



Campaigning for Warm Homes

Ofgem's three year strategy 2004-7

Thank you for your letter inviting comment on Ofgem's future strategy. You may be aware that National Energy Action (NEA) has been actively campaigning for the eradication of fuel poverty for more than 20 years and has a distinguished record of establishing projects which demonstrate how improved energy efficiency improvements represent the sustainable long-term solution.

In recent years we have been much encouraged by recognition on the part of both Ofgem and the Government that eliminating fuel poverty is a social imperative. We acknowledge the priority that Ofgem has given to this issue in its corporate strategy for 2003-6 and appreciate the practical steps that have been taken to implement it. However we are far from persuaded that there is sufficient emphasis or impetus behind some of these measures.

NEA is particularly concerned that future prospects do not look promising in ensuring affordable energy supplies for the poorest households in the UK. Price increases, whether the product of market forces or market intervention, in the shape of higher commodity prices, renewables targets, carbon emissions trading and the Energy Efficiency Commitment for example, threaten to reverse many of the gains that have been made as a consequence of regulation and competition in recent years.

Accordingly we believe the key challenge facing the industry in future years will be the protection of vulnerable households. This has many implications for the areas of work that Ofgem will or should engage upon.

It will be ever more urgent that competitive markets work to the advantage of poorer consumers. Notwithstanding Ofgem's assertions that switching rates are, for the most part, broadly similar amongst different social groups it remains the case that former monopoly suppliers have retained the substantial majority of domestic customers. We cannot view competition as a success whilst this continues to be the case; in our view it will only be when the vast majority of consumers have switched supplier that this assertion can be justified. Unless there is a significant acceleration in the very near future we also think that Ofgem may need to reconsider its evident willingness to allow suppliers to offer substantially lower prices to new customers than to those they have retained. We also have some concerns that Ofgem is unduly complacent about switching rates among poorer consumers. It would be reasonable to suppose that the incentive to reduce fuel bills will be higher amongst those who have the greatest difficulty in paying them. Ofgem should therefore be more concerned than appears to be the case about switching by pensioners and others on low incomes.

Similarly we would urge that Ofgem takes immediate action to extend the limited provision of allowing some prepayment customers in debt to switch supplier. This element of choice should be available to all those in debt, regardless of payment method.

In NEA's view for disadvantaged consumers to benefit in equal measure from the competitive market Ofgem will also need to address the issue of tariff differentials, focusing particularly on a progressive reduction in the prepayment surcharge but also on the development of tariff options which meet the needs of low income consumers.

Protecting vulnerable consumers will also require reinvigoration of the Social Action Plan. NEA accepts that this has sensitised suppliers to important elements of their social obligations. We are also encouraged to note that the early emphasis on research has been superseded by efforts to encourage best practice. However we believe the next stage is to transform best practice into standard practice and to do this before price increases aggravate the problems of affordability. In many cases we would favour licence amendments to give authority to measures which are currently the subject only of codes of practice.

In particular, whilst our first preference would be for legislation to remove suppliers' powers to disconnect, we consider that Ofgem should specify that disconnection should in no circumstances take place during the heating season and establish targets for a progressive decline in the numbers, prior to fixing a date at which the practice is eliminated.

Similarly, given the emphasis on affordability as an energy policy goal in the Energy White Paper, Ofgem should consider establishing targets for the progressive elimination of debt. A ceiling should be established beyond which the customer is no longer liable for arrears, as a means of ensuring that suppliers do not allow arrears to accumulate to a point at which repayment becomes obviously unaffordable or takes an unreasonable amount of time to repay. Targets should also be set for a continual reduction in the numbers of customers in debt and the amount of arrears owed.

In view of the importance NEA attaches to improved energy efficiency we would also like to see greater emphasis in Ofgem's work programme to the contribution it can make to the prevention or elimination of fuel poverty. We acknowledge that Ofgem's responsibility in relation to the Energy Efficiency Commitment is limited to administering a scheme which is designed by Government (although we think that Ofgem could support the case for a radical overhaul of this programme if it is to meet fuel poverty objectives). Nonetheless we think there is more that Ofgem could do to ensure that suppliers' energy advice services help customers to make improvements which could reduce their bills. We also believe that suppliers could use the intelligence they have about payment methods, debt and other personal circumstances of consumers to direct their EEC programmes to those most likely to be in greatest need.