

NK/BA/CMcA/8657

17 September 2010

Andrew MacFaul
Head of Better Regulation
Ofgem
9 Millbank
London
SW1P 3EG

By email to andrew.macfaul@ofgem.gov.uk

Dear Mr MacFaul

Energy Action Scotland's response to Ofgem's five year Strategy 2011-2015

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS works with both the Scottish and the UK Governments on energy efficiency programme design and implementation. This letter is in response to the open letter issued by Ofgem seeking views, by 17 September 2010, on the future strategy and priorities for Ofgem. This letter sets out Energy Actions Scotland's reply to that open letter.

Introduction

Fuel Poverty in Scotland

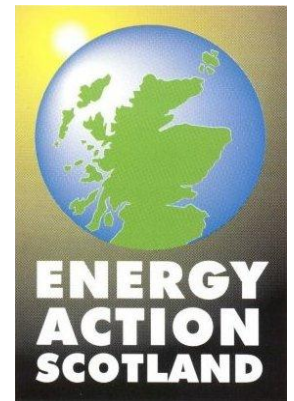
The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 756,000 (35.6%) in 1996 to 293,000 (13.4%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improve energy efficiency of housing. The most recent figures from the Scottish House Condition Survey in Key Findings Report show that there were 586,000 households living in fuel poverty in Scotland in 2008, representing 27% of the total.

According to figures produced by the Scottish Government early in 2008, for every 1% rise in fuel prices an estimated 8,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently 850,000 households, around one in three, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic fuel prices and EAS is very concerned about the impact on vulnerable customers.

Challenges for Ofgem and the industry

Gas and electricity are essential services and with a background of increasing levels of fuel poverty, vulnerable consumers must be provided with effective protection and support.

EAS believes that consumers will continue to become more and more exposed to fuel poverty. There are significant barriers to the market place for new companies and in effect the "big six" have a stranglehold on the market. There have been limited new entrants to the energy markets over the last few years and those who have entered the market have a limited impact on gaining consumers to their brand. EAS recognises Ofgem's primary duty to protect the interests of protecting the interests of consumers by promoting competition, but this strategy appears to have been of little benefit to the fuel poor. A competitive market whose participants are effectively limited cannot address the needs of vulnerable and fuel poor consumers at a time when energy prices are high and rising.



Suite 4a
Ingram House
227 Ingram Street
Glasgow G1 1DA
Tel: 0141 226 3064
Fax: 0141 221 2788
Email: eas@eas.org.uk
www.eas.org.uk

Despite Ofgem making significant changes in the billing information received by customers this has yet to take full effect. It will take some considerable time for customers to view the information in a way that will impact on their understanding of the energy markets and how they use them. Ofgem should provide for all consumers a guide to reading/understanding domestic energy bills.

This when coupled with the fact that tariffs are still a bewildering maze for even the most literate of consumers shows we continue to have poor information streams to consumers. One of the challenges for the industry and for Ofgem in the immediate future is how to streamline the tariff structure so that it can be understood by consumers and used to enable valid and informed choices about which tariff offers best value and is most appropriate for their needs and circumstances.

It has been well documented and reported in the media that many suppliers have recently removed the cheapest online tariffs and replaced these with more expensive ones, which in turn continues to place further burdens on vulnerable consumers who are continually faced with rising bills. If signals from the market are to be believed then this winter will also see further fuel price rises, bills will continue to rise and it would appear that there is in fact no effective competitive market place in operation.

It is a matter of concern that the level of non-energy use cost on individual domestic fuel bills continues to rise. EAS believes that the current charges are around £81 to pay for CERT, CESP, EUTs, FITs etc. and that this can only increase in the longer term. Some commentators including Ofgem's own Project discovery have predicted a bill in excess of £2,000 by 2020, where around 25-40% of the bill will be for non-energy use costs.

There is an inherent unfairness in that these levies are undoubtedly a regressive form of taxation and there is little the consumer can do to reduce the burden on their individual bill. A consumer in a one bedroom flat and living on state benefits will pay exactly the same as a family of four living in a four bedroom house where each of the adults is in full time employment and where the house uses considerably more energy. EAS believes the time is right for Ofgem to seek views on an alternative means of raising funds to pay for our environmental obligations and future wishes in upgrading our networks and infrastructure. Could vulnerable consumers who are on social tariffs or who are on a Priority Services Register be exempt from such payments?

The advent of the UK Government's Green Deal is undoubtedly a positive step in the move towards reducing carbon emissions. However, despite the potential for/access to front-loaded funding, the people least likely to benefit from the Green Deal are the vulnerable and fuel poor. Nonetheless, there is a real danger that their fuel bills will rise disproportionately because they will be amongst the consumers who will ultimately have to pay for the installation and on-going operation of and support for the measures. EAS has previously expressed concerns that the costs for development and implementation of new programmes and technologies will affect the fuel poor financially. To date, there have been no concrete moves preventing this from happening. Ofgem must take an active role in ensuring that these impacts are kept under review.

Undoubtedly the key challenge for Ofgem in the short, medium and long term is to protect vulnerable consumers and there are a number of forthcoming events that will require Ofgem to provide that protection mainly by way of ensuring that information given to all customers is clear and understandable and given at a time when it is required. The roll out of smart metering, for example, will require a great deal of public information and EAS believes that this should be provided by Ofgem or by an independent body and not by the suppliers. EAS firmly believes that there must be specific provision for a programme of support and education as an integral element of the rollout. For vulnerable and fuel poor customers in particular, a leaflet describing a smart meter and its operation is not sufficient (nor will it affect real and sustained behavioural change).

In summary EAS believes that the main focus for Ofgem should be ensuring that there is protection for all vulnerable consumers and that there is effective competition that allows all consumers to participate and not just those who have access to the internet or banking services such as direct debit.

Yours sincerely



Norman Kerr
Director