



Consumer Bulletin



Retail Market Review

Last month we published our **findings and initial proposals from our Retail Market Review**. As part of this we carried out a number of pieces of consumer research. We are concerned that energy companies still have not done enough to make the market work on behalf of consumers.

We are therefore putting forward five proposals designed to make sure that consumers can engage effectively with the market and to make sure new energy companies have sufficient access to electricity in the wholesale market. Energy companies have until 1 June to respond to our proposals.

Our key findings are:

- Complex tariffs are reducing the effectiveness of consumer engagement with the energy market.
- 60 per cent of consumers are disengaged from the energy market according to our consumer research.
- Lack of effective competition means that for the first time, there is evidence that suppliers are putting up prices quicker in response to wholesale price rises than they are cutting them when wholesale prices fall.
- Concerns that suppliers are not adhering to the Standards of Conduct, particularly for business customers.
- The Big Six generally make higher margins from customers who take only their electricity or gas (as a single fuel product) and have never switched. This may give the Big 6 an advantage over new firms entering the market, who do not have a legacy base of consumers

Our five proposed reforms are:

1. Make it easier for consumers to compare prices

We are dealing with tariff complexity by proposing to create just one, easy to compare tariff per supplier (for each of the 3 payment types) for standard

evergreen¹ products. All other tariffs will have to be fixed term with no automatic roll-over. They will have to be expressed in the same, easy to compare format as standard evergreen products. This will allow direct comparisons between all tariffs in the market.

2. Break the power of the big six over the wholesale electricity market

We are proposing a new licence condition that would require the Big 6 to auction up to 20% of the electricity that they generate. This should make it easier for new firms to enter the market.

3. Tougher enforcement and more requirements to ensure companies play it straight with consumers

We will strengthen a number of the reforms that we introduced following our **2008 Energy Probe**. We will take a tougher approach to enforcement if suppliers fail to implement them.

4. Action to prevent unfair contracting practices in the business sector

We will be looking at why many small business customers face objections from their supplier when they attempt to switch from them.

5. Improve transparency

We are appointing a leading firm of independent accountants to look further into energy companies' accounts.

¹Standard evergreen products are those that have no termination date.

Energy advice on-line

This month we, with Citizens Advice, launched our Energy Best Deal campaign on-line. Consumers are now clicks away from getting tips on how to reduce their gas and electric bills and on whether they are getting all the energy related help and benefits they may be entitled to.



The successful Energy Best Deal programme has already delivered face-to-face advice to over 60,000 consumers since it was launched in 2008. Now the key messages have been put into six short videos that explain, in an easy to understand way, actions that everyone can take to keep their energy bills as low as possible. The videos can be viewed on the [Ofgem website](#) and cover:

Shopping around: a guide to the simple steps for looking for a better energy deal, ensuring it's the right deal and how to switch supplier.

Being energy efficient: handy tips on how to save money by using less energy in the home.

Getting help with your energy bills: highlights on where to go for help and advice. For example, most energy suppliers can offer help to customers on low incomes or who have special requirements and there is also a range of government benefits.

Dealing with sales people: what to expect from energy sales people (either in person or on the phone) and what to know to be confident you are getting a good and appropriate deal.

Making a complaint: useful guidance on what to expect when making a complaint and what to do if not satisfied with the energy company's response.

Debt and disconnection: advice for those who get into debt about what their energy company can do to help and what steps they can take to avoid the possibility of disconnection.

What is Energy Best Deal?

Energy Best Deal builds on the research under Ofgem's Consumer First Programme which showed that many vulnerable consumers needed: more information and guidance on tariff payment options; access to grants to install insulation & central heating and ways to manage bills through energy efficiency. The campaign has been jointly developed between Citizens Advice and Ofgem and is delivered and managed by Citizens Advice through their Financial Capability Forums. Previous funders of the campaign have been Ofgem, DECC and energy companies.

The videos are currently available in English but Welsh versions will be available soon, on our Welsh website.

30 days advance notice of a price increase

Energy companies must give their customers at least 30 days advance notice of any price rises according to [our new rules](#) coming into effect on 28 April.

The new rule also applies to any changes to a contract which will leave the customer significantly worse off. Ofgem also recently reminded suppliers that when they write to each individual customer to inform them of such

changes they must be able to explain how it will affect them specifically. At the moment energy companies are required to notify either in advance or no later than 65 Working Days after the effective date of the price increase.

