Consumer Focus response to Ofgem's Retail Market Review consultation

December 2012

About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland.

We operate across the whole of the economy, persuading businesses, public services and policy-makers to put consumers at the heart of what they do. We tackle the issues that matter to consumers, and give people a stronger voice. We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

Following the recent consumer and competition reforms, the Government has asked Consumer Focus to establish a new Regulated Industries Unit by April 2013 to represent consumers' interests in complex, regulated markets. The Citizens Advice service will take on our role in other markets from April 2013.

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Introduction

Consumer Focus welcomes Ofgem's revised package of proposals, which we believe address most of the failings associated with the December 2011 package of measures. It is important that the momentum is not lost in delivering positive changes for consumers. Ofgem's review of the retail market was launched in November 2010, with the initial proposals document published in March 2011, followed by a further consultation in December 2011. Two years have passed since Ofgem launched its current review into the domestic market. Individual suppliers have launched a number of positive changes in that period but it remains essential that industry wide standardisation is introduced in a number of key areas.

Consumer Focus wrote two open letters on energy tariffs (**December 2010** and **November 2011** to Ofgem highlighting a series of issues that we felt were having a negative impact on consumer engagement levels and understanding of the market. We identified that there was significant confusion among consumers and the root causes appeared to be tariff proliferation, tariff complexity, inadequate communications from suppliers and low levels of trust.

The issues highlighted in the open letters included:

- the price increase notification process
- tariff proliferation
- rollover contracts and transferring customers onto new deals
- confusing tariff information
- dubious discounts
- complex discount structures
- notification of termination fees
- confusing discounted fixed term products
- suppliers excluding their best deals from face to face marketing
- independent gas transporter (IGT) surcharges

Consumer Focus is pleased that Ofgem's Retail Market Review (RMR) package will tackle each of these issues.[1]

There have been a number of positive developments since the 2011-12 consultation period, particularly with regard to how Ofgem worked with key stakeholders. For instance, we were pleased that Ofgem accepted our suggestion, made jointly with Energy UK, Which? and Citizens Advice, to establish the new Consumer Bills and Communications Working Group to review the regulatory requirements on suppliers with regard to consumer communications. This group has been very helpful, not least because it has offered an opportunity to comment on and refine the draft information remedy proposals. We hope the group does not lose the momentum to address the issues which fall outside of the main RMR package.

[1] The exception is IGT surcharges but following our discussions with the companies, all suppliers have removed their IGT surcharges, except for Npower and Utility Warehouse. However, these two suppliers have reduced their IGT surcharges by two-thirds.

The revised package is also clearer on Ofgem's views of success. We think ongoing monitoring will be essential, ahead of the wider review of the package by 2017, as it is unclear how the individual elements of the package will work together. If the package of measures has unintended consequences, it will be essential that Ofgem is able to respond appropriately and in a timely fashion. Ongoing reporting will be needed. Use of reputational regulation might be a way to address any negative effects post implementation and ahead of the wider review.

For example, Ofgem's proposed cap on tariffs is a bold move but not without some significant risks. We are supportive of the goal to deliver a fairer overall market, by tackling the deeply discounted prices, which can only be offered through cross subsidy by the unengaged majority. The focus on reducing tariff proliferation, which is something Consumer Focus has been extremely concerned about, is very welcome. By simplifying the decision making process, this could encourage more consumers to engage with the market. The proposed information remedies will also help support this goal.

We are concerned, however, that the tariff cap will also lead to a general levelling up of the prices paid by all consumers, similar to the effect SLC 25A had on in area prices[2]. If there is insufficient competitive pressure on suppliers to keep prices low, a general levelling up is likely to occur. Therefore Ofgem must closely monitor the impact of the tariff cap on suppliers' pricing strategies as well as the overall competitive pressures in the market to ensure the licence condition is delivering the expected consumer benefits. Ofgem should explore the regular publication of data to ensure the cap is working as intended. Furthermore, it may be appropriate for this licence condition to have a sunset clause in place. If the cap has an ongoing positive effect then the licence condition could be rolled over every time it comes up for renewal, similar to the old marketing licence condition.

