

Neil Barnes
Ofgem
9 Millbank
London SW1P 3GE

Dear Mr Barnes,

Age Concern's response to Ofgem's Energy Supply Probe – Initial Findings

Age Concern is the UK's largest organisation working with and for older people. Four national Age Concerns in England, Northern Ireland, Scotland and Wales and a federation of over 400 local organisations work together to promote the well-being of all older people. Our work ranges from providing vital services to influencing public opinion and government. Every day we are in touch with thousands of older people from all kinds of backgrounds – enabling them to make more of life.

We welcome the opportunity to comment on Ofgem's initial findings on its investigation into the operation of Great Britain's gas and electricity supply markets. Age Concern considers that such an investigation was overdue. There have been further energy price rises since the decision to launch this investigation following the round of high energy prices announced by the energy companies in January 2008 making its findings even more important.

Any action that Ofgem can take that would improve the situation for older people is to be welcomed. Pensioner households are particularly badly affected by rises in energy costs. Research recently published by the Institute of Fiscal Studies¹ and funded by Age Concern found that on average pensioner households spend significantly more on fuel than non pensioner ones (7% and 4% respectively). They are therefore more affected by fuel price increases than non pensioner households. This report found that while the large increases in fuel prices that occurred in 2006 affected all age groups, 'the impact was most pronounced for the oldest pensioners.' The report concluded that high fuel price rises 'impact most on poorer older (over 75s) single pensioner households'.

Older people are also among the groups most likely to be fuel poor. The latest Government figures that are available show that single pensioner households constitute the highest proportion of households in fuel poverty constituting 36.1% of the fuel poor with older couple households constituting the third highest at 13.7%². Unfortunately, as Ofgem's research has shown, older people, are also the least likely to be on the cheapest tariff prices. This is partly because they are less likely to be able to shop around for the cheapest prices due to the majority not being able to access the internet. We are also concerned but not surprised that Ofgem has found even those that

¹ The Inflation Experience of Older Households. IFS. October 2008.

² Fuel Poverty 2005 – Detailed Tables. BERR and DEFRA

do switch in response to doorstep selling are often not choosing the cheapest supplier for them.

ACTION1: Promoting more active customer engagement

ACTION 2: Helping consumers to make well informed choices

We note that Ofgem is pleased that the level of consumer participation in the energy supply markets is amongst the highest in any retail energy market and compares well with other retail services in the UK. However, the further analysis in the report indicates that it is probably the same people who are switching regularly leaving the majority of households unengaged in the competitive energy market. We do not agree with Ofgem that the level of switching necessarily reflects the competitiveness of the market. Whilst clearly the market works for the 'proactive' consumer, as this probe report has found there are a high number of households that are not benefiting. It is particularly disturbing that despite being able to make significant savings households, vulnerable households continue not to switch.

It is a key requirement that consumers need accurate and understandable information to make sensible choices and Age Concern agrees with many of the proposals in Action points 1 and 2. We particularly support the proposal that energy bills should have clearer information. As a result of the very high number of complaints they received about bills, energywatch proposed to British Standards Institute (BSI) that they develop a standard for utility bills. BSI accepted this proposal and work started on the standard in September 2004. Age Concern was a member of this committee and the standard was agreed and published in 2005 as 'BS 8463 Specification for customer billing practice'. It is regrettable that none of the energy companies has yet adopted this standard. We recommend Ofgem consider the content of this standard when developing their proposals for bill improvements.

We note the proposal to tighten up on the sales and marketing activity which includes the possibility that doorstep salespeople be required to give comparative price information. Whilst we welcome this proposal, we think it is unlikely to be realised. However, we are aware that older people prefer getting face to face advice from organisations they trust. We recommend Ofgem take account of the outcome of the Eaga pilot, which provided advice on tariffs to households getting Warm Front grants and the experience of the Energy Best Deal campaign currently being rolled out by Citizens Advice Bureaux in conjunction with Ofgem when finalising their recommendations on improving the way households without access to the internet could receive price comparison advice. In particular, if Energy Best Deal proves successful with regard to older people, Ofgem should consider recommending it be extended to other organisations. Some Age Concern organisations have already expressed interest in joining this programme.

We have some concerns about the accessibility of the publicity given by energy companies to the social tariffs they offer. Despite suppliers giving a commitment to give accessible and clear information about these tariffs and the eligibility criteria as a result of Ofgem's Energy Summit held in May, we

continue to get complaints both from local Age Concerns and from members of the public about the difficulties in finding out any information on these tariffs on company websites. We understand that since the tariff is related to a percentage of turnover of a company, it is cash limited and so may not be available for the same time as other tariffs. Nevertheless, we still think companies could improve. It is disappointing that the advertising of social tariffs is not mentioned in any of the Action points in this paper. We would like to see the final report include requirements on the way companies publicise their social tariffs .

Action 5: addressing concerns over unfair price differentials

We have been keen for Ofgem to look into the price differentials between pre-payment (ppms), standard credit and direct debit prices for some time. We think this is well overdue since concern about price tariff differences has been expressed by many organisations for some time. For example, the Fuel Poverty Advisory Group's 5th Annual Report published in 2007 called attention to 'the worrying trend in the increase in gap between the prices paid by prepayment and direct customers'. We are not surprised that Ofgem cannot find justification for the price differentials between ppm and standard credit tariffs. It is even more disturbing that electricity customers who have stayed with the original monopoly supplier are also paying 6% higher prices than 'out of area customers.'

We welcome the recognition in this report of the importance of standard credit tariffs. In the past, much of the focus has been on ppm tariffs despite it being recognised for some time that only a minority of fuel poor households, particularly older fuel poor households, have ppms. In this paper, Ofgem calculate that 50% of the fuel poor and a significant number older households pay by standard credit. This was also the finding of the BERR Committee report, Energy prices, fuel poverty and Ofgem' published in July 2008 which concluded:- '.....we are equally concerned about the poor deal standard credit customers are receiving, particularly given that this is the payment method for the vast majority of the fuel poor and the evidence is that they are on average being over-charged even more than those on ppms.' We completely agree with the proposal that any price differentials between methods of payment should be cost reflective and that supplier licences should be changed to include this requirement. For similar reasons we agree that the licences should be changed to include a prohibition on undue price discrimination. However to be effective, Ofgem will also need to continually monitor these prices to ensure they remain so and we would like to see this added to Action point 5.

Yours sincerely

A handwritten signature in black ink that reads "Gretel Jones". The signature is written in a cursive, flowing style.

Gretel Jones

Consumer Affairs Policy Adviser