This is the latest move in our efforts to make energy pricing simpler and it builds on the Retail Market Reforms.



Consumer Challenge Group - providing input to Transmission and Gas Distribution Price Controls

We have just published our 'Strategy Decision' under our new RIIO model for setting price controls for the transmission and gas distribution networks.

The RIIO (Revenue = Incentives + Innovation + Outputs) model is designed to drive real benefits for consumers and provide network companies with strong incentives to step up and meet the challenges of delivering a low carbon, sustainable energy sector at a lower cost than would have been the case under our previous approach. The price control will be set for an eight-year period from 1 April 2013 to 31 March 2021.

We began the process of setting these price controls last summer when we also set up the Consumer Challenge Group – who act in an advisory capacity giving consumer insight into some of the more complex issues that we are unable to address through market research. A single Consumer Challenge Group has been formed for both the transmission and gas distribution price controls comprising eight members² appointed by us in an individual capacity on the basis of their expertise on consumer and environmental issues.

Ofgem teams have met the Consumer Challenge Group on a number of occasions since last summer and they have also met with our Committee of the Authority.

Issues which the Group have provided views on include:

- the general approach and direction of the price reviews in terms of their overall impact on consumers;
- the merits of a 'broad' environmental incentive on the network companies to ensure they help deliver a low carbon energy system;
- the overall package of output measures and incentives, including the companies' degree of control of these outputs;
- the importance of companies showing an improved understanding of stakeholders and consumers in developing their business plans;
- the role of innovation and the scope of any 'innovation stimulus' in the price controls;
- the level of ongoing scrutiny by Ofgem of the network companies' delivery against their business plans, following an assessment of the quality of the plans they submit.

The Challenge Group will continue its role over the coming months as the price control process continues.

²Members of the Group are: Solitaire Townsend, (Co-Founder Futerra), Tony Grayling (Head of Climate change and Sustainable Development, Environment Agency), Simon Roberts (Chief Executive, Centre for Sustainable Energy), Trisha McAuley (Deputy Senior Director at Consumer Focus Scotland), Sharon Darcy (non-executive Director at Consumer Focus), Bob Spears (Chairman – Utility Consumers Consortium), Jeremy Nicholson (Director, Energy Intensive Users Group), Gill Owen (Chair, Public Utilities Access forum and Senior Research Fellow Warwick Business School).



Energy UK

Smart metering - addressing consumer protection issues

The rollout of smart meters will bring significant benefits to consumers, helping them manage their energy use and expenditure and reduce carbon emissions. Proposals for the mandated rollout were set out in the joint Ofgem/ Department of Energy and Climate Change Prospectus published in July 2010.

We have consulted on our proposals for how we will ensure consumer interests remain protected in response to early moves by energy companies to start to install smart meters ahead of the government's mandated rollout (to be completed in 2019). We have proposed enforceable licence obligations to update and strengthen some of the important protections, around for instance, remote disconnection. We are also considering how data privacy protections will be maintained in the interim while the final proposals for the roll out of smart meters are developed. Our proposals are

aimed at protecting consumers in the context of "early movers", recognising that the full regulatory framework being developed by the Smart Metering Implementation Programme will take time to put in place and that Ofgem's role as regulator is to protect the interests of consumers in the face of market developments.

Following consideration of the responses to our proposals, we will issue our statutory consultation on the changes. We are anticipating any changes to licence conditions will be in place by the end of the summer.



HEES is now Nest



The Welsh Assembly's scheme HEES (the Home Energy Efficiency Service) has been improved and rebranded. The new fuel poverty scheme will be called 'Nest' or 'Nyth' in Welsh and will be managed by British Gas and the Energy Saving Trust.

Householders struggling with their fuel bills can access one central co-ordination

point and will be offered tailored advice and support that will help them to improve the energy efficiency of their homes and reduce their energy bills.

The scheme is part of the action the Welsh Assembly is taking, as far as is reasonably practicable, to eradicate fuel poverty in all households in Wales by 2018. Householders wanting to find out if they are eligible for support can call the Nest free phone number on 0800 512 012.

Householders struggling with their fuel bills can access one central co-ordination