

## Consumer Focus submission

# Ofgem energy supply market probe – initial findings report consultation

**December 2008**

## **Ofgem: Energy supply probe – initial findings report**

### **Executive summary**

1. Overall, Consumer Focus welcomes the findings and tone of the Ofgem energy supply probe initial findings report. It presents a fresher and deeper assessment from the regulator of the features of the energy market that are not working effectively and are creating consumer detriment. Many of the problems identified are however not new issues and it is important that the report is followed up with swift action to remedy the most pressing concerns, along with a more detailed longer term programme of work with clear and set timelines for achieving agreed outcomes.
2. Consumer Focus believes the problems in the wholesale electricity market and the unfair price differentials need to be given urgent priority. Consumer information remedies are clearly important and need to be progressed but are likely to have only a limited impact if the upstream issues are not addressed. If Ofgem is unable to address the problems in the wholesale power market by a set date then it should make a referral to the Competition Commission, as indicated in Alasdair Buchanan’s oral evidence to the Business and Enterprise Select Committee on 25 November 2008.
3. We look forward to working with Ofgem and the industry to help ensure consumers both now and in the future are adequately protected and can benefit from effectively functioning and competitive energy markets.

### **Background**

4. Consumer Focus is the new statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland, and, for postal services, Northern Ireland. We are the voice of the consumer and work to secure a fair deal on their behalf. We were created through the merger of three consumer organisations – energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). The new approach allows for more joined-up consumer advocacy, with a single organisation speaking with a powerful voice and able to more readily bring cross-sector expertise to issues of concern.

### **Outline**

5. This paper sets out Consumer Focus’s views on the Ofgem energy supply probe initial findings report and the proposals to address features of the energy market that are not working effectively and creating consumer detriment. A summary of our views on Ofgem’s proposed programme of work is set out in Annex 1.
6. In developing our response, we commissioned an omnibus survey to gather some initial views from consumers on the proposed actions and to gain some sense of whether the remedies will impact upon consumer behaviour. As can be expected, in some instances, the responses we received from consumers raised further questions. A summary of the survey findings is provided in Annex 2. We believe it is important to follow up the survey with appropriate formative research that can shape the design of the remedies proposed

so that they have the best chance of working well for key segments of consumers. Consumer Focus has experience through the National Social Marketing Centre of working with public sector agencies to design and deliver behavioural programmes.

## Introduction

7. Concern about energy prices is no longer the preserve of a minority group of low income consumers. Rising prices have hit all consumers. Consumer Focus strongly supports markets with fair and vigorous competition combined with protections for consumers who are vulnerable or have little chance of influencing a market's competitiveness or a supplier's willingness to trade fairly. We believe vigorous competition should drive firms to deliver higher quality, increased choice, greater innovation and lower prices to the benefit of all consumers.
8. Consumer Focus believes there are a number of features that are not working effectively when we look forward to the challenges of a new energy market. Without action these will undermine consumer confidence and create consumer detriment.
9. There is **weak competition**. Our supply markets are highly concentrated and consumers are vulnerable to abuse of market power. The regional supply markets are dominated by only two suppliers – British Gas and the incumbent electricity suppliers. The electricity market is dominated by six vertically integrated firms inhibiting competition in both the retail and wholesale markets. These firms adopt similar supply and trading policies reducing wholesale market liquidity and leaving consumers vulnerable to abuse of dominance. We have seen no sizeable competitive fringe develop to act as an effective constraint on the major firms and drive them to become more efficient, price keenly and offer innovative products and services. Exits from the supply markets underline that real damage to competitive markets is being caused by complex and volatile wholesale market regimes. There is a lack of transparency and low levels of liquidity in the power market.
10. Firms are **treating customers unfairly**. Domestic gas and electricity bills have risen by 140 per cent and 93 per cent in the past five years pushing millions of households into fuel poverty. Some 5 million households will find themselves in fuel poverty this winter. Consumers are paying prices above the competitive levels putting affordable energy beyond the reach of many households. There is clear evidence of unfair price differentials for in area, electricity only, standard credit and prepayment meter consumers. It is not only domestic consumers that are being treated unfairly. Small businesses also face rising prices combined with deteriorating terms and conditions of supply. There is a lack of adequate consumer protection provisions for small businesses.
11. The Ofgem report acknowledges there is much that is amiss in the energy market which is undermining the effectiveness of competition. Many of the problems identified are however not new and remedial action to date has either been ineffective or action has not been taken. The report needs to be followed up with swift action to remedy the most pressing concerns along with a more detailed longer term work programme with clear and set timelines for achieving agreed outcomes. We believe the problems in the wholesale markets and the unfair price differentials need to be given urgent priority. The consumer

information proposals are clearly important but are likely to have only a limited impact if the upstream issues are not resolved.

### **Coordinated effects**

12. It is not surprising that Ofgem has found no evidence of a cartel given the very nature of our energy supply markets. However, as is to be expected, the probe indicates that the conditions necessary for coordinated effects to emerge and be sustainable through time are present in the energy market.
13. The report acknowledges:
  - There is **strong awareness of competitor behaviour** as the market is dominated by six firms.
  - Firms are aware that it is **costly to deviate from the prevailing market behaviour** and this influences their pricing and hedging strategies. Like many other firms, suppliers take account of competitor positioning, likely future behaviour and reaction when setting retail prices. They are aware that they cannot get too far out of line with competitors' prices for fear this would trigger a significant loss of consumers. They seek to benchmark their hedging strategies against each other to minimise the risk of their wholesale costs diverging from the competition rather than basing them on the risk preferences of consumers.
  - There are **weak competitive constraints** on the major suppliers. Unlike many other retail markets, we have not seen the emergence of a sizeable competitive fringe with radically different business models and culture acting as a genuine competitive constraint.
14. These features of the market leave consumers vulnerable to abuse where they can end up paying more than the competitive level for their energy. The regulator needs to continue to monitor supplier behaviour to ensure this does not happen, take action where it does and encourage and remove barriers to new entrants to act as an effective competitive constraint on suppliers. We agree with Ofgem's view that retail supply businesses competing vigorously to secure the cheapest possible wholesale energy, in order to out-perform the competition and secure a commercial edge in the retail market, would be in the long term interests of consumers. Ofgem needs to explore what it can do to encourage this.

### **Consumer confidence**

15. BERR recently published its 2008 Consumer Conditions Survey. Consumers were asked to rate 45 UK markets across key performance indicators including ease of comparing quality and prices, choice, living up to expectations, protecting consumer rights and the trustworthiness of advertising and marketing in each market. Consumers rated the gas and electricity markets lowest of all 45 markets in the study with a consumer confidence index score of only 58 out of 100. This highlights that there is much that needs to be done to improve consumers' engagement in and experience of the gas and electricity markets. Further, Ofgem needs to be more vigorous in addressing poor performance across the energy markets.

16. GB energy consumers need to be confident that they are and will be well served by the energy market. During these testing economic times where many families across GB are suffering hardship, it is essential that we work together to ensure that the prices paid by our gas and electricity consumers are determined on the basis of effective competition and that help in reducing and paying bills is targeted at those that are in most need.
17. There is widespread concern amongst consumers that suppliers may pass on price increases faster than they pass on price cuts. We welcome the Ofgem commitment to monitor and publish quarterly reports on the link between wholesale and retail prices. This will provide consumers with greater certainty about when they can expect to see changes in their energy bills and greater confidence in the prices they pay for their energy. Where there is clear evidence of price discrimination and companies not passing through price reductions to consumers when they should, the regulator must take firm and swift action against the offending suppliers.

### **Ofgem Action 1: Promoting more active customer engagement**

#### *Consumer information and awareness*

18. Consumer Focus fully supports the long-term objective of encouraging consumers to make the most of competitive markets. Confident, informed and empowered consumers are a critical driver of economic change. We do however have a long way to go. The report highlights that only 17 per cent of domestic consumers are 'active' and regularly seek out competing price offers and switch on the basis of a good understanding of the range of offers available. As the report acknowledges we cannot rely on this active minority to drive down prices for all inactive consumers. It is a concern that as many as one third of switchers do not achieve a price reduction particularly given that price is the main driver for switching. The proportion not achieving a reduction increases to 45 per cent for prepayment consumers and to 42 and 48 per cent for gas and electricity consumers who switch as a result of a direct sales approach.
19. We believe:
  - There should be a sustained customer awareness programme. Rather than being seen as (another) individual campaign, it should be established as a continuous, articulated programme, which all major suppliers should support on an enduring basis. It should include components specifically targeted on parts of the market that see less competition and where distortions have been identified. It should be clear to consumers where a switching decision will not achieve a price reduction.
  - Suppliers should be required to improve the quality of information they provide to consumers. Examples of good and poor practice should be identified and reported on to drive improvements across the industry including for example ensuring that information is accredited to plain language standards. This should include both the requirement for clearer information on bills to aid comparison with alternatives and the annual statement setting out use and spend that Ofgem suggests. There also appears to be scope for standardising key terms used by suppliers when communicating with consumers. When doorstep or telephone selling, suppliers must present a statement that evaluates their offering with the consumer's existing deal on a like-for-like basis that takes account of usage.

- New information requirements will have a development and implementation cost that will ultimately be borne by consumers. It is essential that the proposals are tested with consumers to ensure they meet consumers' needs and provide a net benefit.
- It is also important that consumers are using an accurate base point for price comparisons. They need to know the actual name of the tariff they are on to ensure they can make an accurate comparison. This is particularly important for tariffs with similar names for example the BG 'Click' tariff is now on version 6 and npower are up to version 14 of its 'sign online' dual fuel tariff.
- There should be a programme to promote confidence amongst consumers in the use of price comparison sites. This programme should address how to extend the scope of these very useful sites to prepayment, low income and other vulnerable groups who do not have the benefit of internet access. It should engage with 'trusted intermediaries' who can advise low income consumers on how to switch, such as the Citizen's Advice Energy Best Deal programme. However, more information is needed on the barriers that prevent low income consumers from switching, such as financial and digital exclusion, and how these might be addressed. As a starting point, suppliers should be obliged to provide details of their social tariff offers together with qualification criteria. We note that at present only three suppliers offer social tariffs that meet the Ofgem guidelines.

