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Concern



Consultation response

Ref 3511

Ofgem: The Retail Market Review

May 2011

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Proposals in this consultation have arisen due to a recent review of the effectiveness of the energy retail market. As part of its review, Ofgem also looked at the progress companies have made in implementing the reforms introduced as part of their Energy Supply Probe undertaken in 2008.

Key points and recommendations

- We are strongly supportive of reducing the complexity of tariffs
- We want to see simplification of tariffs implemented as soon as possible
- We remain concerned that there has been inadequate action taken with regard to standard credit tariffs
- With regard to special fixed term tariffs we agree that adverse unilateral variations and automatic rollovers should be forbidden and that customers should receive notification prior to the expiry of the fixed term
- Given the numerous examples of supplier misbehaviour, it also seems necessary to incorporate the Ofgem Standards of Conduct into the licence conditions
- We agree with the proposal to appoint a firm of accountants to review the transfer pricing and hedge accounting practices of the vertically integrated suppliers.

1. Do stakeholders agree with our findings in relation to causes of persistent consumer harm and barriers to entry in the energy retail market?

1.1 We support the findings of the review but have not found them unduly surprising. What we have found refreshing is the change in Ofgem's approach in their suggestions for proposals to address them. In the past we have found that, despite finding shortcomings in the behaviour of suppliers, Ofgem has been too hesitant in taking action because of its, in our view misplaced, concern not to stifle 'innovation'. We are particularly pleased that Ofgem has recognised that, far from being innovative or differentiating, the multiplicity of tariffs on offer confuses many consumers, often resulting in them switching to more expensive tariffs, not being sure they have switched to the best tariff or not switching at all.

1.2 We note the proposals are high level and preliminary and subject to further rounds of consultation and additional research and our response should be seen in the same light. Whilst we support the current proposals, there is clearly much detail to be determined which may subsequently lead to some changes to both the proposals and our response to them. So for example we are strongly supportive of reducing the complexity of tariffs but having only one tariff for

evergreen products may prove insufficient. It seems reasonable that the Economy 7 tariff should be an addition to evergreen tariffs rather than have to be a fixed term tariff.

1.3 We want to see simplification of tariffs to be implemented as soon as possible.

Whilst there needs to be more detail developed, we consider no further research is required. We think the findings of the Office of Fair Trading, as quoted on page 20 of the document, and Ofgem's own research findings outlined on page 21, that the large number of tariffs makes it difficult for consumers to switch, are sufficient evidence to support the proposal that Ofgem should intervene to significantly reduce the number of tariffs available as soon as possible.

1.4 The bad behaviour of suppliers as amply demonstrated in this document and in previous consultations such as the one on direct debits in 2009 has contributed to the overwhelming distrust that consumers have in energy companies. We think this could have significant detrimental effects on the success of flagship Government policies such as the roll out of smart meters and the introduction of the Green Deal programme and new Energy Company Obligation. Swift action is required to establish greater consumer trust in the energy companies.

2. To make it far easier for domestic customers to compare prices and chose a better deal. Qs 2 to 7

2.1 We have been saying for some years that the multiplicity of tariffs on offer causes consumer confusion and we think this proliferation is actually anti-competitive. We have been concerned that Ofgem has regarded having 18% of consumers switching as a sign of a competitive market. We have thought for some time that in the main it is the same people who are switching regularly, leaving the majority of households unengaged in the energy market. This was confirmed in the Energy Probe which also found that despite being able to make significant savings, vulnerable households continued not to switch.

2.2 We are aware that older people are less likely to switch supplier and often remain customers of the original monopoly supplier, and therefore most likely to be on the highest tariffs. This is of obvious concern since they are also the group most likely to be fuel poor. In our response to a consultation on the findings of the Energy Supply Probe, we welcomed Ofgem's recognition that standard credit tariffs are at least as important as pre-payment tariffs (PPM) which tend to get more attention. Apart from the fact that more older people use standard credit than have PPMs, Ofgem calculated that standard credit was used by 50% of fuel poor households.

2.3 While we welcome the findings of the Review that the unfair price differentials have been dramatically reduced with regard to PPM customers, there was nothing in this document saying what had happened with regard to standard credit prices which the Probe also found not to be cost reflective. The fact that some companies are actually charging their PPM customers **less** than their standard credit tariff customers is no particular comfort given that it is clearly more expensive to service PPM than standard credit customers. We remain concerned that there has been inadequate action taken with regard to standard credit tariffs. We would like more information to know if the unfair tariff differential for standard credit has been eliminated.

