

RESPONSE BY THE ENERGY RETAIL ASSOCIATION TO THE OFGEM CORPORATE PLAN 2005

The Energy Retail Association (ERA) is pleased to offer comments on the Ofgem Corporate Plan 2005 where issues impact on suppliers and consumers. We welcome the spirit in which Ofgem consults upon its future work plan and our response to retail specific issues is intended to support Ofgem's primary objectives.

Self regulation

We welcome Ofgem's intention to regulate the energy industry under the principles of Better Regulation.

We support the view that 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 effective competition 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 the industry's 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 in favour of self-regulation 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. It is important that burdensome and disproportionate regulation is avoided so that there continues to be innovation in the market.

Furthermore, any decisions about deregulation should be made against a backdrop of improvements by the industry over the last two years. The ERA works closely with Ofgem to promote excellence in customer services. According to energywatch figures complaints in all categories have continued to decline. Selling complaints have fallen 88% , complaints associated with switching supplier have fallen 63% and there is currently one billing complaints for every 17,000 bills of the 200 million bills that are issued. However, we are committed to improve on this further and in this spirit the ERA is developing a programme of work to tackle billing complaints.

The ERA is actively engaged in reviewing billing systems with a view to introducing standards to existing practices. Billing complaints continue to fall, albeit at a slower rate than complaints on sales and transfers. The industry is also undertaking a programme of work to improve current procedures relating to theft of energy. The work is exploring operational interfaces and revised policies on incentives and obligations for detecting and reporting theft. The working group hopes to report by summer 2005.

Supply licence review

The ERA looks forward to being fully consulted on modifications to supply licences where this relates to suppliers and consumers. We welcome this initiative and believe that the licencing process can be radically reduced and consolidated. As competition has grown the need for licencing diminishes. At the same time the industry has developed its own codes of practice that go further than the licences and demonstrate the industries commitment to high standards of performance and continual improvement in customer service.

The supply licence review is crucial to the industry's future investment plans and it is important that the scope and scale of the review is well understood from the outset. With this clarity it will be easier to decide upon the duration of the review and we can collectively ensure that the process mirrors the pace of the industry.

Vulnerable customers

The ERA supports better communication with all consumers. We are committed to ensuring that consumers are informed of the choice of services available to them. Supporting vulnerable people is a priority and we look forward to working with Ofgem to develop a strategy to communicate with hard to reach customers.

Energy Suppliers have a range of schemes specifically for vulnerable and fuel poor customers, including benefits health checks, low rate tariffs, energy efficiency packages and trust funds. They have spent over £300 million during the last 3 years and will be spending over £700 million on fuel poverty programmes in the next 3 years. The problem is that the people who need help most do not know what is available. We would, therefore, welcome any help from the Government to get across messages about keeping ourselves warm and our homes dry by communicating through existing public services, such as Primary Care Trusts and Benefits Agencies.

In particular, the ERA supports Ofgem's objective to inform consumers about the benefits available to them. However, at a recent press conference the primary message of the Energy Smart campaign aimed at vulnerable customers advised them to switch suppliers. In our view this was not only a simplistic message but our own experience suggests that the campaign will not reach the target audience. For example, switching suppliers is not necessarily the best option for all consumers and price is not the only consideration when assessing the best way to help vulnerable customers. Ofgem's advice to consumers should include a mix of options, including energy efficiency, which does not over-play switching as the panacea to the problems of debt and fuel poverty.

The evidence suggests that consumers who may be eligible for the Priority Service Register (PSR) do not read literature produced by suppliers or energywatch. Therefore suppliers continue to explore more innovative solutions to promote the benefits of PSR by identifying which marketing tools appeal most to this customer group.

In addition the ERA is pressing for an extension of Fuel Direct and sees a role for Ofgem to open a dialogue on behalf of suppliers to change current policy. Fuel Direct could be an effective measure to prevent debt if the Government broadened access to customers identified by suppliers as in need of support but not necessarily indebted. Customers

should also be entitled as a minimum to Fuel Direct for a period after the debt has been recovered to allow them to get beyond a deficit and prevent them falling straight back into debt when Fuel Direct payments are withdrawn.

We believe that Ofgem should make representations to the Cabinet Sub-Committee on Fuel Poverty to engage all government departments in tackling fuel poverty as a priority.

Competition

Switching is one of many indicators of a competitive market. In assessing the state of competition in supply markets we would direct Ofgem to the range of services available from energy retailers. Suppliers continue to offer innovative products in order to meet customer needs and provide differentiation in the market. Given the number of systemic changes in a short period we believe that a period of stability is necessary to allow the processes to bed in.

For example, the ERA believes that the work of the Customer Transfer Programme has accounted for a reduction in the number of problems experienced by customers switching supplier and looks to Ofgem to help boost consumer confidence in the transfer process in order to maintain a healthy competitive market. Ofgem is closely involved in the Customer Transfer Programme. Therefore it will understand the reasons why some suppliers will be able to implement CTP recommendations earlier than others. The principle remains that the delivery of solutions will take place as soon as possible within agreed industry timescales.

Protecting consumers must also include informing consumers about their rights and opportunities to engage in a competitive market. The ERA would welcome Ofgem's support in seeking to increase consumer confidence. The ERA envisages a role for Ofgem in communicating positive messages about improvements in the industry and the range of initiatives that suppliers have developed in the interest of consumers.

Energy Efficiency

The ERA has consistently stated that the implications of setting unachievable targets have not been properly considered and that suppliers carry the entire risk of non-delivery. Suppliers will make every effort to achieve the targets set by Defra, but would expect Ofgem to recognise that penalties must not be imposed for non-delivery where suppliers have demonstrated best endeavours to reach them.

We would also welcome an early assessment of the EEC2 policy in order to develop more workable options for the scheme that succeeds the Energy Efficiency Commitment in 2008.

In response to Ofgem's aspirations for the energy services trial, this remains a matter for individual suppliers. The decision to take part in the trial will be made based on the commercial advantages of offering energy services according to the prevailing market. Energy services must remain an option to increase take up of energy efficiency measures, but suppliers reserve the right to provide an alternative service to consumers.