### *Annual statement*

20. Over two thirds of those polled in our omnibus survey said they would find the annual statement to be of use, although this proportion falls for the over 65s (sample size 318, 56%), the less affluent (DEs sample size 265, 60%) and those who have no internet access (sample size 463, 58%). This is important as these groups are more likely to be classified as vulnerable and are the people in most need of greater access and information. Nevertheless, the majority of these groups consider the annual statement useful. It would be useful to undertake further research to better understand the needs of those consumers that were not in favour of the annual statement and to see if this proposal in conjunction with other measures could still be helpful for these consumers. It may be that they need to better understand how they could use the information.
21. We also asked consumers what action they would consider taking if they did receive an annual statement. The results (net figures) show that 20% of customers would consider switching energy supplier and that 10% would consider switching to an alternative payment method. Although caution must be observed with the following figures due to the relatively small sample sizes involved, the findings broadly show that the over 65s are less like to switch supplier or payment method (sample size 318, 11% and 4% respectively) and DEs are less likely to switch supplier (sample size 442, 13%). Additionally, those customers who are separated/widowed and divorced are less likely to consider switching supplier (sample size 322, 14%).
22. In Scotland, there are positive signs that an annual statement would encourage Scottish consumers to switch supplier (sample size 120, 31%) where there has been some resistance to switching. The figures though are less encouraging for Wales where only 15% (sample size 74) would consider switching supplier. Another encouraging sign is that those consumers on standard credit and prepayment meter exhibit a similar degree of likelihood

to consider switching payment method as direct debit customers (SC sample size 234, 9%, PPM sample size 215, 12% and DD sample size 865, 10%). Again we must be cautious with these figures due to the relatively small sample sizes.

23. 56% of energy customers said that they would consider at least one of the measures outlined above, but this figure drops to 39% for 65+s and 46% for DEs. A significant proportion of consumers say they would not consider anything (34%) but even so as a majority of consumers both say that they would consider an annual statement useful as well as consider acting upon it (although we do not know how many of these people would act without the remedy), we are supportive of this measure. We believe further research would be helpful to ensure this remedy has the best chance of working well for key groups of consumers.
24. There may be innovative ways of delivering an annual statement that are worth Ofgem exploring. For example, in their book *Nudge* (Yale University Press, 2008) on behavioural economics Richard Thaler and Cass Sunstein point to the potential of a 'recap' system of data disclosure in markets with complex pricing patterns that vary with consumption behaviour. The authors argue that an annual statement released in an open, electronic format could create a new set of services by price aggregators online for use by consumers. While backwards looking in terms of energy use, this would enable consumers to draw on prices that would be personal to them. Alternative communication methods would need to be developed for those consumers that do not have ready access to the internet.

#### *Annual prompt*

25. We also asked for consumers' views on the annual prompt. The findings show that 37% of those polled would be likely to consider switching with an annual prompt while 22% said they would be unlikely and 35% said it would make no difference. The likelihood of over 65s considering switching drops to 25% (sample size 318) and 28% for DEs (sample size 442).
26. While a significant number of users have stated that they would be likely to consider switching energy supplier with an annual prompt, 59% of respondents said that an annual prompt would either make no difference or decrease the likelihood of them considering switching energy supplier. We believe further research is required on this proposal to see if in conjunction with other measures this could help change consumer behaviour. It may be that consumers would prefer an alternative solution.

#### *Confidence Code*

27. We welcome the proposed programme to promote confidence in price comparison and switching. Ofgem will be aware of the Consumer Focus Confidence Code, an accreditation scheme for online price comparisons services, which could form a central plank of any campaign.
28. Much has been done over the lifetime of the Code to ensure it remains responsive and relevant to market dynamics and a revised, strengthened Code was launched in September

2008. Consumer Focus will continue its monitoring of the Code and any necessary amendments will be consulted upon and implemented swiftly.
29. While the Code is aimed solely at ensuring accurate and unbiased price comparison information, our monitoring has uncovered difficulties associated with switching online. Ofgem is aware of some of these, including the inability of many prepayment consumers to switch online. This situation should be explored further and addressed as a matter of urgency.
30. While suppliers are not subject to accreditation or the tenets of the Code, their actions nevertheless potentially impact on the information provided. This can harm consumer confidence in price comparison services and switching. It appears that some suppliers may be utilising the requirements of the Code to manipulate results and obtain, in effect, free marketing. In a recent example already highlighted to Ofgem, British Gas withdrew the switching facility for its online Click 5 tariff while sites were required under the Code to continue to display it. Many industry participants feared the tariff was unsustainable and that British Gas was using it to gain customers who would never in fact realise the savings being quoted. British Gas increased prices for the tariff by 45 per cent some 6 weeks later, thus realising the fears expressed and no doubt leaving a negative impression on the many thousands of consumers affected. Consumer Focus has worked with sites to try and address some of these issues but the interim remedy reached - to alert consumers to a likely price increase - may in itself dent consumer confidence and deter switching.
31. Concerns have also been expressed about the accuracy and ease of use of suppliers' own websites in relation to price comparison and switching. Ofgem should ensure these are subject to independent scrutiny, especially where price comparisons are showing certain tariffs as being the cheapest but, where there is no option to switch, meaning consumers must access the supplier's own website, to switch. Analysis of this situation by energywatch uncovered difficulties in 'finding' the relevant tariff on the supplier website and how the site also promoted alternative, and significantly more expensive, products.
32. Given the degree of influence supplier behaviour exerts over comparison services and the consumer experience, suppliers should be subject to a code of conduct. Ofgem should explore this with industry and a set of standards should be agreed and implemented to ensure that offers are represented fairly and suppliers behave ethically. Meanwhile Consumer Focus remains committed to working with sites and suppliers to improve the provision and quality of information on online price comparison websites. We will continue to promote the Code and accredited price comparison sites.
33. Research shows that the +65 age and DE socio-economic groups were least likely to have internet access. Consumers in these groups that had internet access were less likely to use online price comparisons (29% and 23% respectively, against 41% of consumers overall). While this may point to a general lack in propensity or desire to switch, it does signal the need for targeted education messages to these groups of consumers, as well as the need to consider alternatives to internet price comparison. For example, all internet comparisons sites accredited to the Confidence Code have call centres and consideration should be given to publicising these services to consumers who would be more comfortable / able to speak to someone. We already provide this information on the price

comparison factsheets we post to consumers. As the first step in targeting promotion of comparison information, the Ofgem and Citizens' Advice leaflet 'Energy Best Deal' could be updated to include the telephone numbers for the comparison services for those consumers without internet access or lacking in IT literacy.

#### *Debt blocking*

34. Effective action to address debt blocking is long overdue. The practice of debt blocking can act as a significant constraint on prepayment meter switching. The Debt Assignment Protocol, which was designed to enable prepayment meter consumers with a debt of £100 or less to switch, has clearly been ineffective. Ofgem has previously reported that not one consumer has benefited from this mechanism, meaning that not one prepayment meter consumer who has sought a better deal through the Protocol will have escaped from the supplier they sought to leave. We must establish the reasons why the Protocol has failed and develop and establish a more effective debt assignment protocol. As a minimum, the aim should be to ensure that small debts do not stop *any* consumers (not just prepayment meter consumers) and in particular vulnerable consumers from accessing better deals and, perhaps, escaping fuel poverty. When a new protocol is established it will be important to ensure that consumers know it is there and can navigate their way through it simply. This should increase consumers' active engagement in the energy market which is good for consumers and good for competition.

#### *Debt and disconnections*

35. Consumer Focus also has a number of concerns about suppliers' debt and disconnection policies and whether the existing processes offer sufficient protection to consumers, particularly vulnerable consumers. The economic downturn is likely to mean that more households will struggle to pay their energy bills and/or fall into debt. It is essential that these consumers are treated in a sympathetic manner and offered appropriate payment plans and referrals to other sources of support. Ofgem will be aware of the recent issues at one supplier, which highlighted the risks of relying on the self regulatory Energy Retail Association safety net to provide protection for vulnerable non pensioner households. A number of early cases dealt with by our Extra Help Unit demonstrate that a household's vulnerability is not being picked up at early stages of the debt process and some vulnerable households are being disconnected from supply. We have written to Ofgem separately setting out our concerns in more detail, outlining the actions Consumer Focus intends to take and laying down some further challenges for Ofgem. Consumer Focus will work with Ofgem and industry to improve and strengthen the protection offered to consumers in debt. Suppliers also need to focus on improving their debt prevention processes to help prevent consumers getting into debt.

#### *Direct debits*

36. A number of concerns have been raised recently about the significant increases some consumers are seeing in the level of their direct debit payments. As a result of energy price hikes earlier in the year, it is inevitable that consumers will see direct debit payments increase. For example, British Gas customers will be paying around 55 per cent more for their gas this winter compared to last year. However, any payment reassessment must

reflect a reasonable estimate of energy use over twelve months (as opposed to six months or eighteen months as some have reported). When consumers are notified of any change to payment levels they are entitled to obtain an explanation of this from their supplier.

37. Unless a consumer's account has been mismanaged or there has been a significant change in energy use, we would not expect to see increases in direct debit payments approaching 100 per cent, which have been reported. Increases on this scale would not be in line with recent price increases and should be challenged, particularly where the customer's account is in credit and no debt needs to be recovered. Energy suppliers must explain their rationale for payment increases to their customers.
38. Consumer Focus is investigating reports of direct debit increases that do not appear to line up with the level of recent price increases. We have asked suppliers to urgently clarify their policy on setting direct debit payments. We will share our findings with Ofgem.

#### *Price change notification*

39. Transparent and clear information is vital for consumers to make informed decisions. A number of consumers have questioned why suppliers are not required to give notice ahead of any price change. Consumers find it difficult to understand why suppliers are only required under the supply licence conditions to notify consumers within 65 days of a price increase. We recommend that Ofgem review the rules set out in this licence condition (SLC 23) to determine whether it offers adequate protection for consumers.
40. During the supply licence review, Ofgem argued that the 65 day retrospective notification period would be consistent with the European gas and electricity directives. We note that the provisions in Annex A of the gas and electricity directives are intended to protect consumers and set out what rights consumers should have as a minimum. Annex A paragraph (b) provides a backstop for suppliers to inform their consumers about a price change '*at an appropriate time no later than one normal billing period after the increase come into effect*'. Whilst we recognise the need to provide suppliers some flexibility in how they communicate price changes to help reduce costs (e.g. via email or text message), we believe there are strong arguments for giving consumers **advance** notice of a price change. This would allow consumers to take steps to reduce their consumption reducing the impact of the price change on their bills and to budget more effectively for future bills. With retrospective notice consumers can do nothing unless they switch supplier within a set time period.
41. Recent communications by suppliers about retrospective price changes have referred to increasing wholesale prices. This has created consumer confusion as consumers are aware through the media that wholesale prices have fallen significantly since July. This has no doubt undermined consumer confidence in the market. If Ofgem is bound by restrictions set out in the gas and electricity directives, then it should be pushing for amendments to be made to the directives as part of the third package negotiations in the European Parliament and Council.

