



Consumer Bulletin

Reforms to simplify the energy market

In March 2011, as part of our Retail Market Review (RMR), we identified that competition across the whole market was being stifled by a combination of complex tariffs, poor supplier behaviour and a lack of transparency. This November we published detailed proposals for a simpler, more competitive energy market for householders (domestic) and businesses (non-domestic).

Domestic proposals¹

The main features of our proposals to tackle tariff complexity and promote effective engagement are that suppliers would offer only one standard tariff per payment method.

Suppliers would compete on a single unit rate for each standard tariff and Ofgem would set a standard charge for all standard tariffs. This will enable consumers to compare standard tariffs simply by looking at the unit rate. All non-standard tariffs would be fixed duration with no automatic contract rollovers. They would have switching windows with no exit fee, which will include a time-limited guarantee to allow customers to benefit from the old price until they switch; and prices, terms and conditions for non-standard tariffs would be guaranteed for the duration of the contract.

We commissioned qualitative research to gain in-depth reactions to our proposals for making it easier for consumers to compare prices and choose a better deal. It was carried out at eight locations across Great Britain, with the sample groups divided into 68 mainstream consumers and 38

vulnerable consumers. The quantitative element of the research involved a survey with 2000 online consumers, additionally 202 individuals were interviewed face to face to ensure that more vulnerable and 'off line' consumer attitudes were captured and collected. The objective of this research was to quantitatively assess and understand how many consumers could make the right tariff decision for them, and the relative ease of doing so. Both pieces of research have been shaped by earlier deliberative research undertaken by our Consumer First Panel.

Along with simpler tariffs we propose clearer bills, standardised information and enforceable Standards of Conduct (which will set clear expectations for supplier behaviour). The deadline for responses to our proposals is 23 February 2012.

Non-domestic proposals²

We have taken an in-depth look at suppliers' activities and propose reforms in four key areas:

- Expand protections on contract notice and rollover to cover small businesses (those with less than 50 employees; no

more than €10m turnover and based on the type of meter and consumption levels).

- Actively considering enforcement action against suppliers who are not playing it straight with businesses who are trying to change supplier.
- Increased focus on the actions of third party intermediaries including any Ofgem accreditation of their Codes of Conduct.
- Standards of Conduct³ which suppliers must adhere to, to give consumers greater confidence that they will be treated fairly.

We want business customers to receive better information at each of the three stages in their energy contract lifecycle: when they are looking for the best deal, entering into a contract and switching supplier. We also intend to do more to help business customers understand their rights and how the energy market works. The deadline for responses to our proposals is 15 February 2012.



¹ Retail Market Review – Domestic Proposals doc: <http://www.ofgem.gov.uk/pages/moreinformation.aspx?docid=72&refer=markets/retmkt/rmr>

² Retail Market Review – Non-Domestic Proposals doc: http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/RMR_non-domestic%20proposals_consultation.pdf

³ Applies to both domestic and non-domestic consumers

Social spend report

Last month we published our report⁴ on the range of measures energy suppliers undertook between April 2010 and March 2011 to assist their vulnerable and fuel poor customers as part of their voluntary commitment.

The key findings of the report are:

- Suppliers' collective expenditure for 2010-11 was £178.7 million (£3.70 per customer account) - exceeding Government's target by almost £29 million.
- £91.8 million, 51% of total expenditure, was contributed through social and discounted tariffs.
- £56.4 million, 32% of total expenditure, was contributed through rebates.
- Suppliers also contributed £18.2 million to trust funds and £6.4 million to partnerships.
- Each supplier met their spend target for the third year of the commitment.

Over the three years of the voluntary commitment, suppliers have collectively contributed £488.7m through social programmes – exceeding the government's target by around £115m. During this period, suppliers have contributed a total of over £335m through social and discounted tariffs, over £81m through rebates and just under £42m through Trust Funds.

The voluntary commitment has now come to an end. Social programmes are now run as part of the government's mandatory Warm Home Discount (WHD) scheme, under which suppliers will provide approximately £1.13 billion of direct and indirect support arrangements to fuel poor customers over four years from April 2011-15.

