

Testing domestic consumer take-up of energy services: trial suspension of 28 day rule Consultation document January 2004

Response from Richard Nunn, RN:PS Energy Link

Introduction

Further to my earlier response with reference to the scope of the trial and the apparent lack of provision for occupiers of rent housing (particularly social housing) to take advantage of the trial, I would now like to make further comments as follows.

Previous Research

In the late 90's there was considerable work done by EST and others on the development of Energy Services entities. They focussed quite a lot of their efforts on the social housing field, but it seems that this work has been ignored in moving forward with this trial. In social housing sector it is clear that to make any ESCO offer viable the landlord would have to take an active part in the preparation of the offer and may well have to provide at least some of the funding for the measures undertaken.

Successful Models

It is clear from the current most successful ESCO to date, that at Woking, that the direct involvement of a local authority, be it a housing authority or not, helps to bring forward a much more innovative approach to the whole range of energy services which can be offered to the community at large. This type of operation also injects a much greater level of competition into the type of offer that can be made compared with the rather sterile approach of using measures from the EEC Spreadsheet. As the spreadsheet is not available to anyone outside the energy suppliers there is less chance that innovative ideas can come forward from companies and organisations not directly connected to the industry.

Where a specific Energy Services Company is established there is a more transparent financial model which can be analysed and which can provide a greater clarity in auditing the actual energy savings which are achieved by the Energy Services operation.

General Comments on Customer Protection

Turning to the customer protection issues. It is clear that, despite the fact that it is over six years since the domestic energy markets were opened up to full competition, some of the systems employed by energy suppliers cannot cope with customers switching suppliers. The fact it takes, with a good supplier, at least 28 days for a change to be affected and still there is no guarantee that bills will be correct; one questions whether the mantra that the 28 day rule promotes customer protection and stimulates competition rings true.

Would it not be better for customers as standard to sign-up for contracts of a year or more with an incentive to do so and with them having the right to terminate if any malpractice is seen to take place rather than continue with the current fantasy that just breeds problems and confusion. Compare the situation with a mobile phone, one can get a very wide variety of tariffs, some that require a contract, some that don't, pay as you go etc etc. I have personally had one contract where I paid a line rental for a period of two years up front, which worked out at a price less than half the prevailing monthly rental charge. Why therefore does the energy market have to be so restrictive?

Finally on the customer protection front, why when community heating schemes are proposed and encouraged, it seems quite in order for the customer to lose their right to transfer to another supplier of heat, but as far as the gas and electricity markets are concerned the ability to change supplier in 28 days seems to be the only game in town.

Customer Protection in the Trial

Turning to the trial itself and the customer protection issues. If a customer is under contract for say 5 years then some form of price index should be published by OFGEM which indicates in a very clear fashion the fuel price trends for a basket of typical tariff rates from all the main suppliers. Figures should also be published giving running costs in typical house types so that customers have a practical benchmark to see how their own contract is performing. They should also be provided some form of arbitration mechanism if they feel they are being discriminated against. The benchmark should also include some 'degree day' type corrections so that true comparisons year on year can be made.

General Conclusions

In the pattern of this trial there does not appear to be a business model which can be seen to be appealing to energy suppliers. They are being asked to cut their own revenues in away which is quite costly to achieve which would indicate that there will not be much incentive to undertake these trials.

Whether it be in the owner occupier or rented sector, there needs to be more work done on the formation of ESCO partnerships between public organisations like local authorities and commercial companies such as energy and equipment suppliers so that their separate objectives can be harmonised.

Conclusions on Business Models

It would not be too difficult to demonstrate that the need for local authorities to meet their HECA, Warm Homes and Fuel Poverty Objectives could be met by the development of a coherent refurbishment programme for their own homes or those owned by others, which could be part funded by savings achieved by energy savings through an ESCO offering. In addition consultants and equipment suppliers would be able to develop innovative means of carrying out work (which can be well planned in advance) and any cost savings achieved could be ploughed back into the ESCO scheme. By renting or leasing equipment to the ESCO an energy supplier could provide themselves with an income stream to replace the lost income from energy sales. This surely makes more business sense than the current model being trialed.

While we were considering the sort of business model which could make economic sense for a local authority ESCOs it became clear that if the ESCO were to provide a comfort contract rather than supplying energy in the form of gas or electricity there are some real tangible benefits. For instance this approach removes the need for the ESCO to obtain a supply licence and if is concerned with generating heat then it has a real incentive to research the most cost and energy efficient ways of generating that heat. Continuous energy efficient improvement is then more assured. By using this partnership approach then many of the social issues such as fuel poverty could also be tackled in a more holistic manner.

To try and drive the development of ESCOs solely through the efforts of energy suppliers surely begs the question where is the real incentive to proved real and continuing energy conservation improvements?

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