### *Customer Transfer Process*

42. Although it is an important area, we are not convinced that significant benefits will be achieved from looking again at whether the supplier switching process can be further simplified to improve the customer switching experience. The Customer Transfer Process (CTP) Project addressed this area just over three years ago in a time-consuming, expensive and long drawn-out process. Positive improvements came out of that project. For example, the number of erroneous transfers has substantially reduced from 2,650 cases in Q1 2002-03 to 927 in Q1 2008-09. Domestic objections complaints have remained static and relatively low following the drop from their peak in 2002-03. The average time it takes for a transfer to be completed has fallen.
43. It is not clear that the transfer process could be significantly improved without starting from scratch. This option was ruled out in the CTP Project as it was not viable on cost grounds. We do not expect the cost benefit assessment will have changed markedly since then. We believe the focus should be on driving forward wholesale market, unfair price differentials and consumer information improvement proposals.
44. Where there is clear evidence that additional measures are required in relation to the customer transfer process, we would prefer to see a simple obligation on suppliers that requires them to facilitate the transfer of customers promptly.

### **Ofgem Action 2: Helping consumers make well-informed choices**

#### *Direction*

45. Consumer Focus welcomes the broad intent of this action. There is of course a strong cross-over of thinking from Action 1 with its onus on encouraging better general information. There are other important dimensions to this action, including measures such as supporting smart metering.

#### *Price metric*

46. It is important that consumers are able to compare prices quickly and easily. It is not clear from the probe report what sort of price metric Ofgem is looking to develop. It is difficult to see how something along the lines of the annual percentage rate (APR) for comparing the cost of credit in financial services could be developed for energy given that energy costs depend on usage. We need to ensure that in the drive for simplicity consumers are not inadvertently misled. It is important that price information is based on a consumer's actual consumption rather than estimated (wherever possible) so that comparisons are on a like-for-like basis. Where information is based on estimates or averages clear 'hazard' warnings would need to be given.
47. There are currently over 530 'core tariffs' available to consumers which equates to around 1,600 tariffs options across the different payment types. Ofgem should explore whether there is any scope for simplifying the structure of tariffs, whilst maintaining the flexibility for firms to innovate, so that they are easier for consumers to understand and compare.

48. Consumer Focus now has responsibility for providing price comparison factsheets for household electricity and gas supplies. They provide a concise overview of costs from the major suppliers for typical household energy requirements in different areas of the country. Because they are based on an annual spend by consumption volume and payment type, we believe this information might form the basis of discussions on the development of a new price metric and also in developing the factsheets themselves. For example, there may be evidence to suggest that the consumption levels for certain payment types or regions need to be revisited. Building on the educational assessment Ofgem commissioned on the price comparison factsheets, we believe there are changes that we can make to the factsheets to make them more accessible from both a literacy and numeracy point of view.
49. We understand Ofgem is considering the merits of providing consumers with a comparison of their tariff against a benchmark tariff based on dual fuel direct debit. We are concerned about using such an approach across all consumers groups as some consumers will not be able to access dual fuel direct debit offers, for example electricity only consumers. A more tailored approach to the use of benchmarks will be needed. Where a consumer is provided information about a benchmark tariff it will be important to ensure that they are able to access that tariff.

*Suppliers' sales and marketing activities*

50. We welcome the proposed tightening of rules on suppliers' sales and marketing activities. Mis-selling was a particular problem in the energy market at the start of the decade. A major campaign by one of our predecessor organisations prompted the major suppliers to introduce a self policed (through the Energy Retail Association) code of practice in 2003, energysure, and instances of misrepresentation and fraudulent behaviour have been greatly reduced. Mis-selling became a particular concern again in 2005-06 and also in recent months with evidence of clear and widespread wrong doing by npower and by SSE to a lesser extent. These problems were exposed by the media and consumer organisations rather than the industry. This raises serious concerns about the robustness of the monitoring and policing of the industry code of practice. We believe that the Energy Retail Association needs to review and enhance its monitoring, policing and reporting procedures to ensure they are sufficiently robust. Further, the code needs to be assessed against the Consumer Protection from Unfair Trading Regulations (CPUTR) 2008 to ensure they meet the new requirements. We would urge Ofgem to provide guidance on how these regulations will be applied to the energy market.
51. Ofgem has a key role to play particularly through effective enforcement of the marketing licence conditions. We believe the regulator needs to review its thresholds for enforcement action under the licence conditions. This would involve a more flexible interpretation of Ofgem's enforcement guidelines. The key is to ensure that action is taken not only where there is detriment across a large number of consumers but also where a smaller number of consumers suffer significant detriment. We agree that the marketing licence conditions need to be tightened and look forward to working with Ofgem on this project in the coming weeks and months.

52. The probe report recognises that a significant proportion of consumers have in the past ended up worse off following a change of supplier or have not moved to the best deal available to them. As many as one third of switchers do not achieve a price reduction. This increases to 45 per cent for prepayment consumers and to 42 and 48 per cent for gas and electricity consumers who switch as a result of a direct sales approach. We believe this is in part due to consumers being provided with inaccurate or incomplete information. The CPUSTR prohibits misleading actions and misleading omissions where this causes or is likely to cause the average consumer to take a transactional decision he/she would not otherwise have taken. Ofgem should issue guidance to explain the implications of these new consumer protection regulations to marketing in the gas and electricity market. This is something consumer groups have been calling for Ofgem to do for sometime. Guidance could be combined with a broader initiative by Ofgem similar to Financial Services Authority 'treating customers fairly' programme.
53. A requirement for suppliers to provide like-for-like comparative information when undertaking doorstep and telephone selling should help to reduce certain forms of mis-selling. We believe such a comparison should be based on annual usage as the clearest method more readily understood by consumers. We tested this option with consumers through the omnibus survey. The results show that almost a majority (49%) of customers stated they would find a written confirmation useful, although 42% said they would not find it useful. Again the over 65s, DEs and those classed as separated/widowed/divorced found the remedy less useful (35%, 42% and 39% respectively). In the case of the over 65s, a majority found the written confirmation not useful (51%). The relatively small sample sizes must be taken into account when analysing these sub group results.
54. Even though nearly a majority said that they found the written confirmation useful, a very large minority said such a measure would be not useful. We believe further research should be undertaken to better understand consumer views.

#### *Smart metering*

55. Like Ofgem, we are extremely supportive of a programme of smart metering and welcome the provision recently made for its roll out to domestic consumers by the Government in the Energy Bill. We will be working to ensure that, when the programme is agreed, it is scoped in such a way to ensure, the least disruption and cost to consumers, a commitment to consumer engagement, and the assurance that consumer safeguards and protection arrangements will be built into the programme.
56. We will also work to ensure that the technology specified is not simply the lowest common denominator, so that a smart meter does not only provide consumers with easy access to time of use energy consumption and spend information, but also allows for the ability to switch between debit and credit, the ability to have time of use tariffs, and the ability to import and export electricity from microgeneration.

### **Ofgem Action 3: Reducing barriers to entry and expansion**

#### *Objective*

57. New entrants or the threat of new entry can act as an important competitive constraint on major suppliers by providing incentives to become more efficient, price keenly and offer innovative products and services. As acknowledged in the report, we have not seen the emergence of a sizeable competitive fringe with radically different business models and culture acting as a genuine competitive constraint. New entrants must be encouraged to keep the major suppliers on their toes.

#### *New entrants and the wholesale markets*

58. The recent exits from the small business electricity supply market of Bizz Energy and Electricity4Business underline that real damage to competitive markets is being caused by complex and volatile wholesale market regimes. Interactions between wholesale and retail markets were a key area where the Business and Enterprise Committee recommended Ofgem focus its attention.

59. It is encouraging to note the list of initiatives that are already underway to try and improve the functioning of the wholesale markets, but it is plain that wholesale dynamics currently restrict the ability of the non-major suppliers to compete effectively for retail consumers. Outside a very small number of niche green operators, there is no player of scale competing in the household markets, which limits the ability of consumers to benefit from competitive retail markets. As the probe points out, the major suppliers all choose to buy their wholesale supplies months in advance and in much the same way. There is also an evident tendency for them all to change their prices in broadly the same way at about the same time.

60. We believe that poor wholesale market liquidity and vertical integration are closely related. We also have significant concerns about how the proposed merger of British Energy and EDF might impact an already dysfunctional wholesale market and note this is currently subject to the EC Merger Control Regulation. We believe that if Ofgem is unable to address the problems in the wholesale market by a set date then it should make a referral to the Competition Commission as indicated in Alasdair Buchanan's oral evidence to the Business and Enterprise Select Committee on 25 November 2008.

**61. Reviewing the initial probe report, we believe work in the area of wholesale/retail relationships is incomplete as yet.** There are at least four areas where further work is needed:

- There is little comment on the wholesale gas market, despite the recommendation of the Business and Enterprise Committee that Ofgem seek a competition inquiry if it cannot rationalise its workings to its satisfaction and this needs to be rectified.
- Extending the analysis of the link between wholesale and retail prices to the years before 2002 and going forward. During the period 1999 to 2002, wholesale power prices fell sharply but consumer prices reduced to a much lesser extent. The comment about a lack of data restricting the ability to undertake this analysis is disappointing given the Ofgem acknowledgement that there is 'inconclusive' evidence on whether

the Big Six pass on wholesale cost rises to consumers faster than falls. This issue should be scrutinised further. The analysis in the report is based on actual hedged wholesale costs and average retail prices up to June 2008 and an estimation of what would happen if the hedging model was rolled forward assuming wholesale and retail prices remained at the same levels. Ofgem's analysis should consider a number of wholesale and retail price scenarios. Oil prices peaked at around \$145/bl in July 2008 and have now fallen by 65% to around \$50/bl. Gas prices rose to around 100p/th in July 2008 and have now dropped by 35% to around 65p/th. Similarly, electricity prices rose to around £90MW/h in July and have dropped by 37% to £57MW/h. Based on its knowledge of the suppliers hedging strategies, Ofgem should undertake and publish its assessment of when retail prices might be expected to fall if wholesale gas and electricity prices maintain a downward trend. We note that three suppliers (SSE, British Gas and E.ON) have already stated they may be able to cut prices for domestic consumers in the early part of 2009. It would be helpful for consumers to know when they can realistically expect to see their bills come down. We support Ofgem's commitment to publish quarterly reports on the retail and wholesale prices.