The proposal to require all tariffs to include a unit rate(s) plus standing charge is welcome and an improvement over the December 2011 package. While Ofgem's tariff structure proposals should deliver benefits, we also think that there is potential to further simplify tariff structures over the longer term. Consumer Focus remains supportive of the proposal, originally suggested by EDF Energy, to create a national clearing house for standing charges. This would result in all consumers paying the same basic charge for the fixed costs associated with supplying gas and electricity to their home. It would also allow for tariffs to consist of a single unit rate (incorporating the standing charge) or unit rates for time of use (TOU) tariffs. This tariff structure would be more transparent and easier to explain to consumers. For instance, the calculations and weightings associated with Ofgem's proposed tariff comparison rate (TCR) would not be needed, as all tariffs could be expressed in a simple p/kWh calculation. A key cause of consumer confusion is why low users pay more per unit, using the p/kWh comparison, than medium or high users. This is a function of the standing charge being spread across fewer units. While we accept this proposal would be more complex to implement and the distributional effects would need to be investigated, it could deliver significant and lasting benefits.

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[2] **http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/SLC_25A_Consumer_Focus.pdf** and **http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/25A_Stephen%20Littlechild%20response.pdf** and **http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/SLC_25A_CCP.pdf**

Demand side response and management – smart tariffs

We are seeking further clarification as to:

- What it will mean in practice to limit suppliers to four tariffs per meter – in the context of a world where suppliers will be rolling out a plethora of different advanced and smart meters with different functionality – how will meter type be classified?
- How Ofgem expects these proposals to sit alongside calls for tariffs that facilitate increased demand side response and management or Government's new proposals on energy reduction expected to go in the current Energy Bill. There appear to be moves at both an EU and GB level to facilitate smarter tariffs such as multiple rate time of use deals, bundled offers that combine supply and energy products and services and even potentially dynamic pricing. We are keen to understand how Ofgem's Smarter Markets strategy, the likely impact of any energy efficiency tariffs and EU moves such as The Council of European Energy Regulators (CEER) Guidance on the take off of the demand side response electricity market with smart meters will sit alongside the RMR proposals.

Information remedies

Another area where Consumer Focus has major concerns about the current proposals is the information remedies section. The majority of the proposed changes are extremely positive, such as the standardised price increase notification, fixed term tariff notification and annual statement, and address our concerns about these key communications. Other proposals need more work, in particular the cheapest tariff prompt on the front page of the bill. The proposed text is too dense and highly likely to be ignored by consumers. We strongly welcomed Ofgem's announcement in the November Consumer Bills and Communications Working Group that the regulator was open to alternative suggestions. We think a more consumer friendly prompt can be developed.

In general attention needs to be paid to alternative and emerging feedback mechanisms – for example, energy reports, in home displays, online feedback, Midata style initiatives, information via mobile applications etc.

Improving the switching process

Recent Consumer Focus research has also shown problems with the switching process itself. The research found that one in six energy switches are exceeding the five week switching time requirement (three week switching period + 14 days cooling off period). More than one in eight consumers (13 per cent) reported a problem during the switching process, including problems with the closing bill from their old supplier, delays in the process, or receiving poor customer service.

Ofgem now has powers to collect switching time data and we think regular publication of the switching timescales is needed to hold suppliers to account. To incentivise meeting the deadlines the regulator should consider, as part of its review of the guaranteed standards, putting in place customer compensation if the maximum five week limit is not met. Other steps could include suppliers sharing lists of named individuals or team details which would be the point of contact for resolving switching problems.

This is particularly important. While it is hoped that smart metering will result in faster and easier switching in the longer term, it is very clear that ahead of the data communications company (DCC) becoming operational (expected at the earliest at the end of 2014) consumers with advanced or smart meters could face additional barriers and delays to switching[3]. Such steps would also then help to support Ofgem's Effective Switching licence conditions.

Overall we believe that Ofgem's current package of proposals is more likely to deliver additional consumer benefits than the current status quo. The next piece of the package that must be delivered on are the proposals around enhancing liquidity in the wholesale market. This should help new entrants grow and encourage further new entry. We will respond under separate cover to Ofgem's consultation on how to 'secure and promote' liquidity.

Chapter 2: Why the market needs reform

Question 1: Do you agree with our characterisation of the problems in the retail energy market?

Yes. The issues identified by Ofgem reflect the long standing concerns of Consumer Focus and our predecessor, energywatch. These concerns were first identified together in energywatch's 2007 report *why the energy markets are failing consumers*[4]. Consumer Focus has continued to raise these concerns with Ofgem, through our responses to the 2008 Probe[5]; our open letters on energy tariffs in 2010[6] and 2011[7]; and our responses to the RMR consultations[8].

