

## **Response from the Energy Retail Association to the Ofgem Corporate Plan 2004**

The Energy Retail Association established in October last year is the only dedicated trade association for UK energy suppliers. All the main energy suppliers operating in the domestic market in Great Britain are members of the new association - Atlantic Electric and Gas, British Gas, EDF Energy, npower, Powergen, Scottish Power, and Scottish and Southern Energy.

The purpose of the ERA is:

- to identify areas where the industry can work together for the common good without competitive advantage;
- to improve the profile of the sector with decision makers, opinion formers and consumers
- to protect the industry from regulation that stifles commercial development and assist the industry in the operation effective self-regulation procedures.

The ERA Board has identified the six policy topics as the first year's priorities to be Selling, Customer Transfer Programme, Energy Efficiency, Fuel Poverty, Debt , Renewables.

Energy retailers believe that there are many areas where it is in everyone's interests to work together to improve the service we can offer customers. They have already brought choice to millions of households and created a hugely successful market, and we wish to ensure that every customer's experience of exercising their choice is a good one. The decision to establish the Energy Retail Association is testament to this ambition.

### **Overview**

We welcome the opportunity to comment and share many of Ofgem's concerns about the need to create a more mature energy market. Indeed the ERA policy issues have a clear social impact element, such as energy efficiency, fuel poverty, customer transfers and debt.

However, energy retailers are competing to sell an identical product in an increasingly consumer driven market. The shift means that it is no longer the case of energy company versus energy company, but it is now customer service provider against customer service provider. Like their more familiar retail counterparts – the high street stores – energy retailers are seeking to attract new customers with added value services that give them an advantage over their competitors. However, there are areas where there is no competitive edge and the common good is a desirable outcome for business and consumers alike.

The challenge for the ERA and Ofgem is to work together for the good of the customer. We, therefore, need to achieve the balance where business growth and innovation is not restricted and consumer demand is met and policy development incentivises the industry towards supporting the Government's social and environmental objectives.

There are a number of government objectives linked to energy supply. The industry does not oppose these objectives, but it must be borne in mind that energy suppliers are first and foremost commercial businesses. The ERA will work with the Government in support of its public policy agenda. However, we are not a government agency and beyond this it must fall to the Government to create a market that has economic and social benefits. For example, energy suppliers recognise that they are part of the solution to fuel poverty, but they cannot give an undertaking to address this where there is substantial cost or no consumer demand.

## **Better Regulation**

The Government has given a commitment to reduce regulation where it stifles enterprise and is a burden on business practice. We welcome Ofgem's intention to regulate the energy industry under the principles of Better Regulation.

All regulation must be non-prescriptive, proportionate and developed with a clear and realistic strategy for implementation. Regulations that are drafted without due regard to the impact on business will be ineffective and lead to compliance problems. Therefore we would request that the ERA is fully consulted at an early stage.

We believe that self-regulation is the best way to promote economic growth and ensure value for money for consumers. Energy suppliers already operate to self-imposed codes of practice based on best practice and consumer interest. For our own codes the ERA will ensure compliance. Moving forward we will review the codes in response to consumer demand. We recognise Ofgem's right to enforcement through utilities and competition legislation and acknowledge the intention to withdraw from regulating where it is in the consumers best interest. We would ask that these principles also apply where it is in businesses best interest as often the benefits are mutual.

As the market matures a key advantage to offering added value to consumers will be retailers' ability to innovate. Burdensome and disproportionate regulation must not stifle innovation in the market.

This paper offers comments on the seven themes of the Ofgem Corporate Plan.

## **1. Creating and sustaining competition**

The ERA is committed to developing an energy market that provides benefits to all our customers through the choice that a competitive market provides. We believe that the energy supply industry has evolved sufficiently for there to be step-change in the way energy services are marketed to consumers. The support given to the new trade association is an indication of the industry's desire to build a strong retail sector.

This must be achieved through extensive consultation and light touch regulation. The experience of other retail sectors demonstrates that excessive regulation can be a barrier

to developing new retail initiatives. Reforms in the services offered to energy users have assisted proportionate and reasonable regulatory controls. We would expect this to continue to be the case.

It is important that all our customers reap the benefits of competition and can switch suppliers easily. The ERA has begun to improve the Customer Transfer process by reviewing the compatibility of switching systems employed by individual suppliers. This is a complex issue which demands co-operation and transparency. As part of this process we shall be consulting other organizations such as NACAB and the OFT. We shall endeavour to keep Ofgem informed of our progress and seek assistance where necessary.

We note the intention of Ofgem to introduce effective and targeted regulation of energy supply marketing. The ERA is undertaking a wholesale review of the Code of Practice for face-to-face marketing of energy supply that is currently administered by the Association of Energy Supply. As part of this initiative we shall be looking at best practice models of other service providers e.g. financial services and the travel industry. We shall keep Ofgem informed of progress and reiterate our request for early consultation and close co-operation with the ERA and its members with the emphasis on the practicalities of implementation.

## **2. Regulating network monopolies**

We welcome Ofgem's commitment to regulation that where practical focuses on what suppliers deliver in terms of services not how the services are delivered. In other sectors – particularly with regard to environmental legislation - regulation has been ineffective because there was no infrastructure in place to implement it.

## **3. Helping protect security of Britain's energy supplies**

Energy suppliers continue to work close with Distribution Networks Operators and the ERA has close links with the new representative trade body, the Energy Networks Association.