- There is no indication of what constitutes 'liquid' given the scope and nature of the domestic markets and how the limited analysis carried out thus far applies across the different trading timeframes. Ofgem needs to define what it considers are the characteristics of a healthy traded market and what impediments there is to its realisation.
- As the Energy Minister acknowledged (PQ 22 May 2008), we need to work hard to understand the link between oil and gas prices. Ofgem should play a key role in this and work with the European Commission to better understand the impact of oil indexation in European gas contracts to consumers in GB and across Europe. This work should include an analysis of the relationship between oil and gas prices in the absence of formal oil indexation. In evidence to the Trade and Industry Select Committee in 2005, Ofgem stated UK customers had paid an additional £3.8 billion in the 2003-04 period and that 50-60% of the additional payment was due to the oil indexation in European gas contracts. Ofgem should update its analysis of the level of detriment caused to GB consumers by oil indexation in European gas contracts under different oil price scenarios.

#### *Reducing barriers to entry and improving the wholesale markets*

62. We are supportive of the proposals to help reduce barriers to entry and in improving the wholesale markets more generally.
- **Ofgem will review regulatory obligations that could act as an undue deterrent to new entry or obstacle to small supplier growth and, wherever possible, remove them or make them less onerous:** Some work has been done in this area already, for instance the 2006-07 supply licence review and making credit arrangements with network operators less onerous. That said, we welcome the commitment but wish to make sure of the ring-fencing of those obligations that are in place to support vulnerable consumers. Particularly of relevance here is mandating that a supplier's social tariff is *the* best tariff it offers. Ofgem's existing guidance on social tariffs only requires suppliers' social tariffs to be at least as good as the lowest tariff on offer in the consumer's region. This is not sufficient and must be remedied.

- **We will require the Big 6 suppliers to publish separate regulatory accounts for their supply and generation businesses, in order to improve transparency and make it easier for potential entrants to assess market opportunities at each point along the value chain:** Consumer Focus welcomes this proposal as it should, if appropriately specified, increase transparency markedly. At least every six months the parent companies of all of the major suppliers provide some financial information on their UK supply and generation businesses. This information is very varied and inconsistently presented. Ofgem should develop, in consultation with the relevant authorities, guidance and a standard template for the companies to report against, highlighting the key line items, a minimum of turnover, internal (operating) costs, external (e.g. fuel, consumer taxes and obligations) costs and profit before tax as appropriate for their upstream and downstream businesses. The information provided in this way should be collated by Ofgem into a report and published.
- **We will begin, urgently, a programme of work to identify the underlying causes of low wholesale market liquidity, and explore with the Big 6 suppliers how best to achieve a significant increase in liquidity:** Consumer Focus also welcomes this important new commitment. This is a key priority and needs to be developed quickly into a defined programme of work with clear and set timelines for delivery of agreed outcomes. It will need wide stakeholder engagement. Specific objectives might include:

  - Commitments from the major firms to support new auctions to provide more credible price indicators, greater certainty over prices and improve confidence. We are aware of two existing projects in this area – proposals by APX to launch a new day ahead auction in early December and a similar project by the Power Trading Forum (PTF). The PTF project has been ongoing for a considerable period and progress appears to have stalled a number of times. Ofgem can play a key role in driving forward industry initiatives to enhance liquidity in a more timely manner.
  - A review to test the arguments favoured by energywatch and smaller suppliers that the major firms be mandated to release quantities of wholesale power onto the market, and if so what the level should be set at. This is particularly important as the regulator attempts to address the lack of wholesale product available for coming seasons and years. It is this that has constrained independent suppliers' ability to compete for retail customers with the major firms and the focus of the APX/PTF work is short term. The supposition should be that such changes should be made with evidence sought to the contrary.
- **We are also seeking views on whether Ofgem needs new or additional powers to guard against potential market abuses, notably in wholesale electricity markets:** We support firm measures to deal with market abuse. We support Ofgem's current investigation into alleged abuse of a dominant position by ScottishPower and SSE in the electricity generation market arising from constrained transmission capacity. The investigation picks up on concerns that one of our predecessor organisations energywatch had raised. Consumer Focus supports firm measures to deal with any proven instances of market abuse that emerge. We are concerned about the apparent lack of market surveillance of conduct in the central trading arrangements. It appears there is no formal regular monitoring and reporting. National Grid, as the GB system operator (GBSO), appears well placed to inform the market and the regulator of noteworthy market activity but presently has no formal role in this area. Ofgem has a

responsibility for market surveillance yet does not report on any of its routine market monitoring activity. The GBSO is in effect a distressed purchaser when transmission constraints occur or when the system is under stress. Ultimately the additional costs incurred are paid for by consumers. Consumer Focus believes that market surveillance of conduct in the central trading arrangements needs to be considerably strengthened. There should be routine reporting by Ofgem, Elexon, National Grid or any separately appointed body. Ofgem should also review whether: (a) there is a case for placing limitations on bidding parties in the balancing mechanism potentially related to the participant's reasonable costs; or (b) there should be explicit parameters with regards to standards of conduct.

#### *Proposed British Energy and EDF merger*

63. Consumer Focus considers the proposed British Energy and EDF merger and the possible consequential Centrica transaction crystallises many of the issues around wholesale market liquidity. We are concerned that without important safeguards and conditions placed on the deal, the merger will aggravate rather than ameliorate the current position. We have written to the European Commission detailing our concerns which include:

- **Reduction in already poor liquidity:** Expected loss of underlying liquidity because of the removal of a major independent generator, and one of the few prepared to trade outside of the closed circle of integrated players.
- **Loss of a key trading counterparty:** There are already few willing counter-parties for independent suppliers. The transaction will result in further concentration in the market. Added to this British Energy is one of the few counter-parties that offer volume that extends across seasons.
- **Reduction in diversity of counterparties:** British Energy is fundamentally long - the electricity production from its power stations is around twice the volume it sells to large business consumers - and usually puts downward pressure on the wholesale power market. In practical terms, this creates an important shift in the market dynamic as it removes an important volume hedger and replaces it with price optimisers.
- **New entry:** The removal of British Energy removes a potential new entrant/new build generator, thus diluting the competition to build new power stations. This could have a detrimental impact on the market, especially in key low carbon markets, including renewables.
- **Balancing Mechanism:** British Energy owns Eggborough Power Station, which provides an essential competitive dynamic in the Balancing Mechanism. This could be lost, further increasing already high imbalance prices and making them even more volatile. EDF already owns key balancing assets such as Cottam and West Burton. The impact of the proposed transaction on the flexibility market needs to be carefully examined.
- **Industrial and commercial market:** The loss of a major competitor in this sector will be a huge blow to industry, potentially removing a supplier which has introduced a much healthier dynamic into the non-domestic markets over recent years.

64. Ofgem should seek to take these concerns into account as it focuses on improving wholesale market liquidity directly. If Ofgem is unable to address the problems in the wholesale market by a set date then it should make a referral to the Competition Commission, as indicated in Alasdair Buchanan's oral evidence to the Business and Enterprise Select Committee on 25 November 2008.

#### Ofgem action 4: Helping small business consumers

65. Consumer Focus supports action to help improve competition in the small business supply market and to enhance small business consumers' participation in and experience of the energy market. This group of consumers play an important role in the wider economy and Ofgem needs to commit to regular monitoring and reporting on competition in the small business market. At least 95 per cent of all businesses in the UK are small businesses and small and medium enterprises account for 99 per cent of all Scottish and Welsh businesses and over half of all their private sector employment.
66. Small businesses have been caught in the unfortunate pincer movement of not only rising prices but also deteriorating terms and conditions of supply.
- **A requirement to inform small business customers clearly in writing of the key terms and conditions in their contracts, especially those related to switching and contract roll-over:** Consumer Focus strongly supports this recommendation but considers Ofgem's work in this area should be extended to include:
    - Assessing the fairness and application of contract terms.
    - Identifying good and poor practices in providing clear information on key terms. For example the provision of information on contract supply terms that is accredited to plain language standards.
    - Harmonising consumer protection measures for energy supply between domestic and small business consumers. This should include for example a cooling off period on contract signature and codes of practice relating to billing and back billing.
    - Providing guidance on the application of the Business Protection from Misleading Marketing Regulations 2008 to the energy market.
  - **A requirement to institute a code of practice to govern the objections and switching process, in order to ensure much greater uniformity in the arrangements for changing supplier and contract extension:** Consumer Focus fully supports this recommendation which should be extremely helpful in raising the standards of conduct by suppliers, especially their objecting to potential transfers by small business consumers and the imposition of rollover contracts.
  - **An extension of the accreditation scheme for switching sites to cover those dealing with small business consumers, in order to reduce confusion and ensure tariff information is presented in an easily understandable format:** It is important that small business consumers are able to make informed decisions about their choice of energy supplier. Key to this is the ability to compare offers on a like-for-like basis. We support the intent of this proposal but would highlight that there are key differences between the small business and domestic market that will need to be taken into account in taking this forward. The main issue is that small business consumers do not have the same freedom to switch as domestic consumers. Many will be tied into a contract over a number of years and liable to a charge if they terminate the contract early. Careful consideration will need to be given to managing small businesses' expectations and understanding in the use of price comparison services. It may be possible to include prompts or safeguards in the system to remind consumers to check the terms of their contract before trying to initiate a switch through a price comparison site. It will be important to progress the initiatives outlined above first.

- **A strengthening of the existing industry code of practice for Third Party Intermediaries (TPIs) with new provisions requiring TPIs to tell consumers how they are remunerated and whether they provide information on all or only some suppliers:** Consumer Focus strongly supports the intent of this proposal. However, we are concerned that including the disclosure requirement in a voluntary code of practice for an unregulated group of firms appears unlikely to address concerns in this area. Not all brokers are signed up to the existing code of practice and there is no requirement for them to do so given they are not regulated. It is estimated that there are around 1500 TPIs operating in the market. However, the existing voluntary code of practice operated by the UIA currently only has 16 full members. We believe the disclosure obligation must be placed on the supplier through the licence. The requirement should be for suppliers to disclose to consumers whether a commission or fee has been paid to a broker or agent and to provide details of the actual commission or fee paid. This requirement would prevent agents or brokers from imposing contractual terms on suppliers that prevent this information from being disclosed. A second best solution would be to amend the voluntary code of practice as Ofgem proposes along with placing a requirement on suppliers to only deal with TPIs that are signed up to the industry code of practice.

