

ERA RESPONSE TO CORPORATE STRATEGY AND PLAN 2006-2011

This paper has been produced as an industry wide response from the energy suppliers forming the Energy Retail Association (ERA). The Energy Retail Association established in October 2003 is the only dedicated trade association for domestic energy suppliers in Great Britain. All the main energy suppliers operating in the domestic market in the UK are members of the association: British Gas, Scottish & Southern Energy, RWE npower, E.ON Powergen, EDF Energy and ScottishPower.

Some ERA members may also submit additional responses incorporating comments specific to their companies.

CREATING AND SUSTAINING COMPETITION

The Energy Retail Association (ERA) supports Ofgem's objectives for increased competition and less regulation. The ERA works diligently with its members to develop alternative solutions to industry issues. Our success in developing industry-based solutions is evident in the 90% decrease in doorstep sales complaints since the AES Code of Practice for Face-to-Face Marketing of Energy Supply was introduced in 2003. Similarly, complaints about the transfer process have declined by around 60% as a result of systemic changes as part of the Customer Transfer Programme. The final implementation stage will be completed in March this year. The ERA have also developed a safety net procedure to prevent the disconnection of vulnerable customers, which has been successfully applied across the industry. The establishment of the ERA three years ago is testament to energy suppliers' commitment to addressing customer concerns with internal solutions rather than external interference. Ofgem is to be applauded for allowing industry-based solutions to be developed in the first instance.

Monitoring energy markets

At a time of market volatility leading to higher domestic energy prices Ofgem has an increasingly important role in providing information to consumers. At no other time since the market was liberalised have British consumers taken such an interest in their energy supply. This presents an opportunity to educate consumers about how the market operates, how they can exercise choice in buying energy and how they can manage their household energy consumption.

We believe that consumer confidence in the energy market is an essential ingredient of a vibrant and dynamic competitive environment. Too often the pursuit of headlines has led to misinformation and scare stories about all elements of the energy supply business. Often this is supported by weak anecdotal evidence that is used to draw false conclusions about the whole industry and all customer experiences.

It is crucial at this time that customers are not discouraged from taking up suppliers' initiatives and added value services. Lack of consumer support for innovative offers may have a lasting impact for domestic energy efficiency in the future.

Metering

The ERA has established an expert group to explore smarter forms of metering. The purpose of the group is to develop a Common Framework that sets out the conditions which need to prevail in order for suppliers to proceed with smart metering. The Common Framework will form the basis of the ERA submission to Ofgem's

consultation paper. The ERA response will support the principle of smart metering, but not make recommendations on the preferred method. The purpose of drawing up the Common Framework is to develop a proposal for an infrastructure upon which smart metering technology can be introduced alongside conventional meters.

The Common Framework will not seek to achieve a consensus on product, contractual arrangements or transition periods. Its remit will be on those areas that require standardisation. We believe that Ofgem will be instrumental in removing some of the barriers that prevent the development of smart metering in the market.

Customer disputes, Billing Code and ADR

In February last year the ERA announced plans to improve industry billing systems and set new standards in customer service.

Earlier this year we presented to Ofgem our proposal for a Billing Code. The Code is designed to provide a technical specification to which suppliers can improve their billing systems. The Code provides more transparency about industry billing practice to assist consumer and stakeholder understanding of billing. The Billing Code will be strengthened further by an industry funded ombudsman to adjudicate on unresolved disputes between suppliers and customers. The ombudsman will be in place by July this year. According to energywatch figures billing complaints have already fallen by over 20% in the last two years and we expect to see a further decline as a result of these new measures.

Billing has become a “catch all” category for anything that is not clearly sales or transfer related according to energywatch’s complaints register. Therefore, the commitments in the Code should be assessed alongside the recent industry improvements in other retail elements, such as selling, disconnection and transfers. The Code also meets Ofgem’s recommendations on back-billing. The ERA will be seeking OFT accreditation for the Billing Code under the Consumer Codes Approval Scheme. Ofgem’s support will be important to establish the credibility of the industry Billing Code.

