



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to Ofgem's consultation on its 5 year strategy 2011- 2016

September 2010

Our response to Ofgem's 5 year strategy 2011-2016

Consumer Focus is the independent champion for consumers across England, Wales, Scotland, and (for postal consumers) in Northern Ireland. We operate across the whole of the economy, persuading businesses and public services to put consumers at the heart of what they do. We are a statutory organisation that works in a devolved setting, with work priorities varying across different parts of the country, by all working to common strategic goals.

Through campaigning, advocacy and research, we champion consumers' interests in private and public sectors by working to secure fairer markets, greater value for money, and improved customer service. We have a particular focus on the interests of consumers in markets that are 'designated' by Government as requiring additional consumer advocacy. Currently these include energy and postal service consumers. Consumer Focus also has a commitment to work on behalf of vulnerable and disadvantaged consumers, and a duty to work on issues of sustainable development.

Consumer Focus welcomes the opportunity to contribute to the development of Ofgem's five year strategy for 2011-2016. This letter will comment on what we believe Ofgem's broad strategy and priorities should be over this period. For background and a more detailed position, please refer to our full response to Ofgem's strategy consultation for 2010-15, submitted in February of this year. We intend to comment more fully early in 2011 when there is a full strategy document to discuss.

Wholesale markets

Consumer Focus believes that the functioning of wholesale energy markets (not directly mentioned in your letter) should be a top priority for Ofgem over the period. It has become more apparent to us and others that the retail market cannot be considered in isolation. Furthermore, issues in the wholesale market, such as low liquidity and the total lack of transparency over what price energy suppliers pay for their energy, are equally detrimental to consumers' interests as purely retail-based problems. Ofgem's focus in 2011-16 should reflect this.

Networks

On networks, there are significant challenges ahead given the scale of the investment required. We will look for improved value for consumers to be delivered under the newly introduced RIIO model.

Consumer Focus remains concerned about the costs with delivering low carbon networks; you will need to keep a tight rein on these to ensure that there is not a significant further deterioration in the affordability of energy. Network shareholders should bear an appropriate share of the risk of these investments; in order to maximise the incentives on them to manage costs and maximise efficiencies.

Retail markets

Consumer Focus has welcomed Ofgem's more interventionist approach where market failure has occurred as compared to its more hands-off stance in the past. We hope this will be sustained in 2011-16 as there remains a broad swathe of consumers who have not benefitted from liberalisation. Ofgem should continue to proactively review the impact of the probe and ensure that the new licences and standards are in fact delivering as expected for consumers. To this end, we welcome the recent decisions to open investigations into allegations of mis-selling and undue price discrimination. We continue to believe there is a need for more monitoring of the non-domestic market, particularly the experience of micro-businesses.

Smart meters

Consumer Focus welcomes Ofgem's commitment to put consumers at the heart of the decision making process for smart meters and the cooperative and transparent approach to decision making taken to date.

With the early roll out of smart meters by some suppliers, ensuring that consumer protections are fit for purpose in a smart world must be an urgent priority. A systematic review of licence conditions and codes of practice, including the recent energy supply probe remedies, will need to be undertaken. Ofgem must monitor supplier's practices to help pre-empt and discourage poor practice and share best practice across the industry.

Smart metering could enable radical change in the energy retail market and the consumer's experience of it. The regulatory framework needs to anticipate and prepare for this change rather than just respond to detriment and changes as they occur. The structures must allow for protections to be put in place in a timely manner to keep pace with technological change. Ofgem must take the opportunity presented by smart metering to streamline wider industry processes to deliver cost savings and fairness to consumers.

The decision to adopt a supplier led roll-out model and the pressure to install meters as quickly as possible pose particular challenges. A strategy will need to be put in place as a matter of urgency to ensure that all the potential consumer benefits are delivered to consumers – regardless of their income, location or payment method. This includes not only improvements to customer service such as accurate bills and easier and faster switching, but also the potential benefits to disadvantaged consumers. More consideration needs to be given to the distributional impact of smart metering, in particular the impact of new tariffs such as multiple rate time of use tariffs, and potential increased localisation of pricing, on low income customers.

It is also essential that carbon and crucially bill savings are realised. A transparent mechanism needs to be put in place to ensure that any cost savings from smart meters are passed on to consumers, and that if costs are passed on to customers' bills that they are fair, efficiently incurred and proportionate. Customers need to have confidence that roll out is value for money.