#### **Ofgem action 5: Addressing concerns over unfair price differentials**

##### *Objective*

67. 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 and prepayment consumers.
68. Consumer Focus supports the introduction of new licence conditions to enforce fairer pricing of electricity and gas to consumers. The challenge of soaring fuel poverty is such that radical measures need to be considered to support consumers during these very tough times. We recommend that Ofgem concentrate initial efforts on prepayment and standard credit cost differentials against direct debit and on the treatment of single fuel electricity consumers.
69. We recommend that the Fuel Direct system is modernised so that it provides an alternative payment method for low income consumers and potentially provides the same price advantages as direct debit.

##### *Differentials*

70. We welcome Ofgem's acknowledgement that there are unfair price differentials in the energy market and tried to quantify the associated level of detriment that exists between different types of consumers. The report presents a fresher and deeper assessment of the features of the energy markets that are creating consumer detriment and commits Ofgem to take strong action to remedy this. We are however concerned that the level of additional costs may be overstated as this is based simply on the cost data provided by suppliers rather than an independent assessment of what the **efficient** level of additional

costs would be. Ofgem should commission independent analysis as a matter of urgency. This should seek to identify what the level of costs would be where there are incentives on firms to become more efficient, reduce costs and invest in technology. As the report highlights the increases in the costs to serve do not seem to be consistent with a relentless drive towards increased efficiency. Neither is the evidence consistent with an effectively competitive market where it is expected that material cost differences would have been competed away.

### *Scotland and Wales*

71. Consumers can find it difficult to understand what is driving the prices they pay for their energy. Consumers in south Wales and the north of Scotland pay the highest grid charges in GB on average. It is estimated that the grid charges for consumers in Wales are around 17 per cent more than in England and 4 per cent lower than Scotland. Grid costs for south Wales are 7 per cent higher than average levels in Scotland and 30 per cent higher than average levels in England. Grid costs in north Wales are 15 per cent lower than average levels in Scotland and 3 per cent higher than average levels in England. Given the higher grid charges consumers in Scotland and Wales face, it is perhaps all the more important to ensure that the other elements of their bills are determined on the basis of effective competition and that they are on the best possible tariff.
72. The Scotland and Wales markets exhibit some other distinct characteristics which leave consumers in these areas more exposed to unfair price differentials. They are the most concentrated markets in GB and the incumbents retain high market shares in electricity (around 80%). A higher proportion of consumers remain with their original suppliers than in England and may be paying the premiums charged to in-area customers. The proportion of consumers not connected to the gas grid is also much higher. These electricity only consumers are unable to access competitive dual fuel discounts and are also least likely to be visited by a sales person to encourage them to switch. The higher prices paid by electricity only customers are compounded by the fact that they rely on more expensive alternatives to gas including heating oil and LPG. The Business and Enterprise Committee raised concerns about the lack of representation and regulation in this sector. We announced in our forward work programme that we will be undertaking work on understanding problems facing customers reliant on heating oil, propane or other fuels. Whilst we recognise that there is some degree of regulatory protection through the Office of Fair Trading, we believe there is a strong case to give full regulatory responsibility for domestic fuel including heating oil and LPG to Ofgem. Regulation by Ofgem would help ensure that there is no gap in the protections offered to these consumers across the different types of energy they use.
73. The prevalence of dynamic teleswitching (DTS) is an additional dimension that has a more marked impact on the market in Scotland. 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 over 90 per cent remain with their incumbent supplier. Even with new offerings coming forward, it is unlikely that these consumers will be aware of the choice open to them and others may be afraid to try to switch again based on previous bad experiences. These consumers would benefit from targeted messages on

switching supplier. It remains unclear whether the considerable problems DTS consumers in Scotland have faced affect DTS consumers across the rest of GB.

#### *In and out of area*

74. The report estimates that the additional costs incurred by 15.8 million consumers remaining with their former incumbent suppliers for electricity and gas is £585 million. This potentially underestimates the level of consumer detriment as it is based on average prices rather than the best offer available. The report notes that the premiums charged by the electricity suppliers to their in area customers has narrowed during the period of the probe to 6% with a range of 2% to 12%. The premiums paid by in area consumers are punitive rather than cost reflective. Action should be focussed on reducing the most significant differentials and ensuring that the progress made to date on reducing differentials is not just a temporary adjustment. Based on the analysis set out in the probe on standard credit bills, SSE (incumbent in the Scottish Hydro, Swalec and Southern regions) has the lowest differentials and ScottishPower (incumbent in ScottishPower and Manweb regions) and EDF (incumbent in London, Seeboard and SWEB regions) have the highest.

#### *Electricity only*

75. Ofgem estimates 4.3 million consumers off the gas grid pay an additional £240 million because of higher margins earned by the former electricity incumbents from electricity consumers compared to gas. This potentially underestimates the level of consumer detriment as the majority of consumers affected are on time-of-day tariffs. The additional costs faced by electricity only consumers is a particular concern as a higher proportion of these consumers are fuel poor (for example 21% in England in 2006 and 38% in Scotland in 2007) compared to consumers that are connected to the gas network (for example 11% in England in 2006 and 20% in Scotland for 2005-06).

76. We agree that a key priority for this group of consumers is to facilitate participation in the market. The report suggests there are significant savings available for electricity only consumers online but this approach would require them to keep moving onto the new online product which creates an additional burden for both consumers and suppliers. This is also only available to consumers with internet access which is often denied to poorer households. We recommend that the industry work towards developing a bespoke tariff for electricity only consumers. Although it is suggested in the report that suppliers do not know who the electricity only consumers are, simple checks can be put in place to confirm that a household is electricity only before being allowed to move onto the bespoke tariff. As these consumers are more likely to be in rural areas there may be scope to offer discounts to the consumer in exchange for providing regular meter reads. Where consumers are on time-of-use tariffs there may be scope for the supplier to provide guidance on how consumers can reduce and better manage consumption across the day. Consumer Focus is currently undertaking a piece of work in this area.

### *Dynamic teleswitching*

77. We welcome the Ofgem analysis of the prices offered to DTS consumers against the nearest equivalent tariffs. We believe Ofgem should commit to undertaking regular pricing analysis to ensure that DTS consumers continue to pay a competitive price until there is effective competition in this sector of the market. We believe there are a number of reasons to explain why so few DTS consumers have switched supplier in addition to the price argument presented by Ofgem. Many will not be aware that they have a choice of supplier, some will not believe there are savings to be made and others may fear that something might go wrong based on past experience. The text in the report suggests there is little saving to be made by DTS consumers switching to another supplier. The data presented by Ofgem suggests this may be true for consumers in the south of Scotland but that a consumer in the north of Scotland with an annual consumption of 3,300kWh could save around £100 by switching to ScottishPower. The potential savings rises to around £150 or £300 with an annual consumption of 6,600kWh or 9,900kWh. It remains unclear why SSE does not offer a DTS product in the south of Scotland. Attention should be focussed on educating DTS consumers about the choice available to them and in getting other suppliers to offer bespoke DTS tariffs.

### *Payment type*

78. Based on standard consumption levels, Ofgem estimates that the net benefit to suppliers from the prices paid by consumers paying by prepayment meter and standard credit is £550 million. Ofgem's analysis suggests that this overstates the potential net benefit to suppliers as prepayment and standard credit customers' consume considerable less energy than average. This is particularly so on gas. Based on the data provided by the suppliers, Ofgem considers the prepayment premiums to be justified on costs grounds on average but estimates that standard credit consumers pay a premium of £140 million that is not cost justified.
79. We welcome that Ofgem has tried to quantify the net premium paid by prepayment and standard credit consumers. However, we are concerned that the level of additional costs may be overstated (and the premiums understated) as this is based simply on the cost data provided by suppliers rather than an independent assessment of what the efficient level of additional costs should be. Ofgem should commission independent analysis as a matter of urgency. This should seek to identify what the level of costs would be where there are incentives on firms to reduce costs and invest in technology. As the report highlights the increases in the costs to serve do not seem to be consistent with a relentless drive towards increased efficiency.
80. It is also essential that work is undertaken to identify those prepayment consumers that have higher levels of consumption and therefore pay a net premium even based on the suppliers own cost estimates. Premiums can penalise consumers for prudence. Many prepayment consumers want to control their energy usage and costs but are forced to use old technology. Consumers in Northern Ireland have benefited from lower tariffs following the introduction of semi smart touch pad meters. Measures should also be focused on encouraging standard credit and prepayment meter consumers to switch to a better deal.

*Rebalancing*

81. We recognise that removal of the price differentials is likely to be delivered by suppliers through a rebalancing of prices rather than a decrease in prices for the most detrimentally impacted consumers. We acknowledge that a rebalancing of this type would not reduce average prices paid by consumers however it would positively benefit vulnerable groups. We also believe that it could improve the prospects for new entrants and smaller suppliers.

*Rebates*

82. Consumers have been detrimentally affected by unfair price differentials for a number of years. We recommend that Ofgem explore whether there is any scope to provide a rebate or compensation to consumers for detriment they have incurred.

**Consumer Focus**  
**1 December 2008**

**Annex 1: Summary of Consumer Focus position on proposed actions**

Action	Position	Comment
<b>Action 1 Promoting more active customer engagement</b>		
Promoting more active customer engagement	Support	<ul style="list-style-type: none"> <li>▪ There should be a sustained customer awareness programme. Rather than being seen as (another) individual campaign, it should be established as a continuous, articulated programme, which all major suppliers should support on an enduring basis. It should include components specifically targeted on parts of the market that see less competition and where distortions have been identified.</li> <li>▪ New information requirements will have a development and implementation cost that will ultimately be borne by consumers. It is essential that the proposals are tested with consumers to ensure they meet consumers’ needs, provide a net benefit and are linked to an enduring programme aimed at changing consumer behaviour and enhancing competition. It should engage with ‘trusted intermediaries’ who can advise low income consumers on how to switch, such as the Citizen’s Advice Energy Best Deal programme. However, more information is needed on the barriers that prevent low income consumers from switching, such as financial and digital exclusion, and how these might be addressed.</li> </ul>
Clearer information on customer bills	Support	<ul style="list-style-type: none"> <li>▪ Suppliers should be required to improve the quality of information they provide to consumers particularly to aid comparison with alternatives and the annual statement setting out use and spend.</li> <li>▪ Examples of good and poor practice should be identified and reported to drive improvements across the industry for example information being accredited to plain language standards.</li> </ul>
Annual statement	Support – further research required	<ul style="list-style-type: none"> <li>▪ The annual statement should provide consumers with information that will help them compare offers including annual spend with a breakdown of actual prices and usage across the year. We believe further research on the proposal would be helpful.</li> </ul>

