

Consumer Bulletin

First year review of the Energy Ombudsman

The Energy Ombudsman scheme forms part of the consumer representation arrangements put in place by Government in 2008 and plays an important role in helping secure redress for energy consumers who remain dissatisfied with the way their energy company has handled their dispute.

In its first year the Energy Ombudsman handled 6,322 cases and secured redress for 3,965 consumers including awarding £687,840 in compensation.

We recently commissioned an independent review of the first year of the Energy Ombudsman alongside some customer satisfaction research with consumers who had used the scheme. This work was carried out in accordance with our role to approve the redress scheme for energy consumers. The main findings of the review included:

- the Ombudsman's governance model delivers fair and independent redress;
- there is no evidence of bias in the views, behaviours, and actions of the ombudsman;
- the scheme is meeting most of the approval criteria;
- there are three areas where further action is required: improved forecasting of staffing and funding requirements; further arrangements to secure quality assurance in particular for provisional conclusions; and arrangements to identify any systemic issues concerning company performance; and
- the handling of cases concerning disputes over connection charges needs to be improved.

The review covered the first year of a new scheme, and we expect that the scheme will improve further as greater experience is gained. The findings of the independent review and consumer research provide an important focus for action by the Council of the Energy Ombudsman, in conjunction with the industry member companies, which we fully expect them to now pursue.





Smart metering update

The Smart Metering Implementation Programme Prospectus was published last month and represents the joint views of the Department of Energy and Climate Change and ourselves. It marks an important step in the roll-out of smart meters to 27 million households and over 2 million small businesses in Great Britain.

Smart meters have a role to play in tackling climate change and consumer concerns about the rising costs of energy. Consumers will be given the information they need to fully understand and manage their energy consumption effectively, save money and reduce carbon emissions. Suppliers, by reading and managing meters remotely, can reform their processes thus reducing costs and providing more streamlined customer service while at the same time fully safeguarding the data privacy of their customers. Smart meters are also key to enabling smarter grids that

permit more active management of the networks to support increased levels of renewable generation and electric vehicles.

The Prospectus sets out proposals for how smart metering will be delivered; including design requirements, central communications, data management and the approach to rollout. We are seeking a two-tier response to this consultation – some by 28 September to facilitate earlier decisions where this is possible and appropriate with the remaining responses by 28 October.

Energy supply probe follow-up

Last month we published a report showing that our regulatory reforms to the energy market (introduced following the energy supply market probe) are benefiting consumers.

For example unjustified price premiums have fallen significantly, average premiums for prepayment meters compared with direct debit have dropped from £111 to £69 (a reduction of 38 per cent). However we do have concerns over some premiums and have made it clear to the two suppliers concerned that we will take action if the differentials cannot be justified.

Customers experience of payment cards

As part of our continuing investigation of the domestic customer experience, particularly in relation to those who have difficulty paying energy bills and/or managing debts, we commissioned research to focus on customers who pay by payment card (also known as a budget payment scheme or payment book).

This followed research undertaken as part of Ofgem and Consumer Focus's review of debt and disconnection (article on this follows), which found that a large percentage of customers new to debt were repaying through a payment card.

Payment cards involve a regular agreement to pay a fixed amount at short intervals (1-2 weeks) in cash or by cheque at Paypoint, Payzone or Post Office outlets. The total accrued is then put towards a quarterly bill and the customer only invoiced for any usage over and above that total. It is possible to pay back debt through such an arrangement, and debt repayments are included in the regular payments. We wanted to understand the experience of customers paying this way to understand the appropriateness of this method to repay debt.

The research found:

- payment cards fill an important niche in the choice of payment method. The principal advantage to customers being the ability to budget in order to avoid the shock of large quarterly bills without the risk of self disconnection posed by prepayment meters;
- the cards are suitable for low income households, but only those who can and will budget carefully for regular payments. Those whose incomes are fairly high, yet very irregular, where bank accounts may occasionally not stand a direct debit may also find them suitable;
- the majority of payment card customers in the survey would choose the method again. Many were made aware of it originally by word-of-mouth from friends or relatives (publicity is currently low key and inconsistent) and most indicated they will themselves recommend it to others, and
- the only significant reservations around their use are related to it being only of benefit to people who are in appropriate and suitable circumstances and with the right mindset.

