

Andy MacFaul
Head of Better Regulation

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Dear Mr MacFaul,

ERA response to Ofgem's request for contributions to the Five Year Strategy 2010-2015

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

We welcome the opportunity to offer contributions to the development of Ofgem's next five year strategy for 2010-2015 in the light of the restructuring of Ofgem announced earlier this month. We would be happy to discuss any of the points made below in further detail with Ofgem if you consider this to be beneficial. This is a high level industry response and the ERA's members will also be providing individual responses.

1. The key challenges faced by the industry in the short to medium term

Smart metering

The development and roll-out of smart metering will be a key industry initiative over the period 2010-2015 and we expect that Ofgem will take a key role in defining the industry arrangements for smart metering and the necessary supporting legislation. The Department of Energy and Climate Change has stated in their recent consultation on electricity and gas smart metering that "a substantial central programme of work is required to prepare for roll out" and that "Ofgem, industry, consumer groups, trades unions and other stakeholders will all need to participate in the preparation programme and play their part in making it a success."

The ERA has provided a comprehensive response to the DECC consultation and there are a number of proposed areas of work where we believe that Ofgem must take a lead role. Funding arrangements will need to be agreed to facilitate the appropriate resourcing of smart metering development and it will be important to have industry expertise at the hub of any central industry programme.

Fuel poverty

In the current economic climate, and with wholesale energy prices fluctuating considerably, tackling fuel poverty is an important issue for government, Ofgem and suppliers. Government must take the lead in developing policy and making resources available but Ofgem has an important role in informing debate so that measures are sustainable and well-targeted at those most at risk from fuel poverty. ERA members are currently working with government and Ofgem to realise a workable data sharing pilot which can be used as a model for targeting assistance in the future. Following Ofgem's

review of vulnerable disconnections, suppliers have worked with Ofgem and stakeholders to update the ERA Safety Net and to ensure that their processes best protect any vulnerable customer.

The ERA is strongly supportive of Fuel Direct as a means for customers in debt to make repayments and manage their ongoing consumption in a sustainable way. We have been working with the Department for Work and Pensions to support their efforts to increase the use of Fuel Direct by energy suppliers and would welcome a dialogue with Ofgem to identify ways in which Fuel Direct can support customers at risk of fuel poverty. ERA members are concerned that many fuel poor customers are not in receipt of all the benefits to which they are entitled. Suppliers have been undertaking benefit entitlement checks and would welcome any pressure Ofgem can exert on government to encourage all those eligible for benefits to take up their entitlements.

Ofgem's April 2008 Fuel Poverty Summit encouraged greater transparency of energy suppliers' social measures for fuel poor customers¹. The ERA has responded to this by developing a suite of resources for advisers working with vulnerable and fuel poor customers, explaining the support available from suppliers for their customers through initiatives such as social tariffs, rebates, energy efficiency grants and advice, and the Home Heat Helpline. The ERA and our members will continue to develop such resources, and to assist fuel poor and vulnerable customers, in consultation with Ofgem and other stakeholders.

Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP)

We welcome the change to Ofgem's statutory duties in the Energy Act 2008, to require Ofgem to have regard to the need to contribute to sustainable development. As 26% of UK carbon dioxide emissions are accounted for by residential users², the ERA believes that one of the most effective ways of reducing carbon emissions is to improve the energy efficiency of domestic properties through measures such as CERT and CESP. Improving domestic energy efficiency will also contribute to the government's aim of protecting the security of British energy supplies.

CERT has been an extremely successful initiative and we welcome CESP as a step towards providing learning in relation to an area-based approach for delivery of high-cost energy efficiency and low carbon heating solutions. This will build upon the expertise energy suppliers have gained through CERT, in preparation for future schemes. We are keen for Ofgem to engage with suppliers and to facilitate the programmes' development through helping all stakeholders practically and cost effectively to meet their obligations.

Monitoring suppliers' voluntary social spending

The ERA welcomes Ofgem's recognition of suppliers' work in addressing fuel poverty through voluntary social spending³. Suppliers have invested in social and discounted tariffs, rebates, trust funds, partnerships, benefit entitlement checks, energy efficiency initiatives and joint industry initiatives. This spending is in addition to energy efficiency measures undertaken through CERT. Future social spending through the voluntary agreement - including any rebates offered to elderly customers through the government's proposed data sharing pilot - will be in addition to CERT and CESP spending. We hope that Ofgem will adopt the same even-handed approach to reviews of suppliers' future social spending and that Ofgem will continue to publicly recognise the strong work undertaken by ERA members in funding voluntary social programmes, far in excess of those undertaken by other industries.