Action	Position	Comment
Annual prompt	Further research required	<ul style="list-style-type: none"> <li>▪ While a significant number of users have stated that they would be likely to consider switching energy supplier with an annual prompt, 59% of respondents said that an annual prompt would either make no difference or decrease the likelihood of them considering switching energy supplier. We believe further research is required on this proposal.</li> </ul>
Promote confidence in price comparison and switching sites	Support	<ul style="list-style-type: none"> <li>▪ There should be a programme to promote confidence amongst consumers in the use of price comparison sites. This programme should address who to extend the scope of these very useful sites to prepayment, low income and other vulnerable groups who do not have the benefit of internet access.</li> <li>▪ Suppliers should be required to sign up to a set of standards in their use of price comparison services that oblige them to represent their offers fairly.</li> </ul>
Simplify the supplier switching process	No clear benefit – focus should be on wholesale market, unfair price differentials and consumer behaviour improvements proposals	<ul style="list-style-type: none"> <li>▪ The Customer Transfer Process (CTP) Project addressed this area around 3 years ago in a time-consuming expensive and long drawn out process. Positive improvement came out of that process.</li> <li>▪ The only way in which we can see that the transfer process could be significantly improved would be to start from scratch. This option was ruled out in the CTP Project as it was not viable on cost grounds. We do not expect the cost benefit assessment will have changed markedly since then. Work should not be progressed in this area without undertaking a consumer impact assessment and cost benefit analysis.</li> <li>▪ Focus should be on driving forward wholesale market, unfair price differentials and consumer behaviour improvement proposals.</li> </ul>
Debt blocking	Support	<ul style="list-style-type: none"> <li>▪ Action to address debt blocking is long overdue.</li> <li>▪ Need to establish why the Debt Assignment Protocol failed and establish a more effective debt assignment protocol.</li> <li>▪ As a minimum, the aim should be to ensure that small debts do not stop any consumers and in particular vulnerable consumers from accessing better deals and perhaps escaping fuel poverty. When established, need to ensure that consumers know it is there and can navigate their way through it simply.</li> </ul>

Action	Position	Comment
Customer awareness programme	Support	<ul style="list-style-type: none"> <li>▪ Important to develop a targeted campaign that convey messages that are appropriate to the specific consumer group in question.</li> </ul>
<b>Action 2 Helping consumers make well-informed choices</b>		
<b>Helping consumers make well-informed choices</b>	<b>Support</b>	<ul style="list-style-type: none"> <li>▪ <b>Strongly support measures to help consumers make well informed decisions. There are overlaps with proposals to encourage better general information.</b></li> </ul>
Easy to understand price metric	Proposals unclear	<ul style="list-style-type: none"> <li>▪ Unclear what sort of price metric Ofgem is looking to develop. It is difficult to see how an ‘annual percentage rate’ could be developed for energy given the cost to consumers is dependent on usage. Need to ensure consumers are not inadvertently misled in the drive for simplicity. Price information should be based on consumer’s actual consumption rather than estimated consumption (wherever possible).</li> <li>▪ Ofgem should explore the scope for simplifying the structure of tariffs so that they are easier for consumers to understand and compare.</li> </ul>
Suppliers’ sales and marketing activities	Support tightening of rules – further research required on the written confirmation	<ul style="list-style-type: none"> <li>▪ Welcome the proposed tightening of rules on suppliers’ sale and marketing activities. Ofgem should also provide guidance on the application of the Consumer Protection from Unfair Trading Regulations 2008 to the energy market.</li> <li>▪ Believe a requirement for suppliers to provide like-for-like comparative information when undertaking doorstep and telephone selling should help reduce forms of misspelling. Nearly a majority of consumers said that they found the written confirmation useful, however, a very large minority said such a measure would be not useful. Further research should be undertaken to better understand consumer views.</li> <li>▪ Question the robustness of the Energy Retail Association’s (ERA) monitoring and policing of the industry code of practice energysure. The ERA needs to review and enhance its monitoring, policing and reporting procedures to ensure they are robust. The ERA also needs to review the requirements of the code of practice against the Consumer Protection from Unfair Trading Regulations 2008.</li> <li>▪ Ofgem has a key role to play particularly through effective enforcement of the marketing licence condition. Ofgem needs to review its thresholds for enforcement action.</li> </ul>

Action	Position	Comment
Smart metering	Support	<ul style="list-style-type: none"> <li>▪ Support programme of smart metering and welcome the provision recently made for its roll out to domestic consumers by the Government in the Energy Bill. We will be working to ensure that, when the programme is agreed, it is scoped in such a way to ensure, the least disruption and cost to consumers, a commitment to consumer engagement, and the assurance that consumer safeguards and protection arrangements will be built into the programme.</li> <li>▪ We will also work to ensure that the technology specified is not simply the lowest common denominator, so that a smart meter does not only provide consumers with easy access to time of use energy consumption and spend information, but also allows for the ability to switch between debit and credit, the ability to have time of use tariffs, and the ability to import and export electricity from microgeneration.</li> </ul>
<b>Action 3 Reducing barriers to entry and expansion</b>		
<b>Reducing barriers to entry and expansion</b>	Support	<ul style="list-style-type: none"> <li>▪ <b>Concerned we have not seen the emergence of a sizeable competitive fringe with radically different business models and culture to act as a genuine competitive constraint on the major firms. New entrants must be encouraged to keep the major firms on their toes.</b></li> <li>▪ <b>Recent exits from the small business electricity supply market of Bizz Energy and Electricity4Business underline that real damage to competitive markets is being caused by complex and volatile wholesale market regimes.</b></li> </ul>
Review regulatory obligations	Support	<ul style="list-style-type: none"> <li>▪ Welcome the commitment but wish to make sure of the ring-fencing of those obligations that are in place to support vulnerable consumers. Particularly of relevance here is mandating that suppliers' social tariffs are <i>the</i> best tariff a supplier offers. Ofgem's existing guidance on social tariffs has not been effective and only requires suppliers' social tariffs to be at least as good as the lowest tariff on offer in the consumer's region.</li> </ul>

Action	Position	Comment
Separate regulatory accounts	Support	<ul style="list-style-type: none"> <li>▪ Welcome this proposal as it should, if appropriately specific, increase transparency markedly. Ofgem should develop, in consultation with the relevant authorities, a standard template for the companies to report against highlighting key items including as a minimum turnover, internal (operating) costs, external (e.g. fuel, consumer taxes and obligations) costs and profit before tax as appropriate for their upstream and downstream businesses.</li> <li>▪ Ofgem should collate the information into a standard report and publish.</li> </ul>
Wholesale market liquidity	Support	<ul style="list-style-type: none"> <li>▪ This is key area of work and should be progressed as a priority. If Ofgem is unable to address the problems in the wholesale power market by a set date then it should make a referral to the Competition Commission as indicated in Alasdair Buchanan's oral evidence to the Business and Enterprise Select Committee on 25 November 2008.</li> <li>▪ Ofgem needs to extend the scope of its work on wholesale markets to include:               <ul style="list-style-type: none"> <li>○ Deeper and up to date analysis of the gas market.</li> <li>○ Extend the analysis of the link between wholesale and retail prices to the years before 2002.</li> <li>○ Analyse and publish information on the retail and wholesale link.</li> <li>○ Define characteristics of a healthy traded market and what impediments there are to its realisation.</li> <li>○ Work with the European Commission to understand the impact of oil indexation in European gas contracts to consumers in GB and across Europe.</li> <li>○ Undertake a review to test the arguments in favour of releasing quantities of wholesale power onto the market and if so what the level should be set at.</li> <li>○ Commitments from the major firms to support new auctions to provide more credible price indicators, greater certainty over prices and to improve confidence.</li> </ul> </li> </ul>

Action	Position	Comment
Market abuse powers	Support	<ul style="list-style-type: none"> <li>▪ Support firm measures to deal with any instances of market abuse.</li> <li>▪ Concerned about the apparent lack of market surveillance of conduct in the central trading arrangements. There should be routine reporting by Ofgem, Elexon, National Grid or any separately appointed body. Ofgem should review whether:               <ul style="list-style-type: none"> <li>○ There is a case for placing limitations on bidding parties in the balancing mechanism potentially related to the participant’s reasonable costs.</li> <li>○ There should be explicit parameters with regards to standards of conduct.</li> </ul> </li> </ul>
<b>Action 4 Helping small business consumers</b>		
<b>Helping small business consumers</b>	Support	<ul style="list-style-type: none"> <li>▪ <b>Support action to help improve competition in the business supply market and to enhance small business consumers’ participation in and experience of the energy market. This group of consumers play an important role in the wider economy and Ofgem needs to commit to regular monitoring and reporting on competition in the small business market. These consumers have been caught in the unfortunate pincer movement of not only rising prices but also deteriorating terms and conditions of supply.</b></li> </ul>
Terms and conditions	Support	<ul style="list-style-type: none"> <li>▪ Consumer Focus strongly supports this recommendation but considers Ofgem’s work in this area should be extended to include:               <ul style="list-style-type: none"> <li>○ Assessing the fairness and application of contract terms.</li> <li>○ Identifying good and poor practices in providing clear information on key terms. For example the provision of information on contract supply terms that is accredited to plain language standards.</li> <li>○ Harmonising consumer protection measures for energy supply between domestic and small business consumers. This should include for example a cooling off period on contract signature and codes of practice relating to billing and back billing.</li> </ul> </li> <li>▪ Provide guidance on the application of the Business Protection from Misleading Marketing Regulations 2008 to the energy market.</li> </ul>
Objections	Support	<ul style="list-style-type: none"> <li>▪ Fully support recommendation to introduce a code of practice on objections and switching which should help raise the standard of conduct by suppliers and enhance small business consumers’ participation in and experience of the energy market.</li> </ul>

Action	Position	Comment
Accreditation schemes for switching sites	Qualified support	<ul style="list-style-type: none"> <li>▪ Support the intent of this proposal but would highlight that there are key differences between the small business and domestic market that will need to be taken into account in taking this forward. The main issue is that small business consumers do not have the same freedom to switch as domestic consumers. Many will be tied into a contract over a number of years and liable to a charge if they terminate the contract early. Careful consideration will need to be given to managing small businesses expectations and understanding in the use of price comparison services.</li> </ul>
Code of practice for third party intermediaries	Not clear that the proposals will achieve intended aim – supplier requirement required	<ul style="list-style-type: none"> <li>▪ Concerned that including the disclosure requirement in a voluntary code of practice for an unregulated group of firms is unlikely to address concerns in this area. Not all brokers are signed up to the existing code of practice and there is no requirement for them to do so given they are not regulated.</li> <li>▪ The disclosure obligation must be placed on the supplier through the licence. This would prevent agents or brokers from imposing contractual terms on suppliers that prevent this information from being disclosed.</li> </ul>

