

Ofgem Corporate Strategy and Plan

Response by FPAG

Ofgem does a lot of work which is excellent and very helpful on fuel poverty in the context of its social action plan. We were pleased to see in the Consultation document that Ofgem is seeking to integrate social issues and considerations throughout its work.

We are responding separately on metering, and social issues relating especially to prepayment meters arise here.

The recent increases in retail energy prices, stemming primarily from wholesale price increases, are doubling the numbers in fuel poverty in England between 2003 and 2006. As is well known, FPAG *recognizes that Ofgem has done valuable work on some aspects of the price issues especially in relation to the position on the Continent*. However, it does not believe that Ofgem is treating the rise in wholesale prices as seriously and with as much urgency as it should. Neither does Ofgem appear to be re-examining its policies to see if they are still adequate in the light of the extraordinary and unwelcome developments in wholesale and hence retail prices.

We set out below our comments from the conclusions and other relevant parts of our Annual Report for 2005-06, [which will be published in March], on Ofgem's approach on these issues.

Conclusions (extract)

Our overwhelming concern this year is energy prices - in particular the overall level of prices and also the prices paid by low income customers.

The Government and Ofgem have worked very hard on some aspects of energy, and especially gas, price issues. However they sometimes give the impression that the level of energy prices is virtually outside their control and is the result of inevitable market and external forces. **It seems to FPAG from the outside that the Government and Ofgem are not reacting strongly enough to the extraordinary wholesale prices, which have been driven way above costs to the detriment of customers, and that they are not willing enough to examine different solutions in the light of the unexpected and unwelcome developments, resulting at least in part from the way the energy market is organised in Britain. We would like to see more urgency on**

this, in the light of the near doubling of the number of vulnerable households in fuel poverty in England, and of the hardship caused to domestic [as well as other] customers including the fuel poor.

Extract from Summary and Recommendations

Thus the outlook this year is gloomier than it has been since the Fuel Poverty target was set and since FPAG was established nearly 4 years ago. **The 2010 statutory target can only be met if there is determination from Government and Ofgem on energy prices in general and also on prices for low income customers; and if further resources are made available.**

Our key recommendations are:

The current energy price levels result only in part from worldwide developments, and UK wholesale gas prices are markedly above those on the Continent or in the US. These levels raise extremely serious concerns, and **the Government and Ofgem should consider all options for securing a reduction and preventing a recurrence of these high prices. These options should include interventions of different kinds in the market - which we are not necessarily advocating, but which do need to be looked at carefully, given the terrible effects of current prices on fuel poverty. This should be picked up in the Energy Review as well as in more immediate assessments**

Energy Prices

The energy prices increases are, in part, a result of worldwide forces. However, there have been huge increases in wholesale prices in Britain beyond world levels, especially for gas. These price levels are, in our view, raise extremely serious concerns, if they are anything other than a short run blip. There is a need to identify and consider all the options for tackling this problem. This will include possible ways of preventing a recurrence, as well as for securing a reduction in the present high prices. These options should include interventions of different kinds in the market. We are not necessarily advocating such intervention, but we do think the pros and cons should be considered along with those of other measures.

FPAG takes a pragmatic view of these matters. The market has provided benefits for low income customers in the past, and UK gas prices to households still appear to be below average EU levels. We accept that there is no evidence of market abuse, **but FPAG members are of the view that the UK market is not functioning well at present in that it is producing wholesale prices way above costs, to the detriment of customers, including the fuel poor.**

We hope that the Government and Ofgem will take a similarly pragmatic approach - not just reaffirming that the market will provide solutions, not just seeking to improve the working of the market and its transparency [although these could be important], **but also considering whether the market on its own is capable, for example, of providing for rare cold weather situations or whether supplementary measures are needed.** Similarly it will be necessary to consider what should be done if it does not prove

possible to reform the Continental market or if such reform does not provide the whole solution. In this situation of high prices it is vital that the companies across the value chain should not raise prices any more than is absolutely necessary.

There needs to be transparency on prices and margins in different parts of the market, especially as some electricity generators are likely to be making significant additional profits. **DTI is carrying out work on margins through the value chain as Ofgem has been unwilling to do this work. This work has now become even more important, and needs to be completed as soon as possible.**