Managing customers in debt

Ofgem has written to energy suppliers to reinforce the message that every contact counts when dealing with customers on debt issues. This follows the closure of our investigation into British Gas, on whether they had breached a standard licence condition in taking all reasonable steps to ascertain a customer's ability to pay when calculating instalments.

We closed the investigation after British Gas satisfactorily resolved the cases brought to our attention by Consumer Focus and made important improvements to their procedures and policies on managing relationships with customers in payment difficulty since the investigation was opened, reducing the likelihood of the recurrence of the concerns which prompted this investigation. In addition, British Gas disconnected only two customers for debt in 2010 and their latest submission shows that they have not disconnected any customers for debt (up to September) in 2011.

Our joint June 2010⁵ report with Consumer Focus set out clearly the high standards that we require of energy suppliers, particularly through the key principles of ability to pay and we will continue to monitor progress with embedding these principles.



Highlights of Energy Best Deal - Citizens Advice and Ofgem consumer campaign

- Since 2008 1,000 advice sessions have been delivered to over 12,000 frontline workers and consumers.
- By passing on what they've learnt a total of 94,000⁶ people have benefitted from the campaign.
- Since going live in April 2011 our advice videos online have been viewed over 10,000 times. The most popular viewed video 'struggling to pay' advises consumers about organisations or schemes that could help them either with their bills or maximising their income.



Evaluations stats from last winter's campaign

- 29% of consumers had taken action to get a better deal, including contacting their existing supplier to get a better tariff and looking at switching websites.
- 65% of frontline workers had given advice to their clients on the topics covered in the session. Nearly three quarters of these had given advice on a topic they had not previously advised on.

This winter's campaign

- The six major energy companies have given £600k to the campaign – a record amount for Energy Best Deal. This will support over 1,200 advice sessions nationwide which should result in an additional 95,000 consumers benefiting from the campaign - more than doubling the current total.

For more information on Energy Best Deal view our website⁷

⁴ The full report can be found here

<http://www.ofgem.gov.uk/SUSTAINABILITY/SOCACTION/SUPPLIERS/CSR/Documents/Suppliers%20Social%20Spend%20Report%202010-2011.pdf>

⁵ This document can be found here: <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents/Debt%20Review%20Report.pdf>

⁶ Independent evaluation report: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=244&refer=Consumers/smebd>

⁷ <http://www.ofgem.gov.uk/Consumers/smebd/Pages/smebd.aspx>

Consumer Challenge Group – update

Our Consumer Challenge Group has continued to be active over recent months, providing expert consumer advice and input to the transmission company price control process (RIIO T1⁸).

The Consumer Challenge Group covers both the current transmission and gas distribution price controls. It comprises eight consumer and environmental experts appointed by us in an advisory capacity giving consumer insight into some of the more complex issues that we are unable to address through market research.

Following publication of the transmission company⁹ business plans in July, the Challenge Group provided views on a number of key aspects that the companies

are required to include in their plans. This input was used to help Ofgem assess whether they should be kept in 'fast-tracking' through the process. In particular they looked at:

- Whether the plans provided a clear vision of what the company expected to do over the eight year period of the price control from 2013;
- What the companies have done to engage with stakeholders to inform their plans;

- How the companies will measure customer satisfaction;
- How the companies expect to innovate and contribute to environmental targets.

The Group also met with the transmission companies to discuss their plans. The Group will continue to provide input to both the gas distribution and transmission price controls, together with other consumer issues in energy networks, over the course of the next year.

Sustainable Development annual report

In November we published Sustainable Development Focus, reporting on Ofgem's contribution to the achievement of sustainable development in 2010-11. Below is some of the work we have undertaken under our five themes.

1. Managing the transition to a low carbon economy

- We have reached a minded-to position to fund the Western HVDC Link, which would provide c.2GW of additional capacity between Scotland and England, facilitating flows from new renewable generation stations.
- We selected four projects for funding through the Low Carbon Networks Fund with a combined value of £63m.
- We led the policy design phase of the Smart Metering Programme on behalf of DECC.

