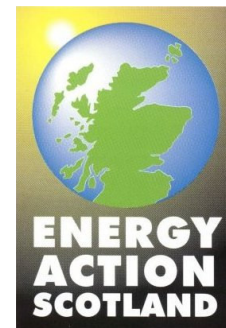


Response to Ofgem Corporate Strategy 2008 - 2013



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Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS has worked with both the Scottish Government and the UK Government on energy efficiency programme design and implementation.

EAS has responded to the Ofgem consultations on Complaint Handling Standards and on Redress Schemes in the Energy Sector and to the recent the consultation on the Standard Licence Conditions of the Electricity Distribution Licence. EAS welcomes the opportunity to comment on Ofgem's Proposed Corporate Strategy from 2008 to 2013.

EAS is primarily concerned with the impact of energy regulation policy on the fuel poor and other vulnerable consumers and this response concentrates mainly on the aspects of the consultation which are likely to affect those consumers in Scotland.

Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 738,000 (35%) in 1996 to 286,000 (13%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improved energy efficiency of housing¹. The most recent figures from the Scottish House Condition Survey show an increase to 543,000 households living in fuel poverty in Scotland in 2005/06, representing 23 % of the total.

According to a report produced by Communities Scotland², for every 5% rise in fuel prices an estimated 30,000 more households would go into fuel poverty. EAS estimates that there are currently 700,000 households, almost one in three, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic energy prices and the additional price rises announced recently will exacerbate this situation.

EAS believes that the Scottish Government's target on the eradication of fuel poverty can be met but only if significant additional resources are directed into fuel poverty initiatives and EAS is calling on the Chancellor of the Exchequer and Scottish Ministers to use the extra VAT revenue generated by energy price rises to boost programmes aimed at ending fuel poverty.

¹ Fuel Poverty in Scotland: Further Analysis of the Scottish House Condition Survey 2002

² Fuel Poverty in Scotland: Further Analysis of the Scottish House Condition Survey 2002
EAS Response to Ofgem Corporate Strategy 2008 - 2013, February 2008

General comments about Ofgem's Proposed Corporate Strategy from 2008 to 2013

EAS is supportive of Ofgem's stated objective to put sustainable energy solutions at the core of its work. EAS is pleased to note that Ofgem recognises the need to protect consumers' interests in the current climate of rising prices and welcomes the commitment to continue to work with Government and industry to ensure that fuel poverty measures are targeted effectively. Ofgem's primary objective is to protect the interests of consumers by promoting effective competition but EAS would suggest that competition is not working effectively for vulnerable consumers and therefore EAS recommends that Ofgem should undertake an urgent review of the effectiveness of the competitive market, particularly as it affects vulnerable customers. This is now becoming increasingly important given the recent levels of profit announced by British Gas shortly after it increased prices to customers and EAS welcomes the announcement that Ofgem has launched an investigation into the gas and electricity markets.

Specific questions in the consultation:

1. Creating and sustaining competition

Chapter Summary

We will continue to monitor the wholesale and retail energy supply markets to make sure that competition remains effective and we will use our sectoral and competition law powers where necessary. We will periodically publish information and analysis to facilitate and inform the debate on important issues such as the health of retail competition, wholesale market transparency, liquidity and the role of large customers (the demand side) in the market. We will continue to seek to reduce any barriers to the take-up of smart metering, microgeneration and green supply tariffs.

Question box

Question 1: Does this theme remain valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem's approach to the challenges ahead the right one?

Domestic energy prices have increased considerably in the last few months and EAS is very concerned about the negative impact that this will have on fuel poverty levels in Scotland. EAS does not accept that the competitive market is operating effectively, particularly for vulnerable customers, and is pleased to note that Ofgem is considering ways to help address this issue. The consultation document asserts that Britain's competitive market is the most competitive in Europe, but EAS does not believe that this is a relevant comparison given that the European energy market is not fully open to competition. Indeed it would appear that the impact of the European energy market on British energy consumers is mainly negative.

The main theme of this chapter appears to be that competition in the energy market is effective and that the current levels of switching support this assertion. According to the information in the document 3.4 million electricity customers and 2.6 million gas customers have switched suppliers in 2007, but this information alone cannot be taken to mean that all these customers are satisfied with their new supplier or that they are still enjoying lower prices and/or improved service. Levels of switching alone cannot be taken as proof of better service and lower prices, and therefore EAS is pleased to note that Ofgem will continue to monitor the markets to make sure they are operating to the benefit of all consumers. Furthermore EAS would argue that Ofgem should take a more proactive role in relation to ensuring that vulnerable consumers are not disadvantaged further by the way the market is operating.

EAS notes that Ofgem is working with industry and Government to facilitate the introduction of smart meters and EAS urges Ofgem to ensure that this process is supported by appropriate protocols for protecting consumers and by a consumer awareness and education programme. EAS would like Ofgem to lead the debate on this issue in order to ensure that vulnerable customers, particularly those with prepayment meters and those repaying a debt, are given appropriate protection when the new meters are rolled out across the UK. EAS does not agree with the assertion in the consultation document that “relying on suppliers’ commercial incentives is the best way of protecting consumers” when smart meters are introduced and urges Ofgem to reconsider its approach to this subject.