In particular, Consumer Focus was critical of the regulator's failure during the Probe to introduce more detailed requirements on suppliers with regard to the provision of the new annual statements. Our view at the time was that the lack of prescription would lead to the policy intent not being met. Our review of suppliers' annual statements in July 2010 found that many were poorly designed and often insufficiently distinguishable from standard energy bills.

Consumer Focus's research report **Missing the Mark** highlighted problems with suppliers' bills and annual statements. Consumers felt the current information they received was difficult to understand and most were disinclined to take further action. The research also highlighted the limitations in using bills and other communications from suppliers to provide consumers with additional messages and behavioural prompts. Some of the consumers' unwillingness to engage was a result of confusion of aspects of the bills and tariff information, which will hopefully be addressed by the wider RMR proposals. However, the limits of this approach is something that Ofgem must remain alive to – particularly when it comes to consumer in vulnerable positions eg those with low literacy skills, on very low incomes, etc.

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3 http://www.consumerfocus.org.uk/files/2009/06/Consumer-Focus-response-to-Supporting-effective-switching-for-domestic-customers-with-smart-meters-consultation-August-2012.pdf

4 http://tna.europarchive.org/20080922203044/http://www.energywatch.org.uk/uploads/How_energy_markets_are_failing_consumers_March_2007.pdf

5 http://www.consumerfocus.org.uk/assets/1/files/2009/11/PDFRESOfgeminitialprobefindingsFinalNovember2008.pdf

6 http://www.consumerfocus.org.uk/files/2011/10/Letter-to-Ofgem-Request-for-investigation-into-energy-tariffs.pdf

7 http://www.consumerfocus.org.uk/files/2011/10/Letter-to-Ofgem-on-energy-tariffs-Revised-Jan-20121.pdf

8 http://www.consumerfocus.org.uk/files/2009/06/Consumer-Focus-response-to-Ofgem-Retail-Market-Review-February-resubmitted-version.pdf and http://www.consumerfocus.org.uk/files/2009/06/Consumer-Focus-response-to-Ofgem-Retail-Market-Review.pdf

Our recent report on time of use tariffs, **From devotees to the disengaged**, highlighted that a significant proportion of customers on Economy 7 tariffs are getting no financial benefit from their tariff and additional information is needed to help these consumers make the best use of such tariffs.

Question 2: Do you agree with the findings of our evidence base?

Yes. The findings listed in paragraph 2.8 reflect Consumer Focus's own research findings.

Chapter 3: Rationale for the RMR package

Question 1: Do you agree with our rationale for the proposed RMR package?

Yes. Some suppliers have made positive changes in the interim period such as reducing the number of tariffs offered and made improvements to bills. However we think it is appropriate to introduce new requirements as well as making the standards of conduct binding in order to ensure there is a greater degree of consistency and comparability as well as step change in suppliers' treatment of consumers.

Question 2: What are your views on the proportionality of the proposed RMR package in the light of the evidence we have presented?

We are satisfied with the key proposals for improvement identified by Ofgem, which address our key concerns.

The majority of the package requires the introduction of extremely prescriptive new regulations. This represents a significant departure for Ofgem. We have some concerns that introducing such a degree of prescription through the licence conditions may hamper Ofgem's and suppliers' ability to respond to future market developments in a timely fashion.

The areas where we have particular concerns about the current package are addressed in the questions below.

Question 3: Do you agree with our reasons for not proceeding with the alternative options set out below?

In general yes.

Chapter 4: Tariff simplification

Question 1: Are our rules to reduce the number of tariffs appropriate? Have we set the cap on core tariffs at the right level? Should a different cap be set for time of use tariffs? What derogations from our tariff cap would be appropriate?

We are pleased that the revised package addresses the issue of tariff proliferation, which has been a particular concern of Consumer Focus.

We remain open minded on whether four tariffs is the correct number, although it should allow for sufficient variation in supplier offerings. The proposed derogation for new and innovative tariffs may be sufficient, in the short term, to allow for the introduction of genuinely innovative tariffs. At this stage, we're unsure of how this process will work in practice. The process must be flexible enough to ensure that genuinely innovative tariffs, which offer real benefits to consumers, can still be trialled and launched while preventing the launch of new tariffs that are based around complex pricing or dubious discounts.

