

Ofgem Consultation on “Testing domestic consumer take-up of energy services: trial suspension of 28 day rule”

Comments submitted by Dr Eoin Lees (Eoin Lees Energy)

In my response to the Ofgem Consultation Document, I should like to focus on the areas where I believe that Ofgem is not consistent with the recommendations of the Energy Services Working Group (ESWG) that were subsequently accepted by Ministers. As a member of ESWG I am naturally concerned with this outcome and believe it is in danger of creating barriers to the success of the trial. To do so, I need to explain the reasoning behind the eventual position adopted by the ESWG as the practical way forward to overcome the many barriers to customers implementing energy efficiency and energy services.

Requirement for consumers to take out loans from energy suppliers

To date energy services in the household sector has made little progress despite various attempts to incentivise it. This is largely because there are significant upfront costs in trying to market energy services to mainly disinterested and/or unaware householders. There are significant costs in providing personalised advice and explaining this more complex offer. It is the reluctance by suppliers to incur the additional marketing costs of energy services, particularly if they cannot be guaranteed to recover these costs over a period longer than 28 days which has been a major barrier to date.

The key elements of what would constitute a “genuine energy services contract” were detailed by ESWG so as to overcome the barriers (other than consumer disinterest) which have resulted in much lower installation rates of energy efficiency measures than are economically justified. Most of these features are reproduced in the Ofgem document, in particular in Section 4.1.4/4.14, i.e. personalized advice to overcome the lack of knowledge; ensuring the installation of substantial energy efficiency measures to make a significant reduction in energy demanded from the grid. However, Ofgem have gone beyond the recommendation of the ESWG to ensure that there was an option for no upfront capital expenditure by the customer if the customer so desired. In reality, for many insulation packages costing at most £600, this cost will not be the principal barrier for customers; rather, the lack of knowledge and the hassle of organizing the various energy efficiency measures are much greater barriers. Indeed many people do not like using credit of any form and so requiring them to do so seems to go completely against customer choice.

I believe that for more expensive measures, such as photovoltaic panels and/or micro-CHP, the option of leasing or no upfront capital cost will be very attractive propositions but I do believe it is inappropriate for Ofgem to decide how customers should fund their energy efficiency expenditure. For owner-occupiers not on benefits, the likely beneficiaries of the pilot, I remain deeply concerned that forcing them to enter into loan arrangements cannot be defended as a sensible way forward for all customers. Indeed, there may be more attractive financing packages available outside of the energy supplier offer and to require them to utilize the energy suppliers’ funding seems to be

unnecessarily depriving customers of choice and potentially making them pay more for this lack of choice.

In paragraph 5.9.9, Ofgem makes the statement that “the provision of credit is by far the most substantial supplier contribution that promotes consumer take up of energy services packages”. As someone who has worked in energy efficiency and energy services fields for eighteen years, I would strongly dispute this statement. Without the personalized advice, the removal of the hassle etc, we know that people do not take up energy efficiency measures to the extent that is desirable. For example, Ofgem has estimated that in 2002/3, only about 70,000 owner occupiers not on benefits availed themselves of the cavity wall insulation offers available despite typically only being asked for a contribution of less than £200 (typically 50% reduction in price). These installations were mainly generated as a result of mail shots and I believe are the best empirical evidence pointing to the awareness and hassle barriers being at least as great as the monetary barrier.

Independent Second Opinion

The details of the independent second opinion for customers were never discussed in detail at the ESWG. For my part, I had assumed that the option for an independent second opinion could be satisfied by the energy suppliers providing the contact details of both energywatch and the EEAC network. The proposal in 5.1.2.6 (to make energy suppliers offer to pay for an independent second opinion) appears to add yet another cost and complexity to the uptake of energy services by energy suppliers. I would also point out that EEACs are currently not trained in evaluating the consumer protection aspects of the offer and that energywatch staff are not experts in energy efficiency measures.

In summary, much of the detailed proposals from Ofgem are sensible and will benefit customers and the environment. However, I strongly believe it is imperative not to require customers to take out loans provided by energy suppliers as part of the definition of energy suppliers or to go beyond the consumer protection requirements that are mandated in other consumer purchasing decisions. Otherwise I fear energy suppliers will interpret these 2 new requirements as yet further costs and also limiting the customer range. Inevitably, this will reduce the commitment behind their energy service activity. If this happens then consumers will have really have lost out on the long-term solution for lower energy bills.