Heat and Energy Saving Strategy (HESS)

The development of HESS will be greatly assisted by the combined experience of Ofgem, suppliers and other stakeholders. This cooperation will be essential to meet the ambitious target of emissions from existing buildings to be approaching zero by 2050. The ERA supports the ambitions of HESS, which can be instrumental in changing consumer attitudes and energy consumption patterns. We

¹ Paragraph 6.4, Ofgem Corporate Strategy and Plan, 2009-2014

² Department for Environment, Food and Rural Affairs, e-Digest of Statistics

³ Ofgem's 'Monitoring suppliers' social programmes 2008-09' report states that suppliers' collective social expenditure for 2008-09 totalled £157 million. This represents a 175% increase compared with 2007-08, and exceeds the government's spending target by £100 million. 96% of this spending provided direct assistance to customers in, and vulnerable to, fuel poverty.

look to Ofgem to assist and promote the work done by the industry while encouraging other stakeholders, including the government, to also take action.

Green Supply Guidelines

The work undertaken by Ofgem regarding the Green Supply Guidelines has been instrumental in starting the standardisation of green tariff offerings and suppliers are greatly appreciative of the support and cooperation that Ofgem has provided in setting up the certification scheme. We hope that Ofgem will continue to offer support under the Guidelines and also to obtain feedback from the independent Panel which will assist with the future evolution of the scheme.

2. How the Authority should respond to these challenges

The ERA continues strongly to endorse Ofgem's first theme of 'creating and sustaining competition'. ERA members believe that a liberalised competitive energy market works in the best interests of all customers (including vulnerable customers and those in fuel poverty – as recognised by Ofgem⁴) by keeping prices competitive and improving customer service.

We believe that Ofgem must, as a priority, continue to encourage consumer confidence in the market, in order that all customers can benefit from one of the most competitive energy retail markets in the world⁵. This requires a proportionate regulatory response, and we welcome Ofgem's commitment to regulation which is "transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed"⁶.

The ERA also welcomes Ofgem's recognition in its 'Energy Supply Probe – Proposed Retail Market Remedies' decision document that self-regulation can be an appropriate method of reducing the regulatory burden on suppliers, while continuing to improve services for customers. We believe that, when assessing a regulatory response, Ofgem should always consider the role of self-regulation in the first instance. We welcome Ofgem's recognition that self-regulation in the competitive retail market may better protect the interests of consumers than conventional regulation⁷.

The ERA is always willing to discuss with Ofgem ways in which we can work together for the benefit of the industry and customers. We welcome the constructive way in which Ofgem has worked with the ERA on the revised Vulnerable Customer Safety Net and the Peace of Mind Guarantee on switching supplier. We encourage fact-based reporting of the industry by those who understand the demands on energy suppliers, and welcome Ofgem's approach to its report into suppliers' voluntary social spending. We believe that self-regulation, designed by industry in conjunction with Ofgem and others, can address many of the challenges faced by the industry in the short to medium term. We look forward to working with Ofgem on future smart metering developments.

3. The order of priority to be given to areas of work in response to these challenges

The ERA believes that the most effective way for Ofgem to achieve its objectives of tackling fuel poverty, promoting sustainable development and protecting the security of Britain's energy supplies is through proportionate regulation, allied to suitable self-regulation, to sustain competition in the retail energy market. The roll-out of smart meters will encourage customers to participate in the market, and to reduce their consumption – contributing to a reduction in fuel poverty, an incentive to sustainable development and an improvement in security of supply, through improved energy efficiency.

The ERA and our members will continue to work closely with Ofgem on fuel poverty measures. However, fuel poverty is caused by a number of factors – low income, high fuel prices, under-occupancy and the energy efficiency of the customer's property. Suppliers cannot address fuel poverty alone, and we call on government and Ofgem to ensure that customers are encouraged to take up all the benefits to which they are entitled and to design policies, in conjunction with industry,

⁴ Paragraph 6.6, Ofgem Corporate Strategy and Plan, 2009-2014

⁵ Paragraph 1.3, Ofgem Corporate Strategy and Plan, 2009-2014

⁶ Paragraph 7.1, Ofgem Corporate Strategy and Plan, 2009-2014

⁷ Paragraph 7.2, Ofgem Corporate Strategy and Plan, 2009-2014

which address fuel poverty specifically. We do not believe that policies which are designed primarily to address energy efficiency and reduce carbon are the most effective way of reducing fuel poverty. We will also continue to work with Ofgem to achieve improvements in domestic energy efficiency through CERT, CESP and HESS programmes.

The ERA believes that Ofgem's priority must be to sustain a competitive energy retail market, with competitive prices and improving service for all customers, including those who are vulnerable and at risk of fuel poverty. Self-regulation can deliver benefits for suppliers and customers and we are happy to work with Ofgem to deliver these benefits.

Kind regards,

Mark Rusling
POLICY AND EXTERNAL RELATIONS ADVISOR