In our previous response, we suggested that it might be appropriate for Ofgem to have some sort of role in 'approving' new style tariffs. We continue to believe that some form of light touch role would be a useful step. Through our stewardship of the Confidence Code for switching sites, Consumer Focus has been providing informal feedback to suppliers about new tariff ideas, largely in relation as to how new tariffs might be displayed on switching sites. With Ofgem set to take over the Confidence Code in early 2013, it could take over this role. Brokers are likely to play an increasingly important role in the energy sector, with the growth of collective switching, and it is essential that the regulations and self regulatory codes are able to respond to new market developments in a timely fashion.

We agree that it is important to set a separate cap for TOU tariffs. We would welcome further clarity on how this and wider proposals will work in practice in both the short and longer-term. This is particularly the case given the increasing calls for tariffs which facilitate demand side response and management and changes in the market that may result from Government's recent proposals on electricity reduction. We are unclear what the proposal will mean for specialist suppliers such as Ebico and Utility Warehouse, which currently operate under SSE's and npower's licences respectively. Both of these suppliers offer innovative options for consumers and it would be highly unfortunate if these businesses were forced to close as a result of the cap. It may be worth exploring whether the rules could be drafted so that any white label supplier that controls its own pricing be excluded from this requirement. The standards of conduct could offer further protection to consumers to prevent them from being misled by a white label seller.

The fate of more traditional white label tariffs such as Sainsbury's Energy or M&S Energy are less of a concern since the additional benefits of such tariffs are more limited and largely offer suppliers and their white label partners an opportunity to segment their customers. The current proposals allow suppliers enough flexibility within the tariff cap to continue offering such tariffs under a white label brand if they feel the benefits associated with this sales channel are substantial enough.

We very much welcome Ofgem's recognition that collective switching can open up an alternative route to market for consumers. We support its proposals for a fifth tariff which will permit suppliers to develop a bespoke collective switching offer, which it can use to participate in reverse auctions.

However, it is unclear how this proposal would operate in practice. Discussions Consumer Focus has had with suppliers reveal contradictory interpretations of how the fifth tariff proposal will operate. Some have interpreted the proposal in a very restrictive way, taking it to mean they will be able to develop a single price (per region). If that price is bid into and becomes the winning offer in an auction, it is then set in stone as the price that supplier must then offer in all subsequent collective switching schemes. Other suppliers have interpreted the proposal in a much more flexible way, taking it to mean that they will be able to tailor the fifth tariff price they offer to each new scheme.

We would be very concerned if the restrictive interpretation was an accurate reflection of Ofgem's intention for the fifth tariff proposal. For the approach to thrive and ensure the widest possible ongoing participation from suppliers, and for the approach to realise its potential for generating a strong competitive impetus, suppliers will need to be able to tailor their fifth tariff to each scheme they participate in. And they will need to do so in a way that is responsive to a range of variables, including; the size of the group; the contract length it seeks with the winning provider; any specific conditions it sets in the auction (such as a demand for green energy only); and prevailing wholesale prices. It is also worth highlighting that once a supplier wins an individual auction with its fifth tariff, its rivals will be aware of its bid price for future auctions.

We therefore look forward to seeing Ofgem's detailed thinking on how the fifth tariff proposal will work and clarification of what it will mean for supplier participation in collective switching auctions.

Question 2: What surcharges should suppliers be able to offer without this counting as an additional core tariff, and why? How could these be defined in a licence?

Consumer Focus agrees that a tariff that offers additional discounts for signing up online, as opposed to managing an account online, should be counted as a separate tariff for the purposes of the cap. There are cost savings associated with having a customer manage their account online and it is appropriate that suppliers levy the same discount across all of their tariffs.

It would be helpful to understand whether there could be some further flexibility around non contingent discounts. For example, we are aware that some suppliers offer an additional discount to customers who meet defined criteria such as age (E.ON's Age UK offer) or combined age and income (EDF Energy's recent commitment to offer Warm Home Discount (WHD) core group recipients access to the Blue +Price Promise September 2013 tariff rates). We would prefer that there was some greater flexibility around discounts that are not dependent on certain behaviours and that are given to all consumers who meet clearly defined and fixed criteria.

Similarly would the current rules allow for suppliers to offer an online discount in £/annum to Quarterly Cash/Cheque (QCC)/prepayment meter (PPM) consumers who would like to manage their account online, similar to the dual fuel discount? There would be a cost saving to the supplier through having these consumers move online, similar to the savings associated with the dual fuel discount. It could offer additional benefits to consumers paying by those payment methods eg richer data, new tools. Many people can't or won't switch to paying by direct debit and we would like to see suppliers offer further services to such consumers. A discount to encourage them online should help.