The research has generated interest with consumer groups and we expect suppliers to proactively make this payment method available to customers for whom it may be suitable.

Review of suppliers' approaches to debt management and prevention

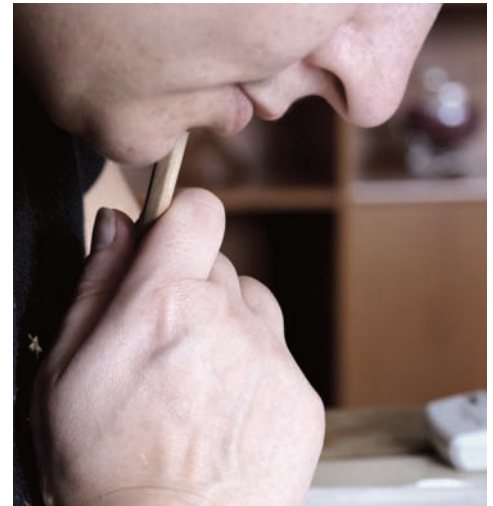
In these difficult economic times, the way that suppliers treat those customers who are struggling to pay their bills is crucially important. We expect suppliers to do everything they can to help customers manage any debt, including taking early steps to help prevent debt building up. We have recently completed a review of the way suppliers are helping their customers who are facing increasing levels of general and energy related indebtedness. The review was carried out jointly with Consumer Focus.

The amount customers owe has risen particularly over the last 18 months as customers try to manage on increasingly limited resources. Suppliers have tried to assist customers against this backdrop, however we have concerns regarding the way suppliers take into account a customer's ability to pay when agreeing debt repayment rates and the way charges for disconnection and reconnection are applied.

Our main concern regarding ability to pay is the inconsistent approach taken to understanding the customer's circumstances and offering an appropriate repayment amount and method tailored to those circumstances. As part of the review we carried out research with customers who are in debt with their energy supplier for the first time which indicated that this inconsistency applies not only across suppliers but within them, depending on the approach taken by the individual

customer service agent. We have identified a number of key Principles suppliers should consider to ensure they are properly and proactively taking account of a customer's ability to pay. We have discussed these Principles in detail with suppliers at a recent stakeholder roundtable event (hosted jointly with Citizens Advice) and welcome the commitment given by suppliers to applying the key Principles.

We are also concerned to ensure that customers who are struggling are not unfairly impacted by high disconnection and reconnection charges. As a starting point suppliers must ensure their charging is transparent and be proactive in ensuring the customer understands the charges they could face, ensuring that they comply with relevant legislative and other requirements. We are also calling on suppliers to use their discretion to waive or reduce charges in circumstances of genuine hardship.



The key Principles which energy suppliers must consider to ensure they are properly and proactively taking account of a customer's ability to pay have been grouped under six areas:

- having appropriate credit management guidelines and policies;
- making proactive contact with customers;
- understanding individual consumers ability to pay;
- setting repayment rates based on ability to pay;
- ensuring the customer understands the arrangement; and
- monitoring payment arrangements after they have been set up.

Customer satisfaction with suppliers' complaint handling

Energy suppliers and network operators (gas transporters and electricity distributors) have to meet strict regulations regarding the way they handle complaints from their customers.

However, our latest research amongst customers who have complained to their supplier suggests that customers are still largely dissatisfied with the way suppliers handle complaints. We have therefore decided to investigate further to determine whether the regulations are being breached.

In particular the research shows that:

- Only a quarter of customers were satisfied with the complaints handling process overall. There was no difference according to whether the complaint was made by telephone or in writing.
- Customers were generally more positive about the resolution that they had received than with the process overall. Just over half of domestic and three-fifths of micro

business customers whose complaint had been resolved claimed to be satisfied with the resolution.

- On average customers contacted their supplier three times more often than their supplier contacted them – a slight reduction from four times in 2009 when we carried out similar research.
- Where additional contact was required to resolve a complaint, many customers were not provided with information such as a reference number or named contact nor were they given a timeframe in which their complaint would be resolved.
- Two-fifths of all complaints made that were considered by the suppliers to be resolved, were not resolved in the eyes of the customer. This is a significant discrepancy as suppliers are only meant to close a complaint down when the customer is satisfied that it has been resolved.

