

Consumer Focus Scotland

Response to Ofgem's "Energy Supply Probe – Initial Findings"

December 2008

**Fòcas Luchd-
Caitheimh Alba**
Comhairle Luchd-caitheimh ùr na h-Alba



**Consumer Focus
Scotland**
Scotland's new Consumer Council

About Consumer Focus Scotland

Consumer Focus Scotland started work in October 2008 and was formed through the merger of three organisations – the Scottish Consumer Council, energywatch Scotland, and Postwatch Scotland.

Consumer Focus Scotland works to secure a fair deal for consumers in both private markets and public services, by promoting fairer markets, greater value for money, and improved customer service. While producers of goods and services are usually well-organised and articulate when protecting their own interests, individual consumers very often are not. The people whose interests we represent are consumers of all kinds: they may be patients, tenants, parents, solicitors' clients, public transport users, or shoppers in a supermarket.

We have a commitment to work on behalf of vulnerable consumers, particularly in the energy and post sectors, and a duty to work on issues of sustainable development.

www.consumerfocus-scotland.org.uk

Introduction

Consumer Focus Scotland welcomes the opportunity to respond to the initial findings of the Ofgem Energy Supply Probe. This response deals with the particular issues facing consumers in Scotland and should be read in conjunction with the Consumer Focus response which has our full support.

While the initial findings do not reveal any issues that are unique to Scotland, there are a number of factors which mean that many of the issues raised have a more serious impact on consumers in Scotland. It is important that Ofgem recognises the disadvantages faced by Scottish consumers and takes action to address these issues. Consumer Focus Scotland would be pleased to work with Ofgem in addressing these issues.

Issues in Scotland

We welcome the fact that Ofgem recognises that competition in energy supply is not working effectively in Scotland. The report discloses that around 80% of consumers remain with their incumbent supplier which in turn means that they are quite likely to be paying more than they need to. Consequently, at times of ever increasing fuel bills, larger numbers of Scottish consumers are finding themselves in a position of fuel poverty and struggling to afford adequate heating. The latest Scottish House Condition Survey findings¹ reveal that 24.6% of households (569,000) in 2007 were in fuel poverty. This rose to 37% for households in rural areas and 38% for those not on the gas grid. Significantly rising prices during 2008 mean that these figures are now very likely to be much higher.

The Scottish Consumer Council report ***Making markets Work for Consumers in Scotland – everyone benefits***² highlighted the particularly lower levels of switching among disabled people, older consumers, people on lower incomes and those without access to the Internet. The report also found that consumers living in the Highlands and Islands are also not switching to the same extent as the rest of the population, raising particular concerns about choice and access to information in remote and rural areas.

Consumer Focus Scotland is concerned that low income consumers are also being doubly disadvantaged because they are much less likely to have access to the Internet. The SCC research revealed that those who shop around for the best deal and who switch the most are the most likely to be online, under 55 and better off, enabling them to take advantage of the cheaper prices and better deals that have become available via the Internet, together with the greater choice of products available. Disadvantaged consumers who would benefit the most from the increased information and price transparency that the Internet offers are least likely to be able to access it.

¹ <http://www.scotland.gov.uk/Publications/2008/11/26094921/4>

² Scottish Consumer Council, *Making Markets Work for Consumers in Scotland – everyone benefits: Consumer switching behaviour and attitudes in key markets*, June 2007

As pointed out in the Initial Findings report, in-area electricity customers are paying a premium of around 6% compared to out-of-area customers “with no cost basis for this premium”³. Suppliers are also making considerably higher margins from electricity-only consumers (compared to gas or dual fuel) and, since Scotland has a larger proportion of consumers that do not have access to mains gas, the impact of these higher electricity-only margins will be more widely felt.

Ofgem’s principal objective is to “protect consumers ... by promoting effective competition”. Since consumers in Scotland are suffering under the current supply arrangements, Ofgem should take urgent action to address the lack of effective competition and low switching rates in Scotland rather than assume that the market will sort itself out, which it clearly has not done. We agree that Ofgem should be concerned that the inertia of some customers may be being exploited by suppliers.⁴

Factors behind the lack of effective competition in Scotland

The Initial Findings report identifies a number of factors that may lead to the relatively low switching rate in Scotland (less direct marketing as a result of the remoteness on many consumers, lower numbers having access to mains gas and therefore dual fuel deals, “Scottish” brand loyalty), all of which we believe are factors that will affect the switching rate unless positive action is taken to overcome their impact. Additionally, we also believe that there is a general lack of awareness among Scottish consumers of the size of the cost savings that switching might lead to. We agree with the comment in the Initial Findings report that a key barrier to switching is that “consumers appear unsure or sceptical about the savings to expect. A majority believe the savings are not worth the hassle of switching or that the savings will only last a short time”⁵

A further factor that may be behind the low levels of switching in Scotland, in addition to the points raised in the Initial Findings, stems from the fact that Scotland only really became part of a single GB electricity market at BETTA (British Electricity Trading and Transmission Arrangements) which occurred relatively recently (April 2005).

Complexities in metering arrangements, for example, Dynamic Teleswitching (DTS) and “white meters” requiring multiple or non-standard Meter Point Administration Numbers (MPANs) makes switching suppliers more difficult and more likely to go wrong. Consumers with such meters that have tried switching in the past have encountered many problems and consequently will be deterred from switching again in the future.

