energywatch
your gas and electricity watchdog

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Chair

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Dear John

Ofgem's three year strategy 2004-7

Thank you for the opportunity to comment on what we believe should be Ofgem's priorities for the coming three years. As you would expect, my comments in response to the questions you set out in your letter inevitably reflect energywatch's own priorities. I would like to think that the content of this response will form the basis of how our two organisations can work together over the next three years.

My views fall into 4 broad areas and focus on what gas and electricity consumers need. They are

- Making markets more competitive;
- Maintenance of consumer confidence in the longer term provision of energy supplies;
- Developing greater social responsibility; and
- Delivering consumer focused energy policy objectives

Making markets more competitive

We are undoubtedly witnessing a period of consolidation within the market. The majority of companies are no longer proactively pursuing new customers; to the contrary, they are investing heavily in efforts to retain their existing customer base. During April 2002 there were over 800,000 customer transfers; however during April 2003 there were fewer than 525,000. It is also the case that consumers still do not understand some of the most basic issues surrounding the competitive energy market. Your own work in July this year showed that consumers' ability to compare prices had not improved. This same piece of work acknowledges that supplier margins remain high and that this is seen as a means of encouraging new entrants into the market. We have similar concerns about competitiveness in the I&C market as well.

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I know that we have begun some really valuable work by getting industry to look at the customer transfer programme – improving consumer confidence about switching is absolutely vital. However my real concern is that problems elsewhere mean that the market is not delivering for consumers. Ofgem must be much more dynamic about what it intends to do to ensure that consumers are benefiting from competition and not wait until it is 110% sure. For example the whole issue of debt blocking has become mired in complex processes which do everything to discourage consumers from changing supplier – it is my strong belief that if we work together we can remove this barrier to some of the most vulnerable consumers taking part in the competitive market. I also think that consumers will take confidence from such an approach and the industry will see it as a warning shot that they cannot be complacent about their position within the market.

Maintenance of consumer confidence in the longer term provision of energy supplies

With the UK to become a net importer of gas from 2005/6 and the recent blackouts throughout Europe and the US it is imperative that all types of consumers are confident that their supplies of gas and electricity will be secure and reliable in the future. It will be perceived as a gross failure of the whole system and market if the reliability of supplies regresses rather than progresses. Likewise interconnectors between nations cannot be seen as a panacea to securing supplies, they are part of the overall solution.

Energywatch do not want to see 'gold-plating' to ensure that all supplies are 100% reliable all of the time, and we recognise that certain circumstances are beyond the control of even the most responsive company. When supplies do fail though consumers are literally left in the dark with regard to the proper course of action they should take. Communications channels are all too often inadequate to respond to consumers' queries and calls for information, The recent payments of compensation to those consumers left without power after the storms of last October are a case in point of where things need to be improved.

Developing greater social responsibility

As deliverers of essential services, energywatch believes that gas and electricity companies have an absolute duty to contribute towards ensuring that consumers are able to enjoy affordable warmth. In this context, companies' social obligations need to be given similar priority as environmental obligations so that we can ensure we deliver a properly balanced sustainable energy policy. We also need to acknowledge that much more needs to be done if government is able to deliver its fuel poverty targets for 2010 and 2016. You may be aware that at NEA's recent conference Alan Simpson quoted an important statistic – that if electricity prices rise 15% and gas prices by 5% then around 800,000 consumers will be plunged into fuel poverty.

To do this we need to go beyond the existing regulatory framework which is a largely passive set of social responsibilities (e.g. PSR is provided on request) and create a mechanism (much like the Renewables Obligation) that gives companies targets for delivering innovative social objectives. I think that it is well within Ofgem's grasp to help do this.

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energywatch
bringing power to gas and electricity consumers

Delivering government's energy policy agenda
The three broad areas above are closely related to this point. It is clear that Ofgem, over the next 3 years, will need to determine how it integrates these non economic objectives into its strategic vision. It is this issue that will present the most important challenges to Ofgem's three year strategy – indeed, the success or failure of Ofgem rests upon its ability to find the right balance between economic and non-economic objectives. I believe that you need to address this issue head on by consulting widely about how you can do it and by being as transparent as possible.

I said at the start that I believed this might form the basis for how our two organisations might work together over the coming years. I have asked Allan Asher to contact Alistair Buchanan/John Neilson to discuss how this can happen.

Yours ever

Ann

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Chair