

Ofgem Corporate Strategy 2008 - 2013

The next five years will be extremely important for the energy sector. The contents and focus of Ofgem's corporate strategy is vital to ensure that the competitive markets continue to work effectively, smart metering is introduced and the root causes of fuel poverty are finally and effectively addressed.

The Energy Retail Association (ERA), formed in 2003, represents electricity and gas suppliers in the domestic market in Great Britain. All the main energy suppliers operating in the residential market in Great Britain are members of the association - British Gas, EDF Energy, npower, E.ON, ScottishPower, and Scottish and Southern Energy.

We hope to continue to work with Ofgem in areas such as complaints handling and green supply over the coming years to help achieve successful outcomes to the themes raised in the Corporate Strategy.

In a number of areas such as green supply, new consumer representation framework, complaint handling standards, criteria for redress schemes and reviews of retail energy supply market we encourage Ofgem continue to adhere to Better Regulation principles such as proportionality and transparency, and not seek to be too prescriptive, so as to complement rather than hinder further development of the market.

In these times of global energy markets, where the UK is susceptible to external conditions impacting on its security of supply Ofgem must continue its role in communicating the changes in the supply and demand chain in order to inform third parties such as the media, government and consumer groups.

There are a number of themes within the forward plan which relate to the retail aspect of the industry which we will comment on in our response, namely:

- 1 - Creating and sustaining competition
- 4 - A leading voice in Europe
- 5 - Helping to achieve sustainable development
- 6 - Helping to tackle fuel poverty
- 7 - Better regulation

1 - Creating and sustaining competition

The ERA agrees with Ofgem's observations about the highly competitive nature of Britain's domestic energy market. We firmly believe that the competitive market will continue to provide more innovation, better customer service and lower prices than prescriptive regulation. Customers are easily able to switch between suppliers and have a wide choice of tariff offerings. This range of offerings is expanding and becoming more inventive as suppliers compete to attract new customers and retain their own. We therefore support any opportunity to remove regulation so that the energy retail sector becomes more like any other competitive market.

As the strategy document outlines, switching levels have again increased in 2007, with six million customers moving to a different supplier in the first eight months of the year. Whilst this is a key indicator of a competitive market place, we also recognise that it is important to ensure that all customers, and in particular the vulnerable and fuel poor, are able to take advantage of supply competition. We comment on this further in the section on fuel poverty below.

- **Retail markets**

2008 will see a major shift in the consumer representation and redress framework, with the transition from energywatch to the new NCC. This must occur smoothly for customers, and energy suppliers are a key link in this chain. Much work has already been undertaken by suppliers to improve their complaint handling processes, such that there has been a steady decline in the number of complaints recorded by energywatch. Suppliers are committed to working with Ofgem to deliver the new complaint handling and redress framework and to secure a seamless transition for customers.

The industry is keen to provide Ofgem and the new NCC with any support they may require during the transition period. It is vital that the industry has sight of a clear project timetable and milestones, and that everyone involved understands where responsibility lies. There must be time allotted for adequate testing and gap analysis of proposals. With the limited amount of time remaining, a more joined-up approach is required to ensure the process is a success.

The Energy Supply Ombudsman (ESO) established by the ERA and its members in July 2006 is a clear example of how successful self-regulation can be implemented. We welcome the outcome of the Ofgem review and are committed to progressing the enhancements suggested.

We feel that there must be a review of the Guaranteed and Overall Standards, which are unnecessary in a competitive energy retail market. If customers are unhappy with the level of customer service their energy supplier provides they can switch. Within the strategy document Ofgem indicates that this review will take place within the year but we would like to have more information on the expected timings of it. Over the coming months there will be changes to consumer representation and redress, however in Better Regulation terms the Guaranteed and Overall Standards are inappropriate and should be reviewed and removed. This would support Ofgem's commitment in the Supply Licence Review outcomes in terms of pursuing a de-regulatory agenda as and when appropriate.

- **Metering**

The ERA and its members have carried out extensive work to assess how smart meters can be rolled out into every home within the next ten years. We believe that smart meters will play a vital role in meeting the government's climate change objectives as they will help suppliers to improve their relationship with customers and introduce energy efficiency measures.

The Government signaled its support for smart meters in its Energy White Paper last year, but it now needs to make an unequivocal commitment to rolling out smart meters by giving the industry the mandate it seeks. There is an overwhelming amount of support to see smart meters rolled out and the governance of this is crucial. The ERA has been lobbying government strongly for a mandate for smart metering in the Energy Bill and we hope that Ofgem supports this action. The Energy Bill provides the ideal legislative vehicle for a mandate, and without it, there is a question whether it will be possible to deliver smart meters into every home in Britain within the next ten years.

Ofgem's smart meter trials will provide much needed information on implementation considerations and what the likely consumer behaviour change will be. We will continue, as far as we are presently able, to work with our members and other industry stakeholders, as well as Ofgem, government departments and consumer representatives, on this important issue to make smart meters a reality.

4 - A leading voice in Europe

The European Commission is focused on achieving competitive energy markets and effective network regulation throughout Europe. We welcome greater competition and a more liberalized market in Europe. However there may be a risk that the good work of Ofgem's Better Regulation focus is undermined by new prescriptive regulation introduced from Europe. We ask Ofgem to carefully monitor the progress made in Europe so that any decisions do not bring further regulation on energy suppliers in Britain, particularly in the context of our maturing competitive market versus developing markets in the vast majority of other European states.

