

Consultation Response

Retail Market Review

Ref: 4312

Date: December 2012

All rights reserved. Third parties may only reproduce this paper or parts of it for academic, educational or research purposes or where the prior consent of Age UK has been obtained for influencing or developing policy and practice.

Name: Gretel Jones

Email: gretel.jones@ageuk.org.uk

Age UK
Tavis House
1-6 Tavistock Square
London WC1H 9NA
T 0800 169 80 80 F 020 3033 1000
E policy@ageuk.org.uk

www.ageuk.org.uk

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House
1-6 Tavistock Square, London WC1H 9NA.

This consultation from the energy regulator Ofgem, the third on the subject, contains their final proposals on how to improve consumer engagement with the energy market.

Key points and recommendations

- We strongly support Ofgem rejecting reliance on voluntary arrangements to implement the Standards of Conduct and Supplier Cheapest Deal.
- We agree there is a need not only to limit the numbers of tariffs but to also require common rules on tariff structures and discounts.
- We particularly welcome the proposals which should ensure legacy tariffs will be prohibited.
- However, we are concerned that suppliers will be given six months to move people from legacy tariffs and urge Ofgem to reduce this.
- We strongly support the Ofgem's intention to monitor the regional differentials to ensure they are truly cost reflective.
- However, we also think there is a need for Ofgem to actively monitor the differential prices for different payment methods to ensure these are also cost reflective.
- In the light of the research findings that online documents are opened by a smaller proportion of customers than paper bills, we think Ofgem should consider requiring suppliers to send online customers their Annual Statements by post.
- We would like Ofgem to encourage suppliers to offer weekly and four weekly direct debits which might encourage more low income consumers to use this method of payment.
- We welcome the proposal to include supplier performance in the tariff comparison rate (TCR).
- We support the proposal to trial a Market Cheapest Deal and would be happy to participate in the discussions and take part in the trial.
- Consideration should be given to extending the Energy Best Deal scheme to local Age UKs.

1. Introduction

1.1 Age UK is pleased to respond to this, the third consultation on Ofgem's Retail Market Review (RMR). We must express our disappointment at the length of time this has taken, particularly with regard to dealing with legacy tariffs. While we welcome the proposals in paragraph 1.48 of the document outlining Ofgem's proposed timescale for implementation, it is very disappointing that suppliers have been given the longest time, six months, to move customers on legacy tariffs to a cheaper tariff.

2. Chapter 2. Why the market needs reform

2.1 We were surprised that several respondents to the December 2011 consultation did not consider Ofgem had given sufficient evidence on which to base their reforms. We think the research conducted by the Office of Fair Trading quoted in the RMR consultation issued in March 2011, supported by subsequent research conducted by Ofgem, sufficiently demonstrated that the complexity of tariffs were barriers to switching.

2.2 The essential solutions identified in that document, remain the core proposals in this, the third RMR consultation. Ofgem has already provided ample evidence throughout their three consultations to identify the problems in the retail market.

3. Chapter 3. Rationale for the package

3.1 There are clearly a number of issues that could not be finalised before issuing this consultation. We are particularly concerned with the decision to set up a working group to review supplier communications which has not been able to report before this consultation was issued.

3.2 Ofgem has already conducted considerable research among consumers on their views on what they need from supplier communications. So it is surprising that Ofgem has thought it necessary to set up this working group. We do not think higher reliance should be placed on the conclusions from this group than on those that have already been found through consumer research.

3.3 Ofgem's research consistently shows that consumers support standardised language avoiding jargon and we do not understand why suppliers were against having a prescribed and standardised set of customer communications on the basis of innovation and cost. The disparity between the suppliers' estimated costs of implementing the core RMR tariff proposals of between less than one million to close to a hundred million pounds must cast some doubt on the claims by some suppliers regarding the cost of implementation. We are very disappointed that, as a result of these supplier representations, Ofgem is proposing to reduce the degree of prescription in supplier communications.

3.4 We think the possible ways suppliers could get around the purpose of the RMR proposals outlined in paragraphs 3.41 to 3.49 do little to engender confidence in relying on voluntary arrangements. The inability of suppliers to act on a voluntary basis has been adequately demonstrated by their failure to implement the spirit of the proposals from the Energy Probe. We strongly support Ofgem rejecting reliance on voluntary arrangements relating to the Standards of Conduct and Supplier Cheapest Deal. We also agree there is a need not only to limit the numbers of tariffs but to also require common rules on tariff structures and discounts. Overall we support Ofgem's rationale for their package.

4. Chapter 4. Tariff simplification

4.1 We consider the multiplicity of tariffs merely causes consumer confusion and support the proposals to reduce the tariffs on offer. Our major concern has been the

fact that legacy tariffs have, in effect, allowed non-switchers, many of whom are older people and those on low incomes, to be charged higher prices. We particularly welcome the proposals in this Chapter which should ensure legacy tariffs will be prohibited.

4.2 We support all the proposals in this Chapter which will put a cap on the number of tariffs a supplier can offer.

4.3 While we understand the reasons for regional variations in standard charges, this has allowed unreasonable price variations between regions due to the market power of incumbent suppliers. We strongly support the Ofgem's intention to monitor the regional differentials to ensure they are truly cost reflective.

4.4 We agree that to make comparisons easier, there is a need to determine the structure of tariffs as well as capping the number of tariffs that can be offered. We agree with all the proposals in paragraphs 4.15 to 4.18 in the document. We particularly welcome the proposal that these should not vary with the consumer's level of consumption. It has always seemed perverse to us that low users should be charged a higher rate for initial consumption.

