

26 May 2011

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Dear Mr Bojanowski,                    34/11 - The Retail Market Review – Findings and Initial Proposals

Thank you for the opportunity to comment on the above Ofgem Consultation.

First of all, I should like to say that the recently announced Ofgem new rule requiring Suppliers to give advance warning of price increases is very welcome. This is a major step forward in bringing utility bill management into line with general commercial practice. The proposals outlined in Consultation 34/11 will hopefully further extend this principle.

My response is mainly concerned with the practical problems associated with switching Suppliers. These comments have been driven by my own experiences as a retail market domestic customer and the experiences of a client in the business market.

As a result I have some general comments in the letter content which I am happy to be published but where personal information is concerned the information is “Confidential” and is included in a Confidential Appendix A to this letter.

**CHAPTER TWO**

**Question 1**    *Do stakeholders agree with our findings of the Review in relation to causes of persistent consumer harm and barriers to entry in the energy retail markets?*

**Answer**            Yes I am in general agreement with the findings.

However, it is noted that the cheapest tariffs are mostly for a fixed period with exit penalty clauses – some exit charges being relatively high. By definition, these tariffs discourage frequent switching and so their introduction has probably had a negative impact on the number of customers switching Supplier at any one time.

I suggest there are two other factors which do not encourage customers to readily switch Supplier and these are:-

(i) the length of time that the switching process takes, for instance at the moment EdF are quoting 8 weeks (2 months). Whilst this time does include a two week “cooling off” period it is still far too long as alternative tariff rates may have changed again over this time.

I suggest that the time taken for change should be reduced to 4 weeks (2 weeks cooling off plus 2 weeks for process change).

Perhaps an incentive could be devised to encourage both the new and existing Suppliers to proceed quickly?

(ii) the “price change period” which can last several months. By price change period, I mean the time between the first Supplier changing its prices to the point where the last of the Big 6 does so. Price changes seem to be mainly driven by wholesale market changes but Suppliers reactions vary and there

can be several months before all price changes are announced. Whilst I appreciate that a delay in increasing prices is to the advantage of customers, it is difficult to make the best “change” decisions if your present Supplier is one of the first to raise prices. Are you going to change to a new Supplier who shortly afterwards increases prices – possibly whilst your change process is in hand?

Reducing the change process time as indicated above would minimise this problem and would also be of benefit to customers in a wholesale market with falling prices.

### **CHAPTER THREE**

**Question 2:** *Do stakeholders consider that Ofgem should take action to reduce the complexity consumers face and enhance engagement with the energy market?*

**Answer** Yes, this is a most important action that will benefit all customers. It may be seen by some as more intrusive regulation by Ofgem but self-regulation by Suppliers on this issue, in my view, will not effect the necessary changes.

**Question 3:** *Do stakeholders agree with our initial proposal for intervention to reduce the complexity consumers face and enhance engagement in the energy market?*

**Answer** In principle this is agreed but there are some important points of detail which are covered in the answers to the following Questions 5 and 6.

I agree that only one evergreen tariff per payment method is necessary – presumably cash, cheque, direct debit or prepayment meter.

**Question 5:** *We are proposing to standardise evergreen contracts across suppliers. Do stakeholders agree with the proposed contents of the standardised charge?*

**Answer** Many customers outside of the energy industry do not understand the inbuilt charges for wholesale, T & D and environmental charges. Separating out charges for wholesale, T & D and environmental charges is helpful, provided a clear explanation is provided. This explanation should be either developed or approved by Ofgem.

However, it is important that a total comparative p/kWh is provided which equates to the total charges the customer will finally experience.

One further important issue here is the way that the discount for dual fuel is applied and shown as these presently vary. Presumably this could be considered as one other “payment method”?

It is also important to consider how small users will be covered. Very often these are the more vulnerable customers and they need to be easily able to check comparability.

If the standardised tariff metric used the two unit blocks method, this would cover low users whilst it would also ensure cost reflectivity.

Another issue concerns how two rate tariffs would be covered such as Economy 7?

**Question 6:** *We are proposing to create a standardised metric to allow consumers to compare evergreen and fixed term contracts across suppliers. Do stakeholders agree with our proposal for a standardised metric?*

**Answer** Not entirely, see comments in Answer 5.

One other concern is related to the fixed term tariffs where, in my view, the exit charges are excessive and do not directly benefit customers. In my view there should be some cap - perhaps related to the Supplier's account set up costs.

**Question 17:** *Do stakeholders agree that more needs to be done to improve consumer trust and use of switching sites?*

**Answer** Definitely. The results of many of the switching sites have to be viewed with caution for three reasons:-

(i) I have found one site where the tariff prices quoted for one supplier were incorrect.

(ii) It is frequently impossible to find your actual present tariff mentioned in the “drop down window” on the switching site. The result is that potential savings produced by the website are frequently incorrect.

(iii) Not all “Switching websites” cover two rate tariffs (Economy 7) particularly well. Even though the actual night units are known by the customer, some sites only allow a % of total units used to be input. On one site two rate tariffs are not covered at all.

One other important point is that some sites are sponsored or are paid for their services to switch customers. In doing so they usually provide a quick sign up which, given the above problems, can be premature. The fact that the comparison website receives support/commission etc should be made very clear.

One alternative would be for Ofgem to operate a comparison website which would result in the costs being borne by all customers and the results would be fully independent.

I have usually found that the only reliable method of obtaining estimates of savings is to use two comparison sites to give an indication of possible savings by Suppliers and then to obtain the actual tariff prices from the suggested Suppliers and to work out the costs/savings directly from these figures.

These problems could explain why some customers switch, only to find that a saving has not occurred or has been significantly less than was first thought.

**Question 22:** *Do stakeholders agree with our position, at this stage, not to extend our proposals on tariff simplification into the non-domestic sector?*

**Answer** Bearing in mind the importance of ensuring that businesses survive and grow in the current economic environment, I suggest that extending the proposals into the non-domestic sector would be most welcome.

**Question 27:** *Do stakeholders consider that our proposals will be sufficient to protect the interests of consumers, including vulnerable consumers, or are additional consumer protections measures necessary?*

**Answer** I suspect not but see suggestions made above.

One important question is the specialist advice that vulnerable customers need and who provides it. Perhaps some training or guidance for Social Workers would help. However, simplification of tariffs and change procedures will assist in providing this important support.

**Question 28:** *Do stakeholders consider that our measures to simplify tariffs will reduce the ability for suppliers to price discriminate between regions and so reduce the need for a licence condition prohibiting undue discrimination?*

**Answer** The measures will help but this issue is complicated by the distribution element of the tariffs which tend to differ across regions. I suggest that a licence condition is the only reliable way to resolve this question – this being monitored by Ofgem.

In summary, I strongly support Ofgem’s intentions to simplify the tariffs and charges, but as indicated the proposals do not go far enough and should extend into a review of the procedures and timescales

used by Suppliers.

Also that the principle of tariffs being cost reflective should be reinforced.

I hope these points are helpful to your Review. If you need any further information or assistance please let me know.

Yours sincerely

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