

Welsh Government's Response to the Consultation on the Retail Market Review: Domestic Proposals

Attached is the Welsh Government response to the Questions raised in the above consultation exercise.

Improving Tariff Comparability

- The Welsh Government is concerned at the high percentage of consumers in Wales who are not engaged in the retail energy market and the low levels of switching from the former incumbent suppliers. At the meeting with Ofgem on 18 January it was suggested that suppliers are generating higher margins from existing customers than new customers and as such consumers in Wales may be paying more for their energy than they need to. We therefore welcome Ofgem's proposals to increase consumer engagement by reducing the number of tariffs and restricting energy suppliers to providing one standard tariff per payment method.
- We do not, however, support the proposal to place no limitation on non-standard tariffs. Our view is that innovation can still be maintained while placing some limit on the number of non-standard tariffs that a supplier can offer.
- We support Ofgem's proposal to require all suppliers to provide a price comparison guide for all tariffs and to provide key tariff information in a Tariff Information Label, mandated by Ofgem. Our view is that together these sources of information will help increase consumer confidence in choosing the right tariff.
- The price comparison guide and Tariff Information Label should contain sufficient information to enable consumers who have not previously been engaged in the energy retail market, to easily compare the cost and benefits of different tariffs and make an informed choice on switching.

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

- It is difficult to assess which cost elements should be included in the standard tariff with the evidence presented to date. The 'narrow' definition would include network costs only (transmission and distribution costs), whilst the 'broad' definition would add environmental programmes, metering and warm home discounts to the standard charge. Analysis presented in the consultation suggests that on average, a move to the 'narrow' definition would see a standing charge below the current standing charge for electricity, whilst the opposite is likely to be true for gas. This suggests that at present there is either a cross subsidy from electricity to gas customers or/and a cross subsidy from high gas users to low gas users. In addition, the analysis in the consultation

suggests that there would be more variation between regions in a 'narrow' standing charge than the current standing charge. This suggests there could currently be cross subsidies between regions. Welsh Government would request a better understanding of the impact on customers and their bills of unwinding these cross subsidies. In particular the impact on vulnerable customers.

- Introducing the 'wider' definition standing charge would in principle be better at internalising the costs of provision on customers. However, it would mean that the standing charge would be higher than those faced by the majority of customers on the current standing charge. Once again Welsh Government would request further analysis is undertaken to analyse the impact on vulnerable customers in particular.
- Welsh Government is aware that this consultation is about improving tariff comparability for the benefit of the consumer. However, we would like to take this opportunity to request that a 'standing charge+unit charge' introduced so that Welsh Government can be provided with a breakdown of the Standing charge by region. Hence, if the 'narrow definition' is introduced we would like to see the transmission and distribution breakdowns for each region and if the 'wide' definition is introduced we would like to see a break down of environmental, metering and warm home charges too. This would enable Welsh Government to better understand the variation in impacts across GB.
- Ofgem are considering applying a regional adjuster to the unit rate set by firms. This would account for the differences in per-customer costs between regions (based on differences in costs of distribution and transmission) and the amount will depend on the methodology. Welsh Government does not feel there is enough information on this proposal to make a robust decision on whether it does be pursued. Welsh Government request that analysis by region is carried out so that an informed response to this proposal can be made.
- The main aim of the proposals presented by Ofgem is to improve tariff comparability by simplifying the structure of standard energy tariffs for customers, hence improving their decision making. Along these lines, Welsh Government would like Ofgem to consider ensuring that all energy companies offer energy bills bilingually so that Welsh speakers receive the information in their language of choice. Feedback from Ofgem suggested that the lack of bilingual bills and information was an inhibitor to some customers to switch suppliers. Addressing this issue might therefore help to improve tariff comparability and increase levels of switching.

Strengthening Probe Remedies

- The Welsh Government supports Ofgem's proposals to help consumers understand their energy use and the cost of that energy. We agree with the proposal to introduce more prescriptive rules for bills, annual

statements and price notification letters and to use consistent terms and language. We agree that annual statements should be separate documents sent under separate cover.

- For non-standard tariffs, the information provided by an energy supplier should state clearly whether a customer's account must be kept in credit at all times and the process and timing for reviewing payments. For example, if a customer switches to a non-standard tariff at the end of the summer, rather than at the end of winter, their first bills will be generated during the higher cost winter months with the likelihood that they account will be in deficit at the end of winter.
- We agree that providing information on price increases in a standardised format will help consumers understand why the cost of their energy is changing and may help reduce the number of households who have disengaged from the energy market as prices have risen. We agree that price notification letters should not include additional marketing materials relating to other products and services.

Standards of Conduct

- We agree that strengthening the Standards of Conduct and introducing them as an overarching enforceable licence condition will help ensure that improvements are made in consumer trust and engagement with the retail energy market.

Vulnerable Consumers

- The Welsh Government is concerned that the most vulnerable consumers are those least likely to have the means or confidence to engage in the retail energy market. We welcome proposals that will help protect vulnerable consumers and would support a proposals requiring suppliers to offer the best tariff to vulnerable customers

Concluding remarks

- We hope you find our response helpful and we look forward to working with Ofgem to improve the trust and engagement of Welsh consumers in the retail energy market.