Networks – Dartford power cut

We have recently consulted on imposing a £2 million penalty on EDF Energy Networks following an independent audit into the company's handling of a power cut in the Dartford area of London last year.

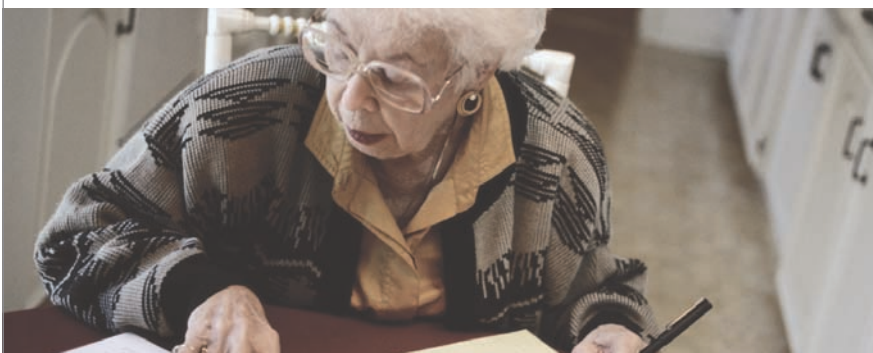
A fire caused a major supply failure which resulted in supply interruptions to approximately 94,000 customers over several days. Electricity distribution network owners such as EDF Energy Networks have incentives to reduce the number and length of power cuts and can earn extra financial rewards or face financial penalties depending on how they perform against their target for the number and duration of interruptions. Power cuts can occur for reasons outside the network owner's control and in these cases, the company can ask that Ofgem does not apply penalties for related power cuts. EDF Energy Networks asked for this and to help assess the case we commissioned an independent auditor to look into the causes of the incident.

The auditor concluded that although EDF Energy Networks responded well in restoring the supplies it could have done more to prevent the power cut from occurring, i.e. more frequent inspections of the site to detect and prevent vandalism. We have reviewed the company's statement of fact, the auditor's report and other relevant information and agree with the auditor's conclusion and are therefore minded to impose a revenue penalty of £2 million on EDF Energy Networks under the incentive scheme.

Industry and other interested parties have responded with views which we are now considering before making our final decision.

Ofgem's role in helping consumers benefit from CERT

The Carbon Emissions Reduction Target (CERT) is Government's main policy for cutting carbon emissions and reducing energy bills in Great Britain's homes. A recent announcement gave details of an extension of the scheme to December 2012, setting more ambitious targets for delivering insulation measures and helping those households most in fuel poverty.



The Government have estimated that the programme accounts for an average of £41 per year of a consumer's dual fuel bill¹. It is estimated that the programme will see the average household reduce their energy bill by £45 per year for the lifetime of the product (for example insulation lasts 30 or 40 years). Therefore consumers having major measures installed will receive a benefit equal to at least 10 times the cost on their fuel bill. Around two and a half million professional insulation jobs have been completed under the programme in the last two years alone. Consumers can also benefit from other products which suppliers make available in order to meet their targets such as improved heating controls, energy monitors and ground source heat pumps.

Ofgem administer the Carbon Emissions Reduction Target on behalf of Government and believe the programme offers a real benefit to consumers who receive measures. We ensure that the energy suppliers

promote at least 40% of their Carbon Emissions Reduction Target activity in homes that fall into a 'Priority Group' of more vulnerable customers (those over 70, on low income or with disability related benefits). We monitor this activity (for example through audits), set obligations for the energy suppliers, approve schemes and report progress annually to the Secretary of State. We have powers to fine suppliers for non-compliance and enforce the obligation. We recently reported that the energy suppliers have met 81% of their overall target and are exceeding the target of at least 40% of the activity in 'Priority Group' homes. Other programmes that we administer include the Renewables Obligation which sets suppliers targets for power generated from green sources. The total value of these environmental programmes is around £4 billion and typically we administer them for less than 1 per cent of the total programme cost, significantly less than costs quoted by external organisations for delivering these schemes.

¹ Explanatory memorandum to the electricity and gas (carbon emissions reduction) (amendment) Order 2009 No. 1904: www.opsi.gov.uk/si/si2009/em/uksiem_20091904_en.pdf. Please note these estimates are appropriate to CERT 2008-2011, and don't include the costs and benefits from the extension to December 2012.