Flexible and responsive energy retail markets: putting consumers at the centre of a smart, low carbon energy system

Submission by Prospect to Department for Business, Energy and Industrial Strategy & Ofgem

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Introduction

Prospect represents 145,000 engineers, scientists, technical specialists and managers across the public and private sectors, and is the union of choice in the UK for managerial and professional employees. For more than a century, Prospect, and its predecessor unions, has represented managers and engineers in the electricity supply industry, giving us a unique insight into the challenges and opportunities facing the UK electricity sector. This response has been drawn up in consultation with these members, including those working in the energy retail sector. We believe it is essential that their collective expertise and experience has a central place in the formulation of policy and operational frameworks.

Initial remarks

As we have said in response to previous energy market consultations, Prospect does not believe that liberalised energy markets are working in the interests of the majority of workers or consumers. In an industry concerned with the delivery of a universal basic service, we do not believe that it is appropriate to view promoting competition as an end it itself. Delivering safe, reliable, affordable, and low carbon energy to homes and businesses, whilst supporting decent working conditions for energy workers, should be the overriding focus. If competition can support those goals, then it should be welcomed, but too often in the last thirty years there has been an automatic assumption that extending competition will be a panacea. The current troubled state of the energy sector, including the recent lack of progress on decarbonisation, should be evidence enough that that is clearly not the case.

Prospect was also not supportive of the energy price cap, and argued that this risked unsustainable cost-cutting by retailers in order to protect their profit margins. We also argued that those employers in the sector who offer better terms and conditions to their staff risked being penalised for doing so, on the grounds that offering more generous pension benefits (for example) was 'inefficient'. Ultimately, retailers are at the end of the energy value chain and have little ability to influence most of the elements that make up final energy bills, which are dominated by wholesale and network costs. A price cap is therefore unlikely to be an effective tool for ensuring value for money for consumers.

Prospect also believes strongly that there is an urgent need for a national conversation about how to meet the costs of the energy transition in the most equitable way. We share the concerns of consumer advocates like Citizens' Advice that meeting those costs through levies on consumer energy bills means effectively imposing a regressive tax that disproportionately impacts the poorest households. The flawed design of previous subsidy programmes has left costs escalating, while at the same time, we still lack an alternative funding mechanism for getting the huge volume of low carbon capacity we need onto the system by 2050. A fresh approach to meeting the pressing challenge of environmental destruction is desperately needed.

Consultation questions

Question 1: Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

As noted above, we do not fully agree with these aims. Prospect believes the priority must be creating a resilient energy system that can supply safe, reliable, affordable and low carbon energy services to consumers, whilst ensuring decent working conditions for the energy workforce. These are ultimately the priorities for most consumers, and we don't believe that further market liberalisation is automatically the best way to achieve them. We remain unconvinced that, when it comes to essential services like energy, consumers necessarily want more choice, or that providing more choice necessarily leads to better outcomes.

The failures of more than a dozen energy retailers over the last year, along with the significant losses being recorded by many others, strongly suggests that the current market framework isn't working. We welcome moves to consider stricter checks on new energy retailers, and believe the focus should be on developing stronger protections for both energy consumers and energy workers, rather than simply encouraging more entrants into the market. All market participants should be able to meet the costs of serving the most vulnerable consumers, and no participant should be penalised for offering good terms and conditions to their staff.

Question 4: Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?

Maintaining a universal service obligation for energy is critical, and Prospect has significant reservations about allowing some retailers to opt out of such an obligation. Vulnerable consumers are typically more costly to serve, and there is a real risk that the trend we have already witnessed of new market entrants gaining market share by focusing on lower-cost, more engaged customers with below cost tariffs will only accelerate if retailers are given an exemption from delivering a universal service. This risks leaving market incumbents with a higher cost base of more difficult to serve consumers which, in the context of a price cap, threatens the long-term viability of those retailers. Given that market incumbents tend to offer better terms and conditions to their staff, this also risks lowering the quality of employment in the sector.

Question 9: What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

Using consumer bills as the primary means of funding climate change policies is not sustainable in the long term, and effectively serves as a form of regressive taxation, which hits the poorest and most vulnerable disproportionately. The OBR has forecast that spending on environmental levies will hit £12 billion a year by 2023/24, and yet we are still not delivering the volume of low carbon infrastructure that the Committee on Climate Change thinks we need to meet a net zero target by 2050. There is, therefore, an urgent need to rethink how we fund climate change and energy transition policies, and there is a strong case for shifting those costs from consumers to taxpayers, where they can be distributed more fairly and likely at lower total cost, given the historically low cost of government borrowing.