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Dear Ms Tyler

### **Energy supply probe - initial findings report**

Consumer Focus Wales welcomes the opportunity to comment on the initial findings of the Ofgem energy supply probe.

As the new organisation campaigning for a fair deal for consumers in Wales we are particularly concerned about the impact market forces within the energy supply sector, and subsequent rising energy prices, are having on the ability of many consumers in Wales, particularly the most vulnerable, to keep warm at a price they can afford.

Around 340,000 households in Wales (28%) are now estimated to be fuel poor with the impact of higher energy costs being compounded by:

- lower than average incomes (22% of people are at risk of poverty, DWP 2008);
- a high level of properties off the mains gas network (19%)<sup>1</sup> and therefore reliant on expensive heating fuels such as electricity, domestic oil and LPG;
- a high proportion of 'hard to treat' homes (32% of properties are of solid wall construction; in rural Wales this rises to 37%; the equivalent figure for England is 27%)<sup>2</sup>;
- consumers in Wales are also paying higher grid charges than consumers in England, with those in South Wales in particular paying one of the highest grid charges in Great Britain.

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<sup>1</sup> Welsh House Condition Survey 2004

<sup>2</sup> Targeting energy efficiency resources in Wales', Baker W and Preston I, Welsh Assembly Government (2006)



Overall, we welcome the initial findings of the report and the recognition that some of the most vulnerable consumers are missing out on the full benefits of competition in the energy supply sector. As noted in the report, consumers in Wales are disproportionately represented in many of these categories as:

- the market in Wales is one of the most concentrated markets in Great Britain with a high proportion of consumers remaining with their original suppliers and therefore potentially paying premiums charged to in-area customers;
- there are a high proportion of 'electricity only' customers ( i.e. off the gas grid) who are not only reliant on more expensive heating fuels but are also unable to benefit from competitive dual fuel discounts;
- there is also above average use of prepayment meters – where evidence was found of unjustified price differentials.

In addition, research from one of our predecessor organisations (the Welsh Consumer Council) also found that:

- two of the identified groups for whom the energy market is failing (i.e. those on lower incomes and older people) are less likely to personally use the internet than other groups (43% and 21% respectively<sup>3</sup>) - and as a result are unable to compare offers easily or have access to the cheapest on-line deals;
- and almost one in ten people in Wales don't have a bank account, with many more choosing to use cash to pay for household bills as it helps them budget and keep better control over their money<sup>4</sup> - and are therefore missing out on cheaper Direct Debit tariffs.

Several of the probe's findings show a welcome recognition from Ofgem that we need better functioning competitive energy markets to help alleviate these effects and that Ofgem is ready to play its part in making this happen.

In responding to this consultation Consumer Focus Wales is calling for urgent and specific action in relation to the following:

- We do not think that the current voluntary approach to social tariffs is working for consumers. We would like to see *mandated minimum standards for social tariffs* to

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<sup>3</sup> 'Consumers and ICT', Welsh Consumer Council, October 2007

<sup>4</sup> 'Access to Cash', Welsh Consumer Council, August 2008

address market failures. At the moment there are very few products that meet the criteria for a social tariff as defined in the Ofgem guidelines.

The voluntary nature of the system means that eligibility criteria differ considerably and suppliers can withdraw products without notice. Given that these tariffs are aimed at the most vulnerable this is a situation that has to be addressed quickly and in a uniform way.

- Prices must be determined on the basis of effective competition. Suppliers' pricing must be made more competitive for *all* so the benefits of the liberalised market can spread beyond direct debit dual fuel consumers to include in-area, electricity only, standard credit, prepayment and rural consumers. If the voluntary approach doesn't work, compulsion through price regulation or licence conditions must be applied.
- More consideration should be given to the development and promotion of alternative debt management systems, aside from PPMs, as currently take up of such schemes is low (eg. less than 1% of people in Wales are currently on Fuel Direct<sup>5</sup>). We believe these schemes can and should offer better solutions to consumers, providing they maintain control over what they consider to be affordable repayments.
- To help them engage effectively in the energy market consumers need to be told simply and clearly how they can benefit from the market and the most appropriate options for them. This needs to be done via a sustained customer awareness programme as opposed to 'occasional' individual campaigns.

The Ofgem probe found that switching rates in Wales are considerably lower than the UK average and that Welsh consumers rated loyalty to a supplier far higher than UK averages. Such entrenched behaviour cannot, and will not, be addressed effectively unless campaigns are targeted and sustained.

- We also would want to see further information on who would police the providing of information to consumers. As identified in the probe findings, without the right information many people, especially those on lower incomes and PPM users are switching to more expensive deals. For the information to be useful it would need to be easily comparable and take into account consumer's literacy levels and conform to standards of good English and good Welsh.

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<sup>5</sup> Monitoring Company Performance Q2 2008, Ofgem (November 2008)



- The synergies between tackling fuel poverty and financial exclusion are well-documented. In order to reach vulnerable groups we believe advice on home energy issues needs to be built into financial capability initiatives alongside advice on issues such as budgeting, bank accounts, credit, savings and other financial matters.
- We support the concerns recently raised by the House of Commons Business and Enterprise Select Committee about the lack of representation and regulation in the domestic heating oil/LPG sector and believe consideration should be given to extending Ofgem's powers to cover this market as it is currently an area of considerable consumer detriment in Wales.
- As Wales has above UK average numbers of 'electricity only' consumers, we believe more needs to be done to ensure that they also benefit from a more competitive energy market. This may involve the development of a specific tariff or improved guidance on how to reduce and better manage consumption to those on 'time-of-use' tariffs.
- We support the introduction of smart meters and welcome the UK Government's recent announcement that it will mandate smart meters for all households. We will be working to ensure that any introduction is supported by a detailed information campaign on what the meters can offer consumers and that the needs of vulnerable consumers are addressed (such as the availability of appropriate tariffs; ensuring the information provided by the meter is presented in a clear, understandable way; ensuring adequate safeguards are in place to prevent inappropriate remote disconnection by suppliers or 'self-disconnection' by the customer).
- We would also want to see that plans for the roll-out considered consumer need as a determining factor and were not just based on a timetable and strategy that was designed around convenience for the suppliers.
- We would want to work with Ofgem and accredited price comparison websites to encourage them to provide a phone service to sit alongside their online service, thus making them accessible to those who do not have internet access.

If you have any queries regarding this response please don't hesitate to contact me (email: [rhys.evans@consumerfocus-wales.org.uk](mailto:rhys.evans@consumerfocus-wales.org.uk), tel: 02920 787114).



Yours sincerely

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