2. Eradicating fuel poverty and protecting vulnerable customers

- Our 2010 social obligations report showed disconnections falling to historically low levels.
- Under the gas distribution price control we aim to extend the gas network to communities who are fuel poor.
- Continued support of the Energy Best Deal and Energy Best Deal Scotland programmes which offers training for advice workers and face to face advice sessions for consumers, particularly those on low incomes, on how to reduce their energy costs and get help if they are struggling with their energy bills.

3. Promoting energy saving

- Our Energy Demand Research Project showed that consumers can reduce their consumption if they know what to do and have quality, tailored information available in a timely way.
- Worked with DECC to develop the detail of Green Deal, government's flagship energy efficiency programme.
- Encouraged networks, through incentives, to reduce energy losses.

4. Ensuring a secure and reliable gas and electricity supply

- The Gas Security of Supply Significant Code Review is assessing whether reforms are required to improve security of supply.
- Developed projects that will help us to draw on generation in other European countries.

5. Supporting improvement in all aspects of the environment

- The next transmission price control will include specific measures designed to address visual amenity, and we continue to factor local environmental considerations into our decision-making.
- We continue to collect data on oil leakages from electricity networks.

We have also been improving our engagement with stakeholders on sustainable development issues, and have improved our own organisation's environmental management. The full report can be found here:

<http://www.ofgem.gov.uk/sustainability/sdr/Pages/SDR.aspx>



⁸ RIIO (Revenues = Incentives + Innovation + Outputs) is Ofgem's framework for undertaking network price controls.

⁹ National Grid Electricity Transmission, National Grid Gas Transmission, Scottish Power Electricity Transmission Ltd, Scottish Hydro Electricity Transmission

Promoting best practice amongst electricity and gas distributors

Ofgem put in place discretionary reward schemes for electricity and gas distributors to encourage and drive performance in areas of service. We seek to achieve this by recognising leading performance within the industry and driving innovation and creativity through the promotion of best practice. The expectation is that successful schemes will be replicated across the industry for the benefit of consumers.



Each year electricity and gas distributors are invited to submit entries to Ofgem detailing the initiatives they consider have best served the interests of customers across chosen categories. In the Electricity scheme, the categories were established to encourage best practice in areas such as wider communications, corporate social responsibility and stakeholder engagement. In the Gas scheme, the emphasis was on reducing the environmental impact of the gas distribution companies, initiatives that facilitate network extensions for the fuel poor and promoting gas safety by raising awareness of the dangers of Carbon Monoxide (CO). Together the schemes allow for a maximum of £25 million of funding over a period of five years.

Both schemes have been successful in highlighting best practices in the relevant categories. Under the Gas scheme, the total amount rewarded this year was £3,100,000 out of a possible £4 million. Some of the rewarded initiatives included: National Grid's creative approach to waste management as showcased by their meter recycling initiative (MARC); Scotia Gas Network's overall strategy to facilitating network extensions for the fuel poor as showcased by their Park homes initiative where there was direct engagement with customers and an effort to cater for their specific needs. National Grid was also recognized for their overall approach to CO safety which is underpinned by a clear

and coherent strategy. The panel was impressed by the Cub Scout badge initiative which was seen as an effective way to disseminate the CO safety message to families.

Under the electricity scheme, the total amount rewarded this year was £700,000 out of a possible £1 million. Under the wider communications category, Western Power Distribution was recognised for their broad range of initiatives which demonstrate innovative thinking and effective use of feedback opportunities. Western Power's community chest scheme was recognised as best practice for the industry under the corporate social responsibility category. The scheme provides grants for community groups and charities who own their own buildings to help them reduce their energy costs. Central Networks was also recognized with a flagship award for their pathfinder internet application. This application allows developers of distributed generation to identify potential areas of development by allowing customers to explore the available capacity at every single one of their 94,000 substations.

2012 will be the last year that both schemes will run as they do now, the electricity scheme will be reviewed to allow for the implementation of a broader set of customer facing incentives and the gas scheme will come under RIIO-GD1.¹⁰

¹⁰ RIIO-GD1 will be the first gas distribution price control review to reflect the new regulatory framework resulting from our [RPI-X@20 review](#). The RIIO model (Revenue = Incentives+Innovation+Outputs) builds on the success of the previous RPI-X regime, but better meets the investment and innovation challenge by placing much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network at value for money to existing and future consumers.