Whilst these more complex metering arrangements allow a greater flexibility in supply options, the complexity involved inevitably reduces the switching rate.

³ Exec Summary para 1.17

⁴ Initial Findings, para. 8.38

⁵ Initial Findings, Para 5.19

This is a particular issue for Scottish consumers because in Scotland more customers are on electricity only and have off-peak tariffs (e.g. DTS, afternoon/weekend/evening rates, economy 10 etc.) As the Consumer Focus response points out, there are around 224,000 DTS consumers in Scotland. This is equivalent to 8 per cent of the Scottish market, 13 per cent in the north and 6 per cent in the south. These consumers have had considerable difficulty in accessing the competitive market in the past and, as Ofgem acknowledge in its initial findings, over 90% of DTS consumers in Scotland remain with their incumbent supplier.⁶

More complex tariffs are also more difficult to accommodate on internet comparison sites that, of necessity, focus on the more straight-forward tariffs (and only recently on pre-payment tariffs). Again with more Scottish consumers on these complicated off-peak tariffs they are less likely to find the comparison sites of benefit and will not bother calling numerous suppliers to obtain more bespoke quotes.

Regulatory Solutions in Scotland

The Scottish Consumer Council report referred to above makes a series of recommendations to Ofgem with regard to ensuring effective regulation of the market in Scotland. Consumer Focus Scotland supports these recommendations and a copy of the report is enclosed with this response. We set out below additional measures that we believe Ofgem should adopt.

Ofgem should take specific action to ensure the retail market is working more effectively in Scotland, for example, by having a Glasgow-based team member with the specific objective of working with Consumer Focus Scotland and other agencies to raise awareness about the ease of switching and the scale of benefits, for example, through workshops and conferences throughout the nation. This person would co-ordinate work with local media, arranging interviews for themselves and senior Ofgem staff using Scottish and local radio and TV. This would give Scottish consumers the confidence that Ofgem is addressing issues in Scotland rather than being perceived as focussing purely on the wider GB issues. This team member could have a small budget to prepare leaflets for consumers on switching (including customer profiles) and benefits etc with a uniquely Scottish angle and designed to address the practical concerns relating to meters etc. They would receive (from Millbank or direct from the DSOs) regular reports on switching levels in Scotland in order to monitor the impact of the programme of activities. Such action would help address Ofgem's proposed Action 1 (promoting more active customer engagement) and Action 2 (helping consumers make well-informed choices) within the context of the particular problems faced in Scotland.

Ofgem's recent "Getting the Best Deal" initiative does not extend to Scotland, although we understand that this is being considered. The very recent

⁶ Initial Findings Para. 8.48

publication of the Scottish Government's response to the report of the Fuel Poverty Forum⁷ and the forthcoming introduction of the Energy Assistance Package presents a prime opportunity for Ofgem to run a similar campaign to encourage switching in Scotland and to work with the Scottish Government, Consumer Focus Scotland and others to empower and encourage consumers to switch and also to signpost those who need it to sources of advice and assistance on affordability.

A simple measure that may help to facilitate increased switching levels in Scotland would be the production of the annual statement of use and spend suggested in the Initial Findings report, giving consumers the information they need to make best use of comparison services. The research commissioned by Consumer Focus indicated that 31% of consumers in Scotland would be encouraged to switch suppliers if such a statement were produced.

A simple measure for raising awareness in Scotland would be the inclusion of a flyer (perhaps jointly endorsed by Ofgem and Consumer Focus Scotland) with the energy bills when the annual statement is sent out. This would contain the message such as switching supplier typically takes less than an hour and could save around £115 per year⁸. Switching payment types could lead to further savings.

Ofgem should encourage the industry to look for ways of simplifying the technical issues of DTS and MPANs so that the switching process is easier for consumers. Ofgem should also take action to determine the best way to resolve price comparison issues for these consumers, by talking to suppliers to seek any scope for making tariffs more comparable without restricting customer choice, and to ensure there is at least one good website that compares all prices of all suppliers for all Scottish tariff options.

The UK Government's recent commitment to the rollout of smart meters is very welcome. In Scotland in particular, this rollout could provide a real opportunity to encourage DTS and MPANs consumers to switch on the basis of having effective information on consumption and cost. The scoping process for the rollout programme must address the specific needs of these groups of consumers so that they benefit equally from the advantages that smart meters can bring and that appropriate safeguards are in place to ensure that they are not disadvantaged by the process.

We strongly believe that Ofgem's powers should be extended to cover the market in gas alternatives such as heating oil and LPG. Off-grid consumers in Scotland who are paying more for their electricity, and are more likely to be fuel poor are, in addition, having to rely on more expensive alternatives to gas. This requires effective regulatory intervention as a matter of urgency.

We hope these comments are helpful. We welcome Ofgem's recent attempts to ensure that the particular issues faced by consumers in Scotland are

⁷ <http://www.scotland.gov.uk/News/Releases/2008/11/19160352>

⁸ Typical savings per Initial Findings report para 8.71

addressed, for example, the establishment of a Consumer Panel in Scotland as part of the “Consumer First” initiative and the inclusion of a representative from Consumer Focus Scotland on the Consumer Challenge Group. However, the challenge of ensuring that consumers in Scotland are no longer disadvantaged relative to the rest of Great Britain is a significant one. Consumer Focus Scotland is committed to working with Ofgem to help it meet this challenge.