

24 September 2007

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Ofgem
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Dear Andrew,

Ofgem's Five year Strategy 2008 – 2013

Thank you for the opportunity to feed into Ofgem's corporate five year strategy for 2008 – 2013.

This response has been produced as an industry-wide response from the energy suppliers forming the Energy Retail Association (ERA). The ERA, 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 Britain are members of the Association: British Gas, Scottish & Southern Energy, RWE npower, E.ON Powergen, EDF Energy and ScottishPower.

We have been working very closely with Ofgem over the past year in many areas and are pleased with the progress Ofgem has made, in particular in areas such as the Supply Licence Review, the Consumer First project, vulnerable customers and green supply offerings. We will continue to work with Ofgem in all relevant areas, from smart metering to fuel poverty, and from energy efficiency to security of supply.

We welcome successful implementation of the new supply licences and we are hopeful that the new slimline approach is a sign that Ofgem recognises the maturity of a competitive energy supply market, which is delivering higher standards of service to customers. We consider the reform of the supply licences as a great opportunity for suppliers to continue to deliver within the competitive market. We hope the reform of the supply licences is the start of a lighter touch regime throughout the industry.

In this response we have also looked at the 'bigger picture' to see where Ofgem may need to be in five years time and how it can achieve this. The changeable nature of this competitive industry means that the longer-term view is vital to ensure that both Ofgem and suppliers can plan ahead.

The energy industry in Great Britain is moving into a new era of decarbonised markets, and this will provide the key challenge for the industry in the short to medium term. How Ofgem, as regulator of this market, and the industry itself manages this change will be vital for its success, particularly with combating climate change and reducing CO2 emissions.



The UK is struggling to meet its targets to reduce CO2 emissions by 20% below 1990 levels by 2010 and 60% by 2050. Looking longer term, to achieve a 3-4 MtC reduction by 2020, suppliers and their customers need to have a shared incentive to reduce energy use, and to work with government to achieve this. Key milestones along this path need to be implemented that will enable energy suppliers to plan ahead with a clear vision of what their targets are.

An option to achieve this may be commercially viable energy services business models (ESCOs), which could be set up to reduce energy demand. However to achieve this step change the industry must be convinced that they are credible and practicable in all circumstances. In a competitive market consumer demand should be a key factor in driving change, rather than solely relying on the government enforcing this to happen. However whether this would occur if left to consumer demand is an important question that both Government and the industry must contemplate in more detail. Current indications are that consumers are not yet a key driving force behind any change.

An additional key challenge for Ofgem will be the requirement for strong focus on domestic concerns over security of supply, particularly as these are increasingly dominating the debate about energy policy. As the UK depends more and more on imported gas sourced from certain unstable parts of the world, which can result in more volatile energy prices, this can impact on consumers in a number of ways including higher prices.

The Energy White Paper sets out the work the Government is doing to determine a strategy for decarbonising the UK, and it is vital that there is a joined up, coordinated approach between all Departments to ensure the targets are achieved. We have summarised how the ERA believes that the Authority should respond to these challenges below.

Smart Meters

Although many people agree that things must be done to dramatically reduce our carbon emissions, there is still no clear and transparent strategy in place to achieve this. The introduction of smart meters could be a giant leap towards accomplishing this ambition. As an industry, we believe that a mandated roll out of smart metering offers a golden opportunity to revolutionise our industry over the next ten years.

We feel strongly that smart meters would be a unique opportunity to unleash a transformation within the energy industry and the way in which consumers use their energy supply, by providing each consumer with real-time, accurate information on the energy they are using at home in an easy-to-read format.

This would be enabled through new technology, which could transmit information on energy consumption through a hand-held device, via the Internet or even potentially through a mobile phone. This knowledge would empower consumers to reduce their household carbon emissions. Additionally, the two-way communication offered by smart meters would also enable the industry to incentivise further reductions in consumption, by enabling suppliers to develop more flexible tariffs designed to reward consumers who use energy efficiently and at off-peak times. Smart metering also offers automation of energy efficiency controls which may be of greater benefit than direct customer intervention.

The ERA is currently leading a smart meters project team which is looking at the operational framework necessary for such a move. The industry's hope is that the Government will use the forthcoming Energy Bill to give a mandate to the energy supply industry to begin a programme of delivery of smart meters to every UK household over the next 10 years. Without this mandate, work on the national roll out of smart meters will eventually stall.

We hope that the smart metering trials that Ofgem are currently overseeing will support this mandate, recognising the importance that smart meters will have in helping the overall reduction of carbon from energy use in the UK.