5 - Helping to achieve sustainable development

We need to reduce carbon emissions from the energy sector in the most cost-effective manner possible. Energy suppliers have very challenging targets within CERT, particularly to achieve the priority group savings. Therefore we would welcome any assistance Ofgem can provide to ensure that energy suppliers have access to relevant and up-to-date information which would ensure more focused and efficient targeting of suppliers' offers. We understand the wider implications of data sharing in today's society, however we are confident that there are achievable solutions to be found that can overcome any issues.

We agree that it is important that Ofgem and government departments remove any barriers to innovation and provide regulatory and policy frameworks to support long term investment. This would enable companies to invest in new and innovative ways of delivering a more sustainable energy system within a competitive market place. CERT is a step toward this occurring. The framework of the supplier obligation post 2011 will play an important part in determining the level of innovation by suppliers.

As you know, we are working with our members and other industry participants, as well as Ofgem and other stakeholders, to help customers understand 'green' tariffs. We are disappointed with the delay in publishing the revised Green Supply Guidelines but will continue to work to explore how a valuable verification scheme for customers can be introduced.

- **Advising government on environmental policies**

The Energy End Use Efficiency and Energy Services Directive is an example of how European regulation may not be the best solution for energy customers in GB. There continues to be a split opinion over the role of Electricity Display Devices (EDDs). We maintain our position that though EDDs may have a role to play for a certain niche group of customers, any mandating of EDDs would be a poor use of resources and a wasted focus which would not achieve the overall benefits that smart metering would provide.

6 - Helping to tackle fuel poverty

Energy suppliers are committed to helping the government achieve its challenging targets to eliminate fuel poverty, in so far as they can. Fuel poverty is a complex issue involving the combination of energy costs, income and property condition. We feel that changes must take place in order to tackle these three issues effectively. For instance, one of the practical challenges facing suppliers is targeting voluntary initiatives to those most in need. We would welcome and assistance Ofgem can provide in enabling suppliers to access government information in a collaborative manner so that suppliers can ensure those in need are aware of the offers suppliers provide. ERA welcomes Ofgem's approach in reviewing suppliers' voluntary initiatives and in making customers aware of the support that is available for vulnerable and fuel poor customers. We believe that Ofgem should build on this going forward and support Ofgem's proposals to continue to make customers aware of the overall benefits of competition.

In addition we believe that fuel poverty and energy efficiency/carbon reduction measures should not overlap, and each should be given the attention that they deserve through separate policy instruments. Also, we have already put forward a possible restructure of the Winter Fuel Payment that would refocus this considerable amount of money and target it to the groups that truly need it, without removing the payment in its entirety for all currently eligible recipients. We feel that this restructure would assist many in fuel poverty.

In addition, there is clear evidence that there is a significant proportion of vulnerable and fuel poor customers who are not accessing all of the state benefits they are entitled to. Energy suppliers already carry out benefit checks for their customers who could supplement their income, and therefore remove them from being in fuel poverty. However, we would like to see Ofgem put pressure on the government to step up its efforts in this area to ensure that everybody is claiming the correct amount of benefit they are entitled to.

Through EEC and CERT energy suppliers are improving the energy efficiency conditions of households up and down the country. These activities, such as cavity wall and loft insulation will save 1.9 MTC of carbon by 2011. However, there is a disconnect in assisting customers in fuel poverty and reducing the levels of carbon emitted from households in an equitable manner. Previous experience of EEC has shown that such a scheme cannot achieve financial equity. As the Priority Group becomes ever more difficult to reach and properties harder to treat, so the cost difference between Priority and Non-priority groups is significantly increased.

Those customers in fuel poverty must be able to interact in the competitive marketplace. We agree with Ofgem that mandated tariffs are not appropriate to tackle the multi-faceted features of fuel poverty. Suppliers offer a range of measures tailored to each individual customer to support them in the long term. This enables all customers to have a choice of supplier and prevents them being excluded from the competitive market.

We believe that there is little merit in Ofgem looking again at debt blocking. As Ofgem states, the process was examined in detail during the Supply Licence Review and the decision was made that it offered the best protection for both consumers and suppliers alike. Nothing has changed since then and another objective review would surely yield the same answer.

7 - Better regulation

We welcome Ofgem's approach to seek alternatives to conventional regulation, as suppliers increasingly seek self-regulatory routes to ensure consumers are protected. This can be seen via current self regulation projects such as the Code of Practice for Accurate Bills and the Code of Practice for the Face-To-Face Marketing of Energy Supply, as well as the Energy Supply Ombudsman. The ERA believes that it has a vital role to play as the trade association of the main domestic energy suppliers to facilitate self regulation amongst its members, and its track record proves that it has this ability. Where appropriate the ERA will look to see where it can include non-ERA energy suppliers in self-regulation initiatives, for example in developing a verification scheme for green supply offerings.

- **Impact assessments**

Ofgem are keen to introduce policy proposals. However thorough impact assessments are important to ensure the outcome of any new policy is not overly onerous on suppliers, as this would inevitably have a negative impact on all consumers as the costs are passed on by their suppliers.

Conclusions

Ofgem's corporate strategy 2008 - 2013 outlines the key issues affecting the energy sector over the coming years. We will continue to work with Ofgem in all the relevant areas to flesh out workable solutions to benefit consumers and ensure that the competitive market place continues to develop.

If you have any questions on this response please do not hesitate to contact me. Yours sincerely,

Frances Williamson
Industry Relations Manager