2. Regulating networks effectively

Chapter Summary

It remains our view that incentive-based regulation is the best regulatory framework for energy networks. We think that the framework remains fit for purpose, flexible and innovative enough to respond to changing circumstances, such as new patterns of supply and demand in response to the challenges posed by tackling climate change. Ofgem will continue to regulate networks transparently and take decisions that are consistent across sectors wherever appropriate.

Question box

Question 1: Does this theme remain valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem’s approach to the challenges ahead the right one?

EAS supports the continuation of regulation in the distribution and transmission areas of the energy sector and notes the commitment by Ofgem that it will continue to operate in a transparent and consistent manner across all networks in order to protect the interests of consumers.

3. Helping to protect the security of Britain’s energy supplies

Chapter summary

We believe that a combination of competitive markets and effective regulation of networks is the best means of protecting the security of Britain’s energy supplies. We will continue to assess all policies, including EU proposals, in terms of their impact on security of supply.

Question box

Question 1: Does this theme remain valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem’s approach to the challenges ahead the right one?

EAS does not accept the assertion set out in the consultation document that competitive markets are the best way of promoting security of supply and urges Ofgem to ensure that there is an appropriate level of regulation in place to protect British consumers from fluctuations and uncertainty in the energy market. Britain is becoming more reliant on imports from other countries for its energy supply and this situation creates uncertainty in the British markets and this appears to have had a negative impact on energy prices over the last two years. EAS urges Ofgem to ensure that the regulatory regime is sufficiently robust to protect British consumers from price surges caused by sudden disruptions to supplies from other parts of Europe.

EAS is pleased to note that Ofgem is considering using the revenue raised through the European Union Emissions Trading Scheme (EU ETS) to help tackle fuel poverty. As stated earlier in this response, fuel poverty levels are increasing and additional resources will need to be invested in fuel poverty measures if the Government’s fuel poverty targets are to be met. The consultation document states that higher carbon prices will lead to greater energy efficiency and EAS urges

Ofgem to encourage more investment in this as improved energy efficiency is the most sustainable method of reducing fuel poverty.

An important aspect of Ofgem's role is the dissemination of information about the way the energy market operates and EAS is pleased to note Ofgem's commitment to continue this role.

4. A leading voice in Europe

Chapter summary

We will promote the development of sustainable energy markets across the EU. We will continue to support the European Commission in its drive to achieve competitive energy markets and effective network regulation. We will focus on advising the Commission on the detailed provisions and subsequently the implementation of planned new energy legislation, including unbundling of EU transmission networks. We will also continue to work with fellow EU energy regulators on the gas and electricity regional market initiatives.

Question box

Question 1: Does this theme remain valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem's approach to the challenges ahead the right one?

The deregulation of the European energy markets is likely to create further uncertainty in the British energy market and therefore EAS urges Ofgem to ensure that British energy consumers are protected against any adverse effects arising from this process. The drive towards more competition in Europe must not result in a lowering of service to British consumers or lead to higher energy prices in Britain and EAS urges Ofgem to ensure that the interests of British energy consumers are adequately protected in the process of developing sustainable energy markets in Europe.

5. Helping to achieve sustainable development

Chapter summary

Ofgem remains committed to playing its part in facilitating the transition to a low carbon energy sector. A key part of this will be the removal of any barriers to innovation. We will continue to take full account of the impact on the environment across the range of our decision-making. We will also continue to contribute to the debate on how to reduce carbon emissions from the energy sector in the most cost effective manner. We will continue to administer Government environmental programmes efficiently and effectively. Alongside our work to tackle fuel poverty, this work forms a major part of our contribution to the achievement of sustainable development. We will also advise the Government on the future development of these schemes based on our practical experience in their administration.

Question box

Question 1: Is this theme valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem's approach to the challenges ahead the right one?

EAS strongly supports Ofgem's stated commitment to sustainable development, social and environmental matters and is pleased to note that Ofgem is keen to minimise the burden on consumers who are in fuel poverty. The consultation document states that Ofgem expects suppliers to offer products that allow customers to manage their own energy consumption and EAS urges Ofgem to adopt a proactive role in this matter. The abolition of the 28 Day Rule does not appear to EAS to have resulted in the development of new energy service products and EAS is

disappointed that Ofgem has not encouraged suppliers to honour their commitment to introduce energy service products if the 28 Day Rule were to be removed.

EAS is very supportive of the need to provide more information to customers on energy usage and supports the introduction of smart metering technologies. Customers need access to clear, unambiguous information about their energy usage and smarter metering will certainly contribute to that. However customers must not be expected to bear the full cost of any new technologies and innovative solutions must be found to address this issue before final decisions are made. In addition to this EAS strongly recommends the need for a customer awareness and education campaign on the benefits of smarter metering to be undertaken and also recommends that appropriate licence obligations are introduced to ensure that customers are adequately protected against changes in debt recovery rates and price rises when smart meters are introduced.