With smart metering an integral part of the Green Deal, the wider move towards an energy services market, and the possible development of smart homes, there will need to be greater coordination between Ofgem, the Office of Fair Trading and Ofcom. Goods and services increasingly span a number of regulators. It is essential that the roles and responsibilities of different players are clear. Complaint handling and redress must be effective and easy to navigate.

Consumer engagement is critical for the success of the smart metering project. Going forward it is essential that Ofgem continues to ensure that the consumer voice is properly represented.

Engaging with stakeholders

There has been significant progress in recent years by Ofgem on consumer issues. We believe there is more work to be done on engaging a wider number of groups with an interest or who are likely to be significantly impacted by rising fuel costs, particularly given the major changes ahead. Smart meters are an example where additional groups will need to be brought into the process to ensure the roll out is successful.

Ofgem should think about smarter ways to engage with a wider number of groups who have an interest in fuel issues, even if this is marginal. Examples include roundtable discussions linked to consultations, “teach-ins”, more accessible consultation documents and meeting directly with stakeholders.

Ofgem also tends to be fairly reactive and when action is taken it occurs relatively slowly. There is great scope for the regulator to start thinking more about the long-term issues facing consumers and their likely needs as the market and technology develops. Ofgem should try to anticipate issues before they arise and set about integrating solutions to policy development to pre-emptively prevent consumer detriment. An 'early warning system' or long-term planning group are examples of possible solutions to this issue.

Dealing with climate change

The low carbon transition is a key challenge for the industry. Consumer Focus wants an energy services market to develop to help consumers meet their energy needs at a lower cost, whilst delivering necessary carbon emission cuts. We believe that strong governance of this emerging market is vital: to protect consumers from mis-selling, faulty products or incorrect installations; to ensure that property energy performance data is shared with business and government, but only for legitimate purposes; and to ensure that enabling policies and funds, such as the Green Deal and the new suppliers obligation, meet the needs of vulnerable consumers.

It is not clear what role Ofgem will have in this new market, and we are concerned about the potentially fragmented governance of the market. We ask that Ofgem works with DECC and other departments and regulators to ensure there are no gaps in governance along the energy services consumer journey.

The transition comes at a cost, and we share Ofgem's concern about the distributional impact of measures. The development of the new suppliers' obligation is an opportunity to address the regressive nature of environmental levies. Lessons must be learnt from the delivery of CERT, which only had a limited impact on fuel poverty due to the focus on achieving carbon savings at the lowest cost, and transferred to a more competitive market. Consumer Focus believes that the funds raised through the obligation must be open to all providers accredited for Green Deal services, but this will require a more sophisticated tender and reporting system for the use of funds; a system that must work for delivery partners outside the energy supply sector.

Contestability of Ofgem E-Serve functions

Ofgem E-Serve administers an increasing number of environmental schemes but has not been required to tender for these services. Although to some extent this is an accident of history rather than a state of affairs that Ofgem has sought, it does strike us as fundamentally undesirable to have a monopoly unregulated service provider carrying out these functions. The absence of any kind of tendering process, and the ability to pass through all costs, may mean that consumers are getting poor value for money.

We would like you to consider whether you should be administering these kinds of schemes and divesting them to alternative providers where you are not best placed to lead. If there are schemes that you are obliged by statute to carry out, we would like you to consider whether you can sub-contract to ensure value for money.

Assessing the impact of policies

We welcome your commitment to conducting impact assessments of high impact proposals. We think these assessments could be further enhanced by a greater emphasis on the distributional impact of these proposals. This could usefully include the impact across different income groups, between regions and between different types of consumers (i.e. urban vs rural).



Consumer Focus response to Ofgem's 5 year strategy 2011-2016

Written by Gillian Cooper, Consumer Focus
For more information please contact Gillian Cooper at
Gillian.cooper@consumerfocus.org.uk or 0207 799 7960

www.consumerfocus.org.uk

Copyright: Consumer Focus

Published: September 2010

If you require this publication in Braille, large print or on audio CD please contact us.

For the deaf, hard of hearing or speech impaired, contact Consumer Focus via Text Relay:

From a textphone, call 18001 020 7799 7900

From a telephone, call 18002 020 7799 7900

Consumer Focus

4th Floor
Artillery House
Artillery Row
London SW1P 1RT

Tel: 020 7799 7900

Fax: 020 7799 7901

Media Team: 020 7799 8004 / 8005 / 8006