fixed price element within the standard tariff would be both interesting and innovative. Clearly a major factor in public scepticism about energy suppliers results from the perception that supplier pricing functions in some form of lock-step and this in turn militates against switching. Published tariffs with a guaranteed lifespan of six months would represent progress in restoring a degree of confidence in the competitive market (assuming of course that there was noticeable divergence in supplier tariffs).

It is not clear whether the proposed six-month period would be an on-going process or whether the proposal relates only to the initial introductory period.

Either way, whilst NEA is attracted to this concept, we recognise concerns that supplier pricing strategies would tend to the conservative and factor in an additional profit margin to cover potential negative impact on their business.

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

NEA has consistently taken the view that the supply of domestic energy is too important to be left to the market and that a significant degree of regulatory prescription is essential. The often vexed issue of energy bills and annual statements is no different, and NEA would support Ofgem in seeking to ensure consistency in language, form and content in relation to all consumer communications.

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').

NEA endorses Ofgem's proposals with regard to notification of any price increases and that communications should, where feasible, relate to the personal circumstances of the household.

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.

As in the response to Question 9 above, NEA concurs that Option 3 represents a significantly improved model of consumer communication and information.

Question 11: We seek views on any proposals to restrict the inclusion of additional materials (e.g. marketing material) along with SLC 23 notifications.

NEA takes the view that it is inappropriate to include additional material in communicating important information to consumers, and that this is emphatically the case where the communication relates to a subject such as increased prices.

Question 12: 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 SLC 23 notifications including price increase notifications.

NEA supports the proposals.

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

NEA has no additional recommendations at this stage. However we would expect some unanticipated difficulties and anomalies to emerge subsequently, and would expect this process to continually evolve to the benefit of consumers.

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.

NEA acknowledges the excellent work of Consumer Focus in working to improve the Confidence Code through the collaborative involvement of a wide range of stakeholders. Since a number of the problem areas identified by Consumer Focus centred on the number and complexity of tariffs, our expectation would be that there would be a beneficial effect from Ofgem's past, current and future work to resolve energy market issues. We would also welcome involvement in developing future versions of the Code whether under the auspices of Ofgem or any other agency.

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

NEA has previously expressed reservations about the use to which information derived from monitoring is put. We take the view that the latter is generally futile without strong remedial intervention where there is evidence of non-compliance with regulatory prescription.

As we have stated on many occasions in the past, it is crucial that the data that forms the basis for analysis of supplier performance is collected and analysed in a consistent manner. This is certainly a primary prerequisite of more severe and rigorous treatment of energy suppliers, particularly if there is a move towards the 'naming and shaming' approach alluded to in this discussion.

Question 16: 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.

NEA is not in a position to make informed comment in this area. We would not however expect disproportionate costs to be associated with requirements that simply demanded fair and equitable treatment of consumers.

Question 17: Do you consider the revised SOCs will help achieve our objective?

It might be hoped that acceptable Standards of Conduct would be the universal practice across all areas of the business community but, clearly, where the service involved is essential to the health and welfare of vulnerable households there should be an absolute imperative for best practice. Assuming good faith on the part of both regulator and suppliers NEA sees no valid reason why Standards of Conduct should not have the full authority of an enforceable Licence Condition.

Question 18: Do you agree the revised SOCs should apply to all interactions between suppliers and consumers?

Yes.

Question 19: Do you agree that the SOCs should be introduced as an overarching, enforceable licence condition?

See response to Question 17 above.

Question 20: Do you have information regarding potential costs this may impose on suppliers?

As with our response to Question 16, we would reiterate that cost should not be a major factor in requiring fair and equitable treatment of consumers in the energy market.

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

NEA recognises the justifiable concerns that the engagement of vulnerable energy consumers has been limited in the past, and that this circumstance may continue under these proposals. It is well recognised that vulnerable customers often face compounded disadvantage as a result of age and infirmity; lack of access to advice, support and even technology; their financial situation (which may include energy debt); or poor literacy and numeracy skills.

Clearly the major worry here is the development of a 'rump' of disadvantaged energy consumers who remain on non-dynamic tariff arrangements from which they are unlikely to move, and so become marginalised as suppliers contend for more profitable and more knowledgeable consumers. NEA has previously commented favourably on small-scale remedial initiatives such as Energy Best Deal but such schemes are unable to address more than a fraction of the problem.

NEA would wish to see a much stronger infrastructure providing advice and guidance to what are effectively disenfranchised energy consumers, but recognises how remote this is from the current reality.

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

In the present circumstances, where there are some 6.5 million fuel-poor households in Great Britain, the most radical upheaval in energy markets could make only a modest contribution to ensuring that these households had access to affordable warmth.

Yet clearly there are measures and programmes that could deliver significant progress against the objective to eradicate fuel poverty in England by 2016. NEA believes that Ofgem has a role to play here beyond its fundamental regulatory oversight of effective and fair markets.

In this context we note the view of the House of Commons Business and Enterprise Committee's 2008 report on Energy prices, fuel poverty and Ofgem which suggested the use of EU Emissions Trading Scheme resources to fund fuel poverty programmes (a view previously) put forward by Ofgem itself.

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

NEA notes Ofgem's discussion of the possibility of a 'backstop' tariff or a requirement that energy suppliers should offer targeted assistance to the most vulnerable consumers and the regulator's intention to discuss these issues with Government in the near future.

NEA welcomes Ofgem's willingness to engage with the fuel poverty agenda and, in seeking to nominate households for priority assistance, would endorse the practice of existing programmes such as the Super Priority Group of the Carbon Emissions Target and the Broader Group of the Warm Home Discount, in providing assistance to those households who are simultaneously most vulnerable and financially disadvantaged.