Action	Position	Comment
<b>Action 5 Addressing concerns over unfair price differentials</b>		
Addressing concerns over unfair price differentials	Support	<ul style="list-style-type: none"> <li>▪ Prices must be determined on the basis of effective competition. Suppliers' pricing must be made more competitive for <i>all</i> so the benefits of the liberalised market can spread beyond direct debit dual fuel consumers to include in area, electricity only, standard credit and prepayment consumers.</li> <li>▪ Welcome Ofgem's acknowledgment that there are unfair price differentials in the energy market and tried to quantify the associated level of detriment that exists between different types of consumers. The report presents a fresher and deeper assessment of the features of the energy markets that are creating consumer detriment and commits Ofgem to take strong action to remedy this.</li> <li>▪ Concerned that the level of additional costs may be overstated as this is based simply on the cost data provided by suppliers rather than an independent assessment of what the efficient level of additional costs would be. Ofgem should commission independent analysis as a matter of urgency. This should seek to identify what the level of costs would be where there are incentives on firms to reduce costs and invest in technology.</li> </ul>
Payment types must be cost-reflective	Support	<ul style="list-style-type: none"> <li>▪ Consumer Focus supports the introduction of new licence conditions to enforce fairer pricing of electricity and gas to consumers. The challenge of soaring fuel poverty is such that radical measures need to be considered to support consumers during these very tough times. We recommend that Ofgem concentrate its initial efforts on prepayment and standard credit cost differentials against direct debit and on the treatment of single fuel electricity consumers.</li> <li>▪ Recommend that the industry work towards developing a bespoke tariff for electricity only consumers. This should not require the consumer to have to continually change to the latest online tariff.</li> <li>▪ Recommend that the Fuel Direct system is modernised so that it provides an alternative payment method for low income consumers and potentially provides the same price advantages as direct debit.</li> </ul>

Action	Position	Comment
Prohibition on undue price discrimination	Support	<ul style="list-style-type: none"> <li>▪ Support measures to prohibit undue price discrimination. It is important that the measures taken forward as part of the probe address the inequities faced by electricity only and in area customers as well as the problems faced by consumers paying by prepayment meter and standard credit.</li> </ul>

## **Annex 2: Summary of Consumer Focus commissioned consumer research**

### **Headline results and Consumer Focus comments**

#### *Fair billing*

- The vast majority of those who pay by direct debit (DD) consider they are receiving a fair deal (74%).
- The majority of those paying by standard credit (SC) considered they were receiving a fair deal (62%).
- A smaller proportion of prepayment (PPM) customers considered their method of payment fair (43%) as compared to SC and DD.
- Over one third of PPM customers thought it was unfair.
- 18% of PPM consumers thought their payment method was very unfair compared to 3% for DD and 7% for SC.

#### *Switching behaviour*

- 25% said they had attempted to switch in the past year.
- A large majority of people found the switching process easy (76%) and 54% of customers found it very easy.
- 70% answered “none of the above” to the list of potential problems we gave them, although a significant minority (22%) cited problems related to processes and lack of information.
- Most of those who did switch faced no problems.

#### *Annual Statement*

- Over two thirds of those polled said they would find the annual statement of use.
- The results show that 20% of customers would consider switching energy supplier and that 10% would consider switching to an alternative payment method.
- 56% of energy customers said that they would consider at least one switching or energy saving measure.
- The survey results support the introduction of an annual statement although further research would be helpful to better understand the needs of those consumers that were not supportive.

#### *Annual Prompt*

- 37% of those polled would be likely to consider switching with an annual prompt while 22% said they would be unlikely and 35% said it would make no difference.
- The survey results suggest further research is required on this proposal.

#### *Written confirmation from energy salespeople*

- The results show that almost a majority of customers stated they would find the written confirmation useful, although 42% said they would not find it useful.
- Ofgem should conduct more research into why people would like, and more interestingly, why they would not wish to receive written confirmation.

#### *Internet price comparison sites*

- 41% of customers had used price comparison sites to compare energy prices.
- The vast majority found them easy to use (75%).
- Customers listed a large number of problems they had faced when trying to use or using internet price comparison sites and because of this it is very difficult to make many conclusive judgments.
- The efforts of the regulator, the industry and consumer bodies are best concentrated on those who *do not* use these sites rather than those who do.

#### **Introduction and methodology**

1. Consumer Focus commissioned TNS Global to construct a face-to-face survey representative of the population of Great Britain aged over 16. The objective of this preliminary research was to discover the degree of satisfaction customers have with certain services provided with by their energy suppliers, and to find out what, if any, are the main problems customers face. Most importantly though, we have sought to gauge an initial reaction by consumers of the remedies recommended by the probe. Specifically we have asked energy consumers whether they would welcome the proposed changes listed in the probe and to what degree these remedies will have an impact upon their behaviour in terms of switching and energy consumption decisions.
2. While this research is a useful first step in identifying consumers' views on the remedies suggested, it is important to follow up with appropriate formative research that can shape the design of the remedies proposed so that they have the best chance of working well for key segments of consumers. Consumer Focus has experience through the National Social Marketing Centre of working with public sector agencies in other contexts to design and deliver behavioural programmes.
3. The research vehicle chosen was TNS Global's omnibus survey, for which the fieldwork dates were 5 - 9 November 2008, achieving a total sample size of 1,381 people. The sample is further subdivided in to the following groups:
  - Gender
  - Age
  - Social class
  - Marital status
  - Tenure
  - Government region
  - Internet access
  - Children in household
  - Ethnicity
4. Only where sample size is considered significant will reference be made to any of the subgroups throughout the analysis.

## Fair billing

5. We asked customers how fair they considered their energy payment method. Each respondent's answer is subdivided by payment type. The three main payment types considered for analysis are Direct Debit (DD), pay on receipt of bill by cash or cheque (hereafter referred to as Standard Credit or SC) and prepayment meter (PPM). Other payment methods respondents answered questions on were Fuel Direct and weekly/fortnightly payment arrangement, but the sample sizes for these two payment method are too small to infer any firm conclusions from so have not been included in the analysis. An aggregated question of all payment methods is also included.

How fair is paying your bill by DD? (sample size – 865)	Total %
Very fair	25
Moderately fair	49
Neither fair or unfair	15
Moderately unfair	5
Very unfair	3
Net: fair	74
Net: unfair	8
Don't know	3

6. The results show that the vast majority of those who pay by DD consider they are receiving a fair deal (74%). There are no major variations from this result among any of the subgroups.

How fair is paying your bill by SC? (234)	Total %
Very fair	19
Moderately fair	43
Neither fair or unfair	17
Moderately unfair	10
Very unfair	7
Net: fair	62
Net: unfair	17
Don't know	4

7. While more respondents considered paying by SC unfair when compared to those paying by DD (17% and 8% respectively), the majority of those paying by SC considered they were receiving a fair deal (62%). This suggests that SC customers are either unaware of the price differential (in comparison with DD) identified in the Ofgem probe or are willing to pay a premium for the privilege of paying in arrears.

How fair is paying your bill by PPM? (215)	Total %
Very fair	16
Moderately fair	27
Neither fair or unfair	18
Moderately unfair	18
Very unfair	18
Net: fair	43
Net: unfair	36
Don't know	3

8. The greatest proportion of energy customers who considered their payment method unfair were PPM customers (36%). This is not surprising considering the price differential identified between PPM and DD payment methods. However, more PPM customers considered their method of payment fair as opposed to unfair (43% to 36%). The greater number of unhappy PPM customers relative to SC customers may be explained by a number of factors. Firstly that many PPM customers have been forced on to this method because of debt problems. Secondly, PPM customers experience problems and inconveniences from their energy supply not experienced by other customers (recalibration problems, having to 'top up' the meter etc.). Finally, there has been a great deal more media attention on the price differential of PPM than of SC. This negative press coverage may well have filtered down to PPM customers.

### Switching behaviour

9. We asked energy customers whether they had attempted to switch energy supplier in the past year. The results were as follows:

Have you attempted to switch energy supplier in the last year? (1381)	Total %
Yes	25
No	74
Don't know	1

10. Recent research in to switching behaviour has focused on those who have *actually* switched in the past year not those who *attempted* to switch. For example a study by Ofgem conducted by Ipsos MORI<sup>1</sup> in February/March 2008 found that 20% of gas and 19% of energy users switched supplier in 2007. Additionally a study for Age Concern conducted by ICM Research<sup>2</sup> in October 2008 found that 21% of energy customers had switched supplier in the past year.

11. The higher proportion of those who have attempted to switch found in our survey is in line with the results found in the two surveys referenced above as there will inevitably be a number of people who do not complete the switching process for a variety of reasons.

<sup>1</sup> Switching rates for vulnerable customers, Ofgem/Ipsos MORI (2008)

<sup>2</sup> Gas and Electricity survey, Age Concern/ICM Research (2008)

12. We then asked those energy customers who had attempted to switch energy supplier in the past year how easy or difficult it had been to try and switch supplier. The results are given below:

<b>How easy or difficult was it for you to try and switch energy supplier? (342)</b>	<b>Total %</b>
Very easy	54
Moderately easy	22
Adequate	5
Moderately difficult	8
Very difficult	8
I abandoned the switching process	3
Net: easy	76
Net: difficult	19
Don't know	1

13. The survey reveals that a large majority of people found the switching process easy (76%) and that 54% of customers found it very easy. While there are a significant proportion of customers who have attempted to switch who have found the process difficult, the results suggest that the real challenge for the energy market is to find ways to allow those who have not attempted to switch to engage with the market effectively, notwithstanding customers who are content with their current energy arrangements.

14. Finally, we asked all those energy customers who had attempted to switch in the past year whether they had encountered problems, if any, when they had tried to switch supplier. The results are laid out below.

<b>Which, if any, of the following problems did you experience when you tried to switch energy supplier? (342)</b>	<b>Total %</b>
It was too difficult to compare different energy suppliers' prices	10
I had difficulty understanding from my bill how much power I had used or how much I had spent	9
The actual switching transfer process was too complex/time consuming	8
I couldn't switch because I was in debt	3
I didn't have enough time to switch	2
Net: difficulty due to processes/lack of info	22
Net: any	25
None of the above	70
Don't know	4

15. Not surprisingly, considering the proportion of respondents who found the switching process easy, 70% answered "none of the above" to the list of potential problems we gave them. Given the small sample size it is difficult to read too much into the most prominent problems faced by energy customers, but the top three problems faced by customers was difficulty when comparing different energy companies' prices, difficulty understanding the bill and the complexity/time consuming nature of the transfer process. It must also be

added that a significant minority (22%) cited problems related to processes and lack of information. Nevertheless most of those who did switch faced no problems, and certainly not major ones.