Question 3: Are our rules to simplify tariff structures and discounts appropriate? Should they only apply to open tariffs or be extended to cover dead tariffs too?

Consumer Focus continues to think that EDF Energy's proposal for a clearing house for standing charges, which would allow for even simpler tariffs structures, has significant merit. All tariffs could be composed of a single unit rate(s), incorporating the standing charge, and quoted in p/kWh .We accept that it is a much more complex process to implement and the associated distributional effects would need to be further explored. This proposal could have significant benefits including delivering even simpler tariffs and national charging.

The Ofgem proposal for all tariffs to be composed of a standing charge and unit rate is the next best option. The proposal might have a negative impact on certain categories of consumers in vulnerable situations eg low income, low users, who currently take advantage of a 'no standing charge' tariff. However, these consumers generally pay a higher unit rate (up to a certain level of consumption). Some suppliers may choose to offer lower standing charges than their rivals and this will tend to benefit lower income consumers who generally have lower consumption levels.

Our research **Impact of energy policy on consumer bills** found that the smaller the standing charge, the more low income consumers are likely to benefit. There is therefore a strong case for suppliers applying a very narrow standing charge and recovering costs through unit rates[9].

At this stage we are not convinced of the benefits of applying the proposals to simplify tariff structures and discounts to dead tariffs. The package already provides protections for consumers on such tariffs.

Should the necessary changes be introduced to allow for the smoothing of distribution charges, we would like to see a continued transition to the delivery of even simpler tariff structures.

Question 4: What categories of dead tariffs should be derogated from our proposals if any? Are any other measures required to avoid any consumer harm?

We do not have enough information about the current categories of dead tariffs to understand whether derogations are appropriate.

Our concerns include:

- Would specialist tariffs linked to a particular heating system be considered live or dead tariffs? These tariffs would still need to be made available to any new consumers moving into a property with a specialist meter/heating system.
- How will suppliers' specialist price supports for certain categories of consumers be covered by the rules? It would be extremely unfortunate if such discounts were banned.
- What will happen to consumers on fixed term tariffs which will be withdrawn under the new cap? Some tariffs may be competitive, others less so. Any assessment of the competitiveness of a certain tariff is likely to depend on when the assessment is carried out eg before or after a price rise.

Question 5: What would be the implementation issues and costs of our proposals?

Not applicable

Question 6: Is our proposed timeframe for implementation appropriate?

We think it is important that the proposals are implemented as soon as is feasibly possible. These issues have been dragged on for several years and it is important to be able to address them as soon as possible.

Chapter 5: Clearer and simpler information

Overall, Consumer Focus is pleased with the scope of Ofgem's proposals on information remedies. The new information should help to address the concerns raised by Consumer Focus in our previous open letters on energy tariffs and RMR responses. We have also been a strong advocate for the introduction of the tariff information label.

We do have some concerns around the finer details of the individual supplier communications which are covered in our responses to the questions below.

Separately, we were disappointed that Ofgem did not formally consult with Consumer Focus prior to the publication of the proposals on complaints performance information detailed in Paragraph 5.24. As Ofgem is aware, Consumer Focus's successor will retain

[9] Croft D, Preston I, Guertler P & Carrington J (2012) *Impact of energy policy on consumer bills*, Consumer Focus

the organisation's statutory duties and powers until October 2014, which includes the duties in the Utilities Act requiring Consumer Focus to publish details of energy companies' performance.

Consumer Focus began the process of consulting on changes to our company performance model in June 2012 and industry and stakeholders have invested significant time in this process. We held a workshop with industry and Ofgem on 21 November 2012 to discuss the findings from the consultation and to discuss next steps10. We welcome the work Ofgem is doing with suppliers on the publication of Day+1complaints figures to ensure this is prominent and consistent across suppliers, developing a common format for publishing direct complaints and agreeing a broad set of complaint codes for companies to publish comparable numbers against. We believe the publication of comparable direct complaints performance information will be a valuable addition to the performance metrics that Consumer Focus currently publish around contacts to independent sources of advice and support. However we believe it is imperative that the different sets of performance information produced are complementary and do not confuse consumers.

Question 1: What are your comments on the degree of prescription proposed, and on the design of the documents and messaging?

The proposed information remedies are extremely prescriptive and represent a significant departure for Ofgem. There are risks involved with requiring this degree of prescription as the regulations may not be flexible enough to evolve with developments in the market.