Supply Licence Review

The ERA is pleased to take part in Ofgem’s review of the Supply Licence Conditions. It is clear that developments in the competitive market mean that some Supply Licence Conditions are no longer required and others need to be revised. The review should seek to reduce the number of licence conditions where adequate protection is afforded to consumers by existing consumer and competition legislation. This legislation and accompanying licence conditions form the bedrock on which suppliers will build their own distinct processes and customer offers. Therefore, the review will set the course for the eventual removal of all sector specific regulation in energy supply where the market provides the requisite consumer protection.

In the spirit of better regulation Ofgem should consider the extent to which competition provides adequate consumer protection. The Supply Licence Condition review is setting a framework for future years and must therefore offer flexibility for innovation that may result from unforeseen developments in the market. The industry has already delivered improvements in customer services by establishing a self-regulatory regime where this is the most effective form of checks and measures. and this should be further encouraged. The supply licence review is a useful and significant first step, but its success will be judged by the extent that it produces a substantial reduction in regulation of the sector and drives forward an agenda for complete deregulation.

HELPING TO PROTECT THE ENVIRONMENT

Energy Efficiency Commitment 3

The Energy Efficiency Commitment (EEC) has delivered significant energy savings through the efforts of suppliers. However, as with its predecessor schemes, the emphasis in EEC has been on customer push and very little customer pull. Whilst volumes may have increased consumer behaviour has not changed. This means that energy efficiency measures have been delivered at disproportionate cost to the industry with very little actual energy savings. We should, therefore consider the options for splitting the £10 per customer per fuel into two funding streams – carbon savings and social welfare programmes. Removal of suppliers' social obligations from their energy savings commitment must not increase the overall cost to suppliers and, by association, consumers. It will, however, lead to a refocused investment to alleviate fuel poverty by more targeted means that address concerns of specific market segments.

Ofgem will need to continue to support suppliers in developing innovative options for EEC accreditation and incentivise creative offers. It should also ensure that assessment and accreditation does not become an administrative burden on suppliers that discourages development in the market. Beyond 2011 suppliers will seek the support of Ofgem to develop a policy instrument that delivers carbon savings but is not expected to double up as a solution to fuel poverty, which is an issue requiring a much wider debate on housing quality and income levels.

In addition Ofgem should seek a role in promoting consumer engagement in energy efficiency. In future suppliers should be rewarded for driving behavioural change.

HELPING TO TACKLE FUEL POVERTY

The ERA shares Ofgem's opinion that the broad issues of poverty and social exclusion are a matter for Government. Suppliers have demonstrated their support for the Government's social objectives by establishing the Home Heat Helpline as a dedicated service for "hard to reach" customers. Energy suppliers have also demonstrated willingness to enter into partnerships with Government and other businesses to deliver measures to support vulnerable households. The Government has to demonstrate that it is capable of developing policy by working across departments towards a common goal to improve the housing, health and income of the poorest homes using market drivers.

The current Licence framework was introduced to ensure a level of protection for vulnerable customers that suppliers have shown they can provide through their own initiatives. The Priority Service Register is, therefore, not required in its current form. The existing PSR is heavily weighted towards older people. It should not seek to define vulnerable customers, but instead allow suppliers to target specific groups of customers who may require additional support e.g. older people, lone parents, benefits claimants. The ERA, therefore, supports a wholesale review of specific priority services and their effectiveness in supporting vulnerable customers. We would add that any further demands from Ofgem for suppliers to support vulnerable customers should not involve an onerous reporting regime that would incur unnecessary cost. We propose, therefore, that the licence condition could be an overarching request for suppliers to make specific arrangements to offer support for

vulnerable customers, but leaves suppliers to make a judgement on what form that support takes.

The ERA has proposed that the report on supplier initiatives relating to corporate social responsibility should be a joint project between us and Ofgem.

DELIVERABLES AND PERFORMANCE INDICATORS 2006-7

The ERA would be pleased to work with Ofgem in co-ordinating suppliers' input to Ofgem's activity where there is a common industry position. This would be based on our core principles of promoting competition and protecting consumer choice.

Finally, we would like to comment on Ofgem's costs and staffing provision. The current position does not reflect the balance between networks and markets given the development of competition evidenced in this response. We would request that this is given close consideration in the budgetary plans.