Energy Services

Ofgem should ensure that it is joined up in its regulatory approach to meeting the twin challenges of climate change and security of supply. Moving from an energy supply-focussed industry to one of providing energy services will mean a radical shift in the market. Some companies are already moving in this direction, at least to some extent, helping to change consumers' viewpoints.

As noted above, one way in which this could be achieved may be the setting up of commercially viable energy services business models (ESCOs), which could reduce energy demand. However to achieve this step change the industry must be convinced that they are credible and practicable in all circumstances.

In addition, ESCo models may work properly when prices are generally low, but Ofgem could explore the consequences of what may happen when prices rise and how the market would respond to that. Also, should Great Britain experience a 1-in-50 winter, we need to ensure that the market can maintain supplies to domestic customers.

Security of Supply

The British energy market does not work in isolation, and external factors can have a strong influence on the market. Ofgem should consider the strategies that need to be put in place to protect consumers and the industry in all circumstances. Security of supply is vital for GB, as a net importer of gas. There have been significant improvements over recent years with new pipelines and storage facilities. However other factors such as political instability and environmental events can have a direct impact on how the market operates.

The impact of higher prices as a result of external political and environmental activities has the potential to increase the take-up of micro-generation within Britain. If energy prices rise, and the cost of micro-generation diminishes, domestic and community energy customers may see a cost benefit of installing micro-generation. However, Ofgem should also seek to ensure that all the appropriate infrastructure exists to support the increased uptake of micro-generation and the export of electricity back into the grid.

Consumer protection and representation

Consumer protection should also remain on Ofgem's list of priorities for the next five years, while recognising the developments in this area over the last few years. Consumers have benefited from the competitive marketplace in a number of ways, including improved their customer services, sales and billing activities and increased choice. In addition to this, the Energy Supply Ombudsman (ESO) was established to resolve outstanding complaints in a fair and independent way. Within the Consumers, Estate Agents and Redress Act now in force, Ofgem has received further enabling powers to make regulations to prescribe complaint-handling standards, which will be binding on energy suppliers.

Energy suppliers are keen to work with Ofgem to determine how this will work within a competitive marketplace. They are confident that reporting by numbers of cases solved within a specific time frame will not improve customers' experience. Measuring other factors such as customer satisfaction will give a better idea of how the company managed any issue that customer may have had.

The energy sector has had a long and successful history of self-regulation in customer service, which includes the EnergySure selling code, the ESO, the Billing Code, the Disconnections Safety Net Agreement for Vulnerable Customers and the Customer Transfer Programme. Consumer protection and representation is an area that will continue to benefit from light touch regulation, where Ofgem outlines the overarching principles and through the competitive marketplace suppliers are able to interpret these and differentiate themselves on customer experiences and satisfaction.



Fuel Poverty

We appreciate the constructive way in which Ofgem has handled the Government's request for it to review suppliers' voluntary initiatives to help vulnerable customers. Suppliers are proud of their efforts to provide a supportive service for their most vulnerable customers and have responded to challenges in this area in a positive manner. We recognise that Ofgem is likely to have a role in scrutinising those efforts on an ongoing basis and we welcome this.

To facilitate its aims on helping the fuel poor over the next 27 months, to 2010, the Government must put in place a joined up strategy now. Ad-hoc exercises such as last winter's initiative, which was wholly funded by suppliers, is not going solve this crucial problem.

Ideally energy efficiency should be separated from fuel poverty and each addressed separately and seriously. Energy reduction schemes should not have a bolt on social element, which dilutes the impact. EEC is currently touted as the main scheme to address fuel poverty, however as households in the EEC priority group are not necessarily fuel poor (only 25% of benefits claimants are fuel poor and only a minority of pre-payment customers are fuel poor) relying on EEC to solve fuel poverty would be a mistake.

Ofgem needs to work closely with BERR to ensure that Government policy appropriately supports efforts to tackle fuel poverty and assist vulnerable customers, so that it enables suppliers to bring forward cost effective assistance as they deem appropriate, and not subsidies that impact on all consumers, including the fuel poor.

Guaranteed Standards of Performance

The ERA has consistently called for a review of the Guaranteed Standards of Performance (GSOPs). We believe that these are no longer relevant because they are applied inequitably across electricity and gas and different customer groups. In addition the level of competition in the energy supply market, increasingly dual fuel in nature, means that the standards are now an anachronism and an inappropriate means to incentivise suppliers to safeguard consumer interests, with their focus on the electricity market. GSOPs are currently designed to measure volume and do not incentivise improvements in customer service standards to the benefit of consumers.

Please do let me know if you would like to discuss any of these points further.

Yours sincerely,

Frances Williamson
Industry Relations Manager