2.4 We strongly support the proposal to allow suppliers to offer only one tariff per payment method on evergreen products. We also agree there should be a standardised element which we think should cover all costs such as transmission and distribution that suppliers cannot control and which will be the same for all companies in each region. We also support there should be a standardised unit charge.

2.5 With regard to special fixed term tariffs we agree that adverse unilateral variations and automatic rollovers should be forbidden and that customers should receive notification prior to the end of the fixed term if the supplier wishes to make a new offer.

3. To improve access to the wholesale markets for new entrants and independent suppliers and generators. Qs 8 to 13.

3.1 We support measures to encourage greater competition in the wholesale market but are not competent to comment on whether Ofgem's proposals would improve the situation.

4. To strengthen the Probe remedies. Qs 14 to 18

4.1 We note that Ofgem is generally disappointed with the reaction of suppliers to the measures they introduced as a result of the Energy Supply Probe and the way they have implemented them. However, given that Ofgem instigated an investigation into the selling practices of four of the big six energy companies only a few months after the new licence conditions on doorstep selling had been introduced, it is perhaps not surprising.

4.2 We found the example of Scottish and Southern's (SSE) interpretation of the requirement that Annual Statements should contain a reminder that customers could switch was such a distortion of the intention of the licence condition that was difficult to see that it could be explained by any misunderstanding of its purpose. We also think it shows a rather disturbing attitude to implementation of licence conditions. We regret to say it also shows some lack of concern about any action that might be taken by the regulator.

4.3 We therefore think that licence conditions need strengthening and, in particular Ofgem need to enhance their monitoring and enforcement action to ensure the licence conditions are implemented. Ofgem's conclusion that the improvement in the average differentials between suppliers in-area and out-of-area tariffs was more due to the threat of enforcement than mere compliance on the part of suppliers shows that monitoring and enforcement are probably more influential on supplier behaviour than anything else. However to minimise the time that could be spent on enforcement, it would make sense to ensure the licence conditions are tightly worded to reduce the likelihood of legitimate mis-interpretation.

4.4 Given the numerous examples of supplier misbehaviour, it also seems necessary to incorporate the Standards of Conduct into the licence conditions. We particularly support naming and shaming since we see this as a strong incentive for suppliers to behave. Bad publicity could have adverse effects on profits. Ofcom has recently named and shamed when it published complaints information it has received about

mobile suppliers. Further it is in accord with the Government's recently published 'Better choices: Better Deals' paper aimed at empowering consumers which proposes that regulators among others should release the complaints data they hold.

5. To take action to prevent unfair contracting practices in the non-domestic sector. Qs 19 to 24.

5.1 Representations on behalf of the non-domestic sector are outside the remit of Age UK.

6. To improve the transparency in vertically integrated energy companies. Qs 25 and 26.

6.1 Effective regulation requires companies to provide transparent and comparable financial information. We agree with the proposal to appoint a firm of accountants to review the transfer pricing and hedge accounting practices of the vertically integrated suppliers.

7. Future actions. Qs 27 and 28

7.1 We share Ofgem's concern on whether their proposals will encourage consumers who are currently permanently disengaged, including some vulnerable customers, to switch to better tariffs. As we know many of these are older households, some of whom will be in fuel poverty. It is vital in protecting their interests that Ofgem continues to closely monitor that tariffs of those remaining with their original supplier are not unduly discriminatory.

7.2 Some older people will be protected by the new Home Rebate scheme. This should ensure that those eligible will receive a rebate on their bills. While we think the current proposals will make it easier for consumers to compare company tariffs, people cannot be made to switch. However improvements in the ability to compare tariffs will help advice agencies such as local Age UKs to help their clients to find a better tariff which may increase the numbers of older people switching. We also think that the actual time usage information that will be available with smart metering will better enable people to find the best tariff.

7.3 There is one further measure we can suggest. Ofgem research as outlined on page 30 of the document confirms research conducted by Consumer Focus late last year¹. Namely, that consumers assume their supplier has already put them on the most appropriate tariff. We therefore suggest that some information campaign is initiated by either Ofgem or Consumer Focus to raise awareness that consumers must not assume they are necessarily on the cheapest tariff available from their energy supplier.

¹ Informing choices. Consumer views of energy bills. Consumer Focus March 2011