### **Ofgem probe consumer remedies**

16. In the next section of the survey we wanted to find out whether energy consumers would welcome any of the remedies recommended in the Ofgem probe. We wanted to know whether the information provided in any of those innovations would firstly be welcome and secondly change consumer behaviour with regard to switching supplier and/or tariff and changing or monitoring energy consumption levels.

### Annual Statement

17. The first remedy we questioned energy customers about was an annual statement. Ofgem stated this annual statement, which would be provided by all energy suppliers, would set out in a clear fashion how much energy the customer had used and how much it had cost them. We therefore asked how useful this annual statement would be in addition to the customer's monthly/quarterly bill. The results are as follows:

<b>How useful would it be to you if your energy supplier provided you with an annual statement, showing exactly how much energy you have used and how much it has cost you, in addition to your monthly/quarterly bill? (1381)</b>	<b>Total (%)</b>
Very useful	34
Quite useful	34
Not very useful	17
Not at all useful	10
Net: useful	67
Net: not useful	28
Don't know	5

18. The results above provide for encouraging reading. Over two thirds of those polled said they would find the annual statement of use, although this proportion falls for the over 65s (sample size 318, 56%), the less affluent (DEs sample size 265, 60%) and those who have no internet access (sample size 463, 58%). This is important as these groups are more likely to be classified as vulnerable and are the people in most need of greater access to the energy market. Nevertheless the majority of these groups consider the annual statement useful.

19. We then turned to the issue of switching and energy consumption. We asked whether this would be affected by the introduction of an annual statement. See findings below:

<b>If you did receive such an annual statement, showing how much energy you had used and how much it had cost you, which of the following, if any, would you be likely to consider? (1381)</b>	<b>Total %</b>
Switch payment method/tariff but stay with the same supplier	5
Switch supplier	16
Switch payment method/tariff and supplier	6
Be more careful with your consumption of gas and electricity	30
Consider energy efficiency measures	21
Net: switch supplier	20
Net: switch payment method	10
Net: energy efficiency methods	41
Net: do something	56
I wouldn't do anything	34
Don't know	10

20. The results (net figures) show that 20% of customers would consider switching energy supplier and that 10% would consider switching to an alternative payment method. Although caution must be observed with the following figures due to the relatively small sample sizes involved, the findings broadly show that the over 65s are less like to switch supplier or payment method (sample size 318, 11% and 4% respectively) and DEs are less likely to switch supplier (sample size 442, 13%). Additionally, those customers who are separated/widowed and divorced are less likely to consider switching supplier (sample size 322, 14%)
21. In Scotland there are encouraging signs that an annual statement would encourage Scottish consumers to switch supplier (sample size 120, 31%) where there has been resistance to switching. The figures though are less encouraging for Wales where only 15% (sample size 74) would consider switching supplier. Another encouraging sign is that those on SC and PPM exhibit a similar degree of likelihood to consider switching payment method as DD customers (SC sample size 234, 9%, PPM sample size, 215, 12% and DD sample size 865, 10%). Again we must be cautious with these figures due to the relatively small sample sizes.
22. 56% of energy customers said that they would consider at least one of the measures outlined above, but this figure drops to 39% for 65+s and 46% for DEs. A significant proportion of consumers say they would not consider anything (34%) but even so as a majority of consumers both say that they would consider an annual statement useful as well as consider acting upon it (although we can't say how many of these people will act without the remedy).
23. The survey results support the introduction of an annual statement as part of an enduring programme that is aimed at enhancing the competitiveness of the energy market and change consumer behaviour.

Annual prompt

24. The second remedy we questioned energy customers on was the annual prompt. An annual prompt, to be provided by all energy suppliers, would give advice of how to switch supplier, outline the advantages and disadvantages of each payment method and the potential savings available. We asked customers whether such information would make it more or less likely that they would consider switching energy supplier. The findings are outlined below:

<b>If annual guidance was available on how to switch energy supplier, which would outline the advantages and disadvantages of each payment method and the potential savings available, would this make you more or less likely to consider switching your energy supplier in the future? (1381)</b>	<b>Total %</b>
Very likely	10
Quite likely	27
No difference	35
Quite likely	7
Very likely	15
Net: likely	37
Net: unlikely	22
Don't know	6

25. The findings show that 37% of those polled would be likely to consider switching with an annual prompt while 22% said they would be unlikely and 35% said it would make no difference. The likelihood of over 65s considering switching drops to 25% (sample size 318) in comparison with 37% of all customers. Falls are also noticed for DEs (sample size 442, 28%).

26. While a significant number of users have stated that they would be likely to consider switching energy supplier with an annual prompt, 59% of respondents said that an annual prompt would either make no difference or decrease the likelihood of them considering switching energy supplier.

27. The survey results suggest further research is required on this proposal.

Written confirmation from energy salespeople

28. The final remedy we canvassed the views of consumers about was the idea to force energy salespeople to send written confirmation to the customer comparing their current energy usage and cost, as well as the amount of savings on offer. We asked whether customers would appreciate this innovation. The results are set out below.

<b>If you were approached by an energy salesperson, how useful would written confirmation comparing your current energy usage and cost with the new proposed savings on offer be? (1381)</b>	<b>Total %</b>
Very useful	17
Quite useful	33
Not very useful	23
Not at all useful	19
Net: useful	49
Net: not useful	42
Don't know	9

29. The results show that almost a majority (49%) of customers stated they would find the written confirmation useful, although 42% said they would not find it useful. Again the over 65s, DEs and those classed as separated/widowed/divorced found the remedy less useful (35%, 42% and 39% respectively), in the case of the over 65s a majority found the written confirmation not useful (51%). Again the relatively small sample sizes must be taken in to account when analysing these sub group results.

30. Even though nearly a majority said that they found the written confirmation useful, a very large minority said such a measure would be not useful. Ofgem should conduct more research in to why people would like, and more interestingly, why they would not wish to receive written confirmation. Perhaps customers would be interested in an alternative solution or it may be because many customers are skeptical about the savings available to them and the differences between the big six energy firms. For example Ofgem's survey 'Switching rates for vulnerable customers' (2008) found that 16% of respondents said they thought switching would be too much hassle, 12% that all the suppliers were the same so there was no point of switching and 5% that they would not trust another supplier<sup>3</sup>.

### **Internet price comparison sites**

31. We also asked the views of energy consumers on internet price comparison sites. These websites were identified by the Ofgem probe to be of critical significance to the ability of consumers to effectively exercise choices in the energy market. Therefore we asked customers if they used these sites, how easy or difficult they were to use and what, if any, problems they have encountered using such sites.

32. The first question we asked was whether customers have used price comparison sites to compare energy prices. The results were as follows:

<b>Do you use internet price comparison sites, such as uSwitch and Money Supermarket, to compare energy prices? (918)</b>	<b>Total %</b>
Yes	41
No	58
Don't know	1

<sup>3</sup> Switching rates for vulnerable customers, Ofgem/Ipsos MORI (2008)

33. We found that 41% of customers had used price comparison sites to compare energy prices. This compares favourably to a recent Age Concern survey that found only 30% of people have used internet price comparison sites<sup>4</sup>. The numbers using these sites falls understandably for the over 65s (sample size 104, 29%), DEs (sample size 196, 23%) and separated/widowed/divorced (sample size 132, 29%) customers.
34. Interestingly, SC and PPM customers are far less likely to have used price comparison sites when compared with DD customers. Only 28% of SC customers (sample size 129) and 25% of PPM customers (sample size 116) have used these sites as opposed to 47% of DD customers (sample size 645) although the small sample sizes means that we must be cautious with these conclusions. This may partly explain why SC and PPM customers are less likely to switch to cheaper DD deals, although SC and PPM often choose these deals because the method of payment suits their cash flow needs.
35. We went on to ask those customers who have used internet price comparison sites whether they found them easy or difficult to use. See below for the results:

<b>How easy or difficult do you find it to compare energy prices using internet price comparison sites such as uSwitch and Money Supermarket? (373)</b>	<b>Total %</b>
Very easy	41
Moderately easy	34
Adequate	12
Moderately difficult	8
Very difficult	2
Net: easy	75
Net: difficult	10
Don't know	4

36. Of those who did use internet price comparison sites the vast majority found them easy to use (75%). Only 10% found them difficult to use although great care must be taken with the findings due to the relatively small sample size.
37. Finally, we asked all those who did have access to the internet, both those who do and those who do not use internet price comparison sites except those who find them very easy to use, what, if anything, prevents them from accessing or using price comparison sites. See results below:

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<sup>4</sup> Gas and Electricity survey, Age Concern/ICM Research (2008)

<b>Which, if any, of the following prevents you from accessing/using internet price comparison sites? (751)</b>	<b>Total %</b>
I didn't know they existed	6
I can't understand the usage details on my bill	8
The websites are too difficult to use	8
The different sites produce conflicting results	17
I don't trust the results produced by the websites	14
Happy with current supplier (spontaneous)	2
Don't want to / no need to change supplier (spontaneous)	2
Not interested / can't be bothered (spontaneous)	6
Too busy / haven't got time (spontaneous)	2
Would not use it / the internet for this reason (spontaneous)	2
I am not computer literate / not comfortable using the PC (spontaneous)	2
Someone else would do it / other family member (spontaneous)	2
Another reason	7
Don't know	27

38. As you can see from the results above customers gave a vast number of problems they had faced when trying to use or using internet price comparison sites. The two most popular positive answers given were that different sites produce conflicting results (17%) and that people did not trust the results produced by the websites (14%). Disappointingly the most common response was 'don't know' (27%).

39. We can tentatively deduce that the introduction of an annual statement could go some way to easing the chances that different websites will continue to produce different results. The trust issue that consumers have may be related to general skepticism that consumers have expressed about the energy market in general, mentioned above, which will be more difficult to address.

40. From these results it is very difficult to make conclusive judgments due to vast array of response and the relatively small sample size. The results demonstrate that a lot more work is necessary to dig deeper into consumers' habits and preferences. What we can take from the questions on price comparison sites is that those who use them already do not face problems with them. It is those customers who *do not* use these sites where the efforts of the regulator, the industry and consumer bodies are best concentrated. This will be more difficult to address as it relates to the broader issue of I.T. literacy.