4.5 We have previously accepted that it is reasonable to vary charges on the basis of payment method since some methods are cheaper to administrate. However we have always insisted that this charge should be based on actual costs. We are concerned that this is not required in paragraph 4.18 of the document and seek reassurance from Ofgem that any variation in payment charges must be cost reflective.

4.6 We have been very concerned that people who have not switched have paid higher prices. Given these households are likely to be low income households this is particularly unfair. We support all the proposals in paragraphs 4.19 to 4.21 in the document which are designed to ensure this can no longer happen.

5. Chapter 5. Clearer and Simpler Information

5.1 As indicated in paragraph 3.2 above we think there is a need for prescription on what information should be contained on bills, Annual Statements, Tariff Information Labels and Price Increase Notification letters and the terminology used. We also agree that suppliers should be permitted to provide only the information specifically required by the regulator in these documents.

5.2 Given that standardisation of language was proposed in the RMR consultation of December 2011, it is disappointing that research on this remains to be done. We think standardisation of common terms used in energy would be beneficial in increasing consumer understanding of their bills.

5.3 We support the requirement to send an Annual Statement. We are aware that many households ignore additional information that is sent with bills so can understand why Ofgem are suggesting it should be sent separately. However, we are concerned that if it is sent separately it could cause consumer confusion,

particularly if they think it is a bill. We think steps must be taken to ensure it is made clear the statement is not a bill. On this basis, and providing it is not too expensive, we agree the Annual Statement should be sent separately.

5.4 The document did not specify how the Statement should be sent. Clearly for households receiving their bills by post, the Annual Statement will be sent by post. However, we think Ofgem should consider whether households paying online should also receive their statements through the post as well as online. In light of the findings of Ofgem's research that, in comparison to paper documents, online documents are opened by a smaller proportion of consumers, sending the Statement by post may encourage more of them to take note of it.

5.5 We think the Annual Statement should be short, preferably limited to a maximum of two pages and does not try to do too much. While we consider improving energy efficiency is the long term solution to fuel poverty and affordability, we do not think energy efficiency information should be provided with the Annual Statement if this leads to a longer document.

6. Chapter 6. Supplier cheapest deal.

6.1 We remain concerned at the effect that estimated bills could have on this proposal. One advantage of the smart meter roll-out, due to start the national roll-out in 2014, is that this should end the need for estimated bills and ensure they are based on actual consumption.

6.2 Age UK has previously pointed out that some older people are put off from moving to the cheaper method of direct debit payment on the basis that traditionally this is based on monthly payments whereas a lot of people rely on weekly income. Banks have assured us that it is possible to set up direct debits on a weekly or four weekly basis. We would welcome Ofgem promoting this to suppliers as we think this would encourage more people to pay by direct debit

6.3 Given it has been established that switching can take an inordinate amount of time such that, by the time the switch is completed the tariff no longer exists, we agree with the proposal that niche, limited applications should not be included in the information on cheapest tariffs. However given how long switching can take we question whether the limit of four weeks proposed is too short.

6.4 We see no reason why pre-payment meter customers who no longer owe money to the supplier should not receive a reminder that they would probably benefit from moving to another tariff.

7. Chapter 7. The tariff comparison rate

7.1 We agree that to be effective, the Tariff Comparison Rate (TCR) will need to have standardised rules across all suppliers. To ensure these are put into effect, we agree they should be made a licence condition.

7.2 Age UK believes that service, as well as price, is an important consideration in determining a consumer's choice of supplier. We welcome the proposal to include supplier performance in the TCR. Ofcom, the communications regulator has been publishing performance and complaints information on companies for a number of years.

8. Chapter 8 Standards of Conduct.

8.1 It is a sad indictment of the market that it is felt necessary to introduce, as a licence condition, Standards of Performance that require energy suppliers to treat their customers fairly and to take their customer needs into account..

8.2 Arguably, suppliers have no one but themselves to blame for this situation. They have been unable to comply with voluntary arrangements to improve their behaviour introduced as a result of the findings of the Energy Probe. As a result, as Ofgem says, energy companies are held in very low esteem and trust by the public. This could be detrimental not only to consumer engagement with the energy market but also to the success of flagship Government programmes such as Green Deal and the Smart Meter Roll-Out.

8.3 We agree there is an urgent need to improve the public perception of energy companies and that these Standards must be made mandatory. We can only hope that, as the document states, this will bring 'significant changes to the culture and actions of suppliers.' As the document states to achieve this the Standards must be embedded into all levels of the organisation.

9. Chapter 9. Protecting consumer on fixed term offers

9.1 We agree with all the proposals in this Chapter. However, we are unclear about the situation when a consumer rejects a proposal for a mutually agreed variation in a fixed term contract in the event of a permitted increase in price.

9.2 It is proposed that households should be notified of a mutual variation offer 30 days in advance of the price increase. It is not clear from the proposals how long a consumer can stay on the original price if they do not agree and decide to switch supplier. Will they have 42 days from their decision to reject the mutual variation or will this be reduced to 42 days from their receipt of the notification of the mutual agreement?

10. Chapter 10. Market Cheapest Deal

10.1 It will always be difficult to engage 'sticky' customers (those who are less likely to switch), many of whom are older households. We support the proposal to trial a Market Cheapest Deal to see if this would encourage sticky customers to switch. We appreciate there are a number of details still to be worked through and we would be happy to participate in these discussions and take part in any trial.

10.2 We cannot emphasise enough the importance of engaging trusted third parties in contacting vulnerable customers and believe local Age UKs to be one of

thesetrusted organisations. Local Age UKs have reported an increase in enquiries from older people worried about their energy bills.

10.3 Consideration should be given to extending the Energy Best Deal scheme to local Age UKs to help them be able to advise their clients on the best tariff for them. An advantage of local Age UKs is that many of them do home visits and therefore engage with less mobile and housebound older people.