## **4. A leading voice in Europe**

The ERA welcomes the further engagement of Ofgem on European legislation. We would expect Ofgem in particular to represent UK interest on the proposed Energy Services Directive. The UK has struggled in the past to meet the requirements of EU legislation because it was incompatible with current business practice. We are also concerned that the UK continues to gold plate regulations, which is a duplication of effort and an unnecessary cost to business.

## **5. Helping protect the environment**

We share the view that future environmental policy should be delivered in line with compatible competitive energy markets.

The ERA and its members are committed to improving energy efficiency in the UK. We are currently negotiating the best way to meet the demands of the Energy Efficiency Commitment in 2005. All energy suppliers provide information on saving energy to their customers. Ofgem's recent survey commended the industry on the improvements made to provide energy efficiency advice. We will seek to build on this.

We note the proposal to explore with suppliers the provision of clearer information that allows the customer to choose their energy supplier through improvements in bills, meters, websites. We would expect to be kept informed of this work.

It is too early to evaluate the impact of the recent changes in the 28 day rule and the link to energy services. Relaxing the rule allows the industry to be more innovative, which provides added value to the consumer. However, we would caution that not all suppliers will opt to develop this service depending on the commercial advantage.

Communicating messages to persuade consumers to use less energy in order to reduce carbon emissions is a matter for government funded agencies such as the Energy Savings Trust. Energy suppliers are keen to play their part, but where the Government wishes industry to develop energy efficiency services for which there is no market, it must develop fiscal incentives. The Energy Savings Trust agrees that fiscal incentives are important to encourage energy efficiency. Similarly, setting energy efficiency targets that are unrealistic because of consumer apathy or impracticality is counterproductive because when targets are not met it gives the impression that this is due to a failure in effort by the industry. For example, there is no direct correlation between offering energy efficiency advice and energy consumption. For most consumers the determinant is the cost of improvement measures.

For businesses to invest the large sums required for energy efficiency it is essential for there to be a degree of certainty over time. The ERA is proposing that the EEC targets should be set for six years, with a review of the criteria at three years.

## **6. Helping tackle fuel poverty**

We recognise that Ofgem has a statutory duty to help vulnerable groups. We support the commitment to remove barriers to innovation. We would like to explore further the options for broadening the use of pre-payment meters particularly regarding payment of gas and electricity along with other services, through a single meter. It is also important that suppliers continue to be consulted with the involvement of the ERA on measures to reduce incidents of self-disconnection.

However, pre-payment meters are not only used by customers who are in debt or fuel poor. Pre-payment meters are often requested by customers who prefer to budget their fuel expenditure, preferring a 'pay-as-you-go' option. Customers who are in debt are placed on a pre-payment option, if other payment options are not suitable.

The difference in price between direct debit and pre-payment is due to many factors. Whilst suppliers try to be price competitive, it costs around twice as much to service a pre-payment meter than a direct debit customer because of the need to install and service the meter, issue payment cards and set up payment points. Customers are offered alternative ways in which to pay their bills such as budget schemes where the customer pays a little each week depending on their income and usage. Customers who can pay a regular bill are not actively encouraged to take on a pre-payment meter because, as explained above, the costs are slightly higher.

The ERA is working with other agencies, such as NACAB to identify ways to assist those in fuel poverty. Some suppliers have special tariffs for older or low income customers. Others offer checks on entitlement to benefits, security devices, and work with charities to develop the most effective measures to help the fuel poor.

There is no commercial advantage to maintaining a bank of customers who are in debt and debt prevention is a key part of energy suppliers' operations. The ERA has identified debt as one of its first year priority issues and a position paper will be published later in the year. There are a range of other payment options besides pre-payment meters and customers in need of help are directed towards a range of energy saving grants and advice so that bills can be kept low. Energy suppliers are developing strategies to communicate more effectively advice on money management and energy efficiency.

The ERA is currently reviewing the progress of the Customer Transfer Programme as a matter of priority. We are aware that, although there is no competitive advantage, the process of switching has been improved but there is more work to do because some customers are still encountering difficulties when they change their supplier. The ERA is managing project group to consider this and will report its progress.

We note Ofgem's objective to improve energy efficiency to alleviate fuel poverty. The Energy Efficiency Commitment is an energy efficiency target linked to carbon reduction, not specifically a fuel poverty target. Although energy efficiency can help alleviate fuel poverty, the issues should be kept distinct. The industry needs the widest flexibility in order to deliver its targets but also believes that fiscal incentives are required to influence consumer demand. The industry continues to address problems in housing stock via the EEC programme. However, it is for the Government to ensure household incomes do not drop low enough to cause fuel poverty.

## **7. Improving Ofgem's efficiency and effectiveness**

The establishment of the ERA is to some a response to the increasing number of consultations and regulatory controls that are proposed. Since the merger of Ofgas and OFFER the industry has observed a three-fold increase in Ofgem documents that require a response. Ofgem currently produces more papers than any European regulator. We accept that more transparency and effective consultation has created an additional workstream, but we are concerned that improved competition has not led to a reduction in Ofgem's costs. We believe that Ofgem's growing budget, particularly on supply issues, does not reflect the improvements in efficiency and streamlining of functions that have been demonstrated in other parts of the energy industry.

Overall, we believe that Ofgem's efficiency and effectiveness will benefit from a close working relationship with the ERA. Much of Ofgem's policy agenda is directly linked to the ERA objectives for 2004. Our aim is to promote an energy market that provides the benefits of a competitive market to all consumers. The most effective way to achieve this is through early and responsive consultation with the industry.