

Lisa Taylor
Consumer Policy and Insight
Ofgem
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Dear Lisa

Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to respond to Ofgem's discussion paper, and our responses to the questions posed are contained in the attachment to this letter.

We note with interest Ofgem's discussion regarding how the cost of certain social and environmental measures could be attributed in a way that would encourage cost recovery by suppliers in a more progressive way. As Ofgem point out in the paper, this is ultimately a matter for Government. However, we agree with Ofgem that it is an important issue.

We believe that it is necessary to differentiate between policy areas and their objectives when considering the attribution of obligations – i.e. by considering the intended beneficiaries, the intention of the obligation, and its impact on those who pay for it.

In the case of the Warm Home Discount (WHD), for example, the benefits are targeted on customers based on their propensity to be in fuel poverty and, ideally, costs should be recovered from customers based on their 'ability to pay' (as in the case of general taxation). Without information about customer incomes and circumstances, the only proxy for this that suppliers could use is the assumption that poorer customers use less energy and wealthier customers use more. Although Ofgem's analysis highlights that this approach has significant flaws, it would still be fairer for greater numbers of customers for suppliers to recover the cost of the WHD in line with consumption, rather than on supplier customer numbers.

However, in the case of the new Energy Company Obligation (ECO), there are different policy issues and drivers:

- The primary objective of ECO is to reduce household carbon emissions; with a subsidiary objective to reduce heating costs for those at risk of fuel poverty by making homes more thermally efficient. The reduction in emissions and heating costs relates predominantly to heating fuels, and as the majority of the nation's homes are heated by gas, the ECO is largely about reductions in gas consumption. It would therefore seem more appropriate for all, or at least the majority, of the burden of the costs of the policy

to fall on gas supply. If this reflected the percentage of properties which used gas for heating, this would be around 85% of the target¹.

- After the initial split between gas and electricity supply (85/15 gas to electricity) then within each fuel, the target should be attributed between suppliers based on customer accounts. We believe that this would be fairer than an attribution based on sales volumes, which would be skewed by regional climate differences (which would penalise companies with a higher customer base in the colder parts of Great Britain).
- We also propose that suppliers should recover their costs from consumers through the appropriate unit rate for each fuel, rather than via standard charges (which would send confusing messages regarding the cost benefit of cutting consumption).

We hope that these points can be considered alongside our formal responses in the attachment but should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Valentine Mulholland on 07875 116519 or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink that reads 'Paul Delamare'.

Paul Delamare
Head of Downstream Policy and Regulation

¹ DECC (2011) GB Housing Fact File: Forms of Heating for centrally heated dwellings

Attachment

Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

EDF Energy's response

Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?

EDF Energy supports the four key themes of Ofgem's current Social Action Strategy and believes that Ofgem has delivered a significant programme of activity in support of this. The theme which deserves more attention is the area of informing consumers about ways to lower their energy bills. The Energy Best Deal programme, initially developed by Ofgem, has played a significant role, but is now being delivered by Citizen's Advice. Ofgem may wish to consider what more it could do in the area of consumer information and education. Below, we outline a suggested enhanced independent information role for Ofgem regarding energy affordability and rebuilding trust in the industry. This will encourage consumers to engage with the market and let their supplier know when they need help or have special needs.

We believe that clear definitions of fuel poverty and vulnerability are important and we are wary of wide definitions that could lead to a significant proportion of our customer base being defined as vulnerable and treated in a special but undifferentiated way. Not all vulnerable customers are poor. Indeed, many elderly customers are affluent. Any initiatives that assume that all those who are vulnerable are financially vulnerable could result in additional costs being imposed on the rest of the customer base, including those who are fuel poor but not eligible for support.

The financial impact on suppliers and their customers for any special support provided is key, and should be balanced with the need for and type of supplier intervention concerned. Central to such balance is ensuring that the vulnerability, financial or otherwise, of customers is assessed and solutions developed in relation to a particular issue. So, for example, in relation to smart metering, customers who do not have access to the internet or those with a learning disability may be more vulnerable than others.

DECC are currently consulting on the Consumer Engagement Strategy to support the rollout of smart meters and help raise awareness of both smart meters and energy efficiency. The establishment of a Central Delivery Body could play a key role in engaging with vulnerable and fuel poor consumers through community outreach schemes.

It is important to have a clear definition of customers who are vulnerable in relation to a particular issue to assess what support safety net suppliers should make available for that particular situation. However, it must be borne in mind that developing generic solutions for a range of situations are likely to add to the costs of such interventions and, as outlined above, increase the costs to be recovered across our entire customer base.