Energy efficiency is the most sustainable solution to fuel poverty and therefore EAS is pleased to note that Ofgem recognises the benefits that improved energy efficiency can bring to the environment and to the eradication of fuel poverty. EAS also supports the changes in the license review which should result in a shift in emphasis from selling kilowatt hours to meeting energy needs.

6. Helping to tackle fuel poverty

Chapter summary

We will continue to facilitate efforts by the Government and industry to target fuel poverty measures on those most in need. We will also continue our broader programme of work as part of our Social Action Strategy to protect the interests of vulnerable customers. This work is a major part of our contribution to the achievement of sustainable development.

Question box

Question 1: Does this theme remain valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem's approach to the challenges ahead the right one?

Question 4: Should Ofgem revisit the issue of debt blocking to facilitate the participation in the competitive market of customers who are in debt?

It is really important that fuel poverty continues to be a top priority for Ofgem and EAS is pleased to note Ofgem's commitment to help to ensure that prices are no higher than necessary and to promote energy efficiency. Low income and vulnerable consumers have generally not benefited from switching suppliers and therefore Ofgem should undertake an urgent review of how low income and vulnerable consumers can take more advantage of the competitive energy market. EAS accepts that increasing household incomes and improving the energy efficiency of housing are key aspects of reducing fuel poverty but low income customers are currently penalised by paying higher tariffs on their prepayment meters (PPMs) and this unsatisfactory situation must be addressed by Ofgem as a matter of urgency.

Social tariffs can make a significant difference to households in fuel poverty, but these vary considerably in what they offer and therefore EAS recommends that Ofgem should set out minimum standards for these as soon as possible and encourage their promotion to low income households. Energy suppliers already have a significant amount of information on customers who are on PPMs, customers on the Priority Services Register and those who are in debt, and therefore EAS does not accept that all of this is dependent on Government using its sources of information to improve targeting. EAS believes that suppliers should make better use of their own information to target help to their vulnerable customers.

EAS agrees that Ofgem should revisit the issue of debt blocking as the current situation prevents customers from switching supplier even when the “debt” has arisen through no fault of their own and may have resulted from incorrect meter readings. In addition to this EAS recommends that Ofgem should review whether suppliers are sufficiently proactive in the support and advice they offer to customers who may be experiencing difficulty meeting their payments and suggests that Fuel Direct should also be offered as an alternative payment method for qualifying customers. The Scottish Affairs Select Committee Report³ from its enquiry into “Poverty in Scotland” said that the committee could not understand why the take-up of Fuel Direct should have fallen at the same time that fuel debt is rising and it urged the Government to look into the cause of this as a priority.

7. Better regulation

Chapter summary

We remain committed to policies and processes that are consistent with better regulation principles. We will continue to improve our efficiency and effectiveness and to keep our costs under tight control. We will draw on best practice from other Government Departments and regulators as appropriate.

Question box

Question 1: Does this theme remain valid?

Question 2: Have we identified all the relevant issues within the theme?

Question 3: Is Ofgem's approach to the challenges ahead the right one?

Question 4: Are there any other activities that we should include in the Simplification Plan that we intend to publish in March?

Question 5: Are there any areas of regulation that we should review to ensure that our approach is proportionate to the risk?

Question 6: Are there any areas of regulation that you consider to be an unnecessary burden that should be removed?

In the current climate of rising energy prices and high profits EAS strongly recommends that Ofgem should adopt a more proactive role towards regulation and does not consider that self-regulation will provide adequate protection for vulnerable and fuel poor customers. EAS understands that Ofgem should run its operations in an efficient manner but this drive towards efficiency must not be done at the expense of providing adequate protection for vulnerable customers.

EAS is pleased to note that Ofgem intends to continue the Consumer First initiative and looks forward to seeing the results of the research that is being carried out into the issues facing vulnerable customers. The changes to consumer representation under the Consumer Estate Agents and Redress Act do not appear to EAS to offer the same level of advocacy and support as the current arrangements under energywatch and therefore EAS suggests that Ofgem should not weaken the current level of regulation until such time as the new consumer representation arrangements are seen to be operating effectively.

Conclusions:

EAS is increasingly concerned about the impact of rising energy prices on fuel poverty levels and urges Ofgem to ensure that regulation of the energy market is working effectively and that the interests of fuel poor and vulnerable customers are adequately protected. Competition does not appear to be working for PPM customers and other vulnerable customers and EAS is pleased that Ofgem intends to investigate this issue.

³ House of Commons Scottish Affairs Committee Report: “Poverty in Scotland” December 2007
EAS Response to Ofgem Corporate Strategy 2008 - 2013, February 2008

Future changes such as the new consumer representation arrangements and changes to the European energy markets are likely to have an impact on British energy consumers and therefore fuel poor and vulnerable customers must be adequately protected within these forthcoming changes. EAS welcomes the announcement that Ofgem has launched an investigation into the gas and electricity markets and is pleased that Ofgem has also stated that it intends to hold a fuel poverty summit in April.