In relation to the research theme, we believe that it would be useful for Ofgem to investigate the particular barriers to vulnerable customers accessing the competitive market and whether the recommendations that we have made to try to address this in response to the next section would be adequate or whether more would be required.

We have also addressed in response to the question below some of the issues that Ofgem could consider as part of the delivery of their themes on fuel poverty and informing consumers.

Question 2: What can Ofgem do differently to help address affordability concerns?

Ofgem already plays a significant role in addressing affordability concerns, both in influencing the development and monitoring the support offered through the Warm Home Discount programme, and the CERT and CESP programmes.

In ensuring that all customers have access to the savings available from making use of the competitive market, EDF Energy outlined in our response to Ofgem's consultation on the Retail Market Review suggestions to encourage those customers who are still reluctant to engage with the market.

We believe that no consumer should be prevented from engaging because of a lack of ability to understand and compare offers in simple terms, especially as customers who find this a challenge are often the ones with the most to gain by engaging with the market. We therefore proposed that, in order to make comparisons as easy as possible, Ofgem should require the standing charge for non-standard products to be the same as for standard variable tariffs. This would simplify the comparison and enable more consumers to engage with confidence.

We have also gone further than Ofgem's recommendation by proposing that standing charge should be set to zero, and that suppliers should compete on a single national unit rate (providing the simplest price comparison possible).

We also called for Ofgem to set up, or endorse, an independent, not for profit, switching service that would be available to consumers through the internet; but importantly for vulnerable consumers, would also be available by phone and post. This reflected Ofgem's own research which highlighted that consumers would value such options.

In addition to these points, EDF Energy also believes that if we are to ensure that consumers have the confidence to use the competitive market, it is necessary to rebuild trust in the energy industry. Suppliers cannot do this alone. The Retail Market Review is an important part of this, but there should also be a step change in efforts from Ofgem and consumer bodies to work with suppliers to rebuild trust (without which the increasing disengagement from consumers we are currently seeing will continue). In particular, negative messages about energy suppliers can discourage consumers from entering into dialogue with their supplier about securing the best tariff, or insulation or Warm Home Discount rebates – all of which can help to address affordability concerns.

The wider requirement to rebuild trust in the energy industry will also impact on the delivery of support to vulnerable customers as we implement other interventions/programmes, including the roll-out of smart metering. While the Central Delivery Body proposed for this programme is intended to build trust and credibility in the roll-out, this needs to be supported by all parties and include trust in the energy suppliers as the agents who will need to carry out the actual installation and encourage customers to achieve the potential energy savings. The need to engage with and develop relationships with vulnerable customers will grow with this industry change and will need to be built on an industry that inspires trust and confidence. Ofgem has a significant part to play in securing that.

As highlighted in the recent Hills Fuel Poverty Review, a significant number of households in the greatest fuel poverty are those living in 'off-gas' properties, and this is an area where we believe that Ofgem can play a greater role in two ways. The first is to review whether Ofgem could

have a role in relation to the unregulated heating supplies market to protect the most vulnerable customers following the recent Office of Fair Trading review into this market. There is currently considerable inconsistency in the way that such vulnerable customers are treated compared to those of the regulated market. While this is currently outside of Ofgem's remit, this is an important issue in addressing fuel poverty, particularly as those households are also most likely to live in hard to treat homes for insulation.

The second way is to encourage such householders to move into the regulated market by upgrading their heating with renewable heat including heat pumps. We believe that whilst this is an area of policy development for the Department of Energy and Climate Change (DECC), there is a role for Ofgem to encourage and support DECC and as an enabler to such policies wherever possible.

Ofgem is uniquely placed to fulfil this role as the administrator of the Renewable Heat Incentive, especially once the domestic scheme is launched. Such heating solutions can offer significantly lower running costs than fossil fuel off-gas systems such as oil and there is therefore merit in exploring how the advantages of such measures can be communicated to householders by Ofgem.

Question 3: We welcome views on how Ofgem can help stakeholders with their contribution

Ofgem's workshop to discuss the consultation on the 10 May was very useful in engaging stakeholders in debating the issues such as the appropriate role for Ofgem, as distinct from DECC or consumer organisations, in relation to the issue of affordability. Similar workshops in Scotland and Wales would also be helpful to reflect different views and ideas.

Ofgem may also wish to consider consulting the Consumer First Panel to obtain the views of consumers on this consultation and on what areas Ofgem should focus on in this area, although this should be set within a clear understanding of Ofgem's specific role and objectives.

EDF Energy
May 2012