The RMR proposals need to be considered within the context of wider change in the energy industry. The introduction of smart metering and Government's proposals on Energy Reduction, which are expected to be introduced in the current Energy Bill, are likely to encourage a range of new feedback mechanisms. This includes information via in home displays, online portals, hard copy energy reports and mobile phone applications among others. Similarly the proposals cannot be seen in isolation from the Department for Business, Innovation and Skills' Midata initiative and moves to increase data portability. We seek clarity as to Ofgem's position on how this can be delivered in a sufficiently consistent way to maximise benefit for consumers. The focus of these information remedies seems very narrow, and insufficiently forward looking.

Consumer Focus has appreciated the opportunity to comment on draft proposals through the Consumer Bills and Communications Working Group. Some of the group's suggestions have been incorporated into the published proposals.

We continue have concerns about the design and content of the proposed documents and messaging. It was therefore welcome to hear at the Working Group that Ofgem was open to alternative ways of presenting this information to make it more consumer friendly. It is up to suppliers to present well researched alternatives to Ofgem's proposals.

Another issue that can cause consumer confusion and which is not mentioned in the current RMR proposals is the current precedent for displaying prices exclusive of VAT. It would make the bill simpler if VAT inclusive pricing was used, which is the method used for other goods and services purchased by consumers. Obviously this would pose a risk if the Government decided to remove the reduced 5% VAT rate but we suspect this is unlikely to occur.

[10] **http://www.consumerfocus.org.uk/files/2012/06/Review-of-supplier-performance-model-Summary-of-findings-and-next-steps.pdf**

Question 2: What are your views on the appropriateness of content requirements for each of the communication channels?

We are comfortable with the idea of putting a tariff's fuel mix in the additional features section of the **tariff information label**. We have concerns about including generic TCR in the tariff information label as it is places generic information next to the consumer's actual tariff rates. There is potential for confusion.

TOU tariffs (the label for Economy 7 tariffs) should highlight what percentage of electricity must be used in the off peak hours to make the tariff more cost effective than a standard tariff. A recent information request highlighted that there is wide variation between suppliers' tariffs[11]. Consumer Focus recently called for Ofgem and suppliers to consider how Economy 7 tariff structures could be standardised so consumers could more easily compare offers.[12]

We think Ofgem's current proposals for the **summary box on bills** are not sufficiently consumer friendly. The proposed text for the **supplier's cheapest tariff** is too dense and is likely to turn off significant numbers of consumers. It is also very text heavy which may be off-putting for many consumers. Ofgem's own Boag McCann research suggests that 'communications should not be so long they deter customers from looking at them'[13]. While this refers to keeping overall communications to one or two pages, different consumers will have different tolerances and there is a significant risk the current proposals could act as a turn off for many consumers. Please see our responses to the questions in Chapter 6.

We are pleased with the proposals around the **personal projection**. We think this is a key piece of information, which will make a significant difference to consumers' understanding of their energy costs and help them make more informed decisions. Clarification is needed however to understand how the WHD will be accounted for in the personal projection. Not all suppliers are required to offer the WHD and failure to include this information could lead to poor switching decisions being made.

We are concerned about putting a generic national **TCR** rate on consumers' bills and annual statements. We understand and have sympathy for the rationale behind Ofgem's proposals in this area but there is a significant risk that the information could mislead or cause confusion for consumers. If a TCR is to be put on official communications from the supplier, we would prefer that it is a personalised TCR and it should not appear next to the consumer's actual unit rate, as is currently proposed for the summary box. For example there is already confusion among consumers who do not understand why their individual price rise is different from the average price increase quoted in the media.

We think whatever scenario is implemented, it will cause confusion for significant groups of consumers.

Scenario 1:

Use generic TCR

Benefit – Same figures can be used in advertising campaigns and on personalised communications from suppliers.

Risk – consumers do not understand why the generic TCR differs from their personal TCR or their unit rate.

[11] http://www.consumerfocus.org.uk/news/many-economy-7-customers-are-paying-over-the-odds-on-their-energy-bills
[12] http://www.consumerfocus.org.uk/files/2012/09/From-devotees-to-the-disengaged.pdf
[13] p31 – supplementary appendix.

Scenario 2:

Use personalised TCR

Benefit – consumers can make more accurate switching decisions

Risk – Consumers don't understand how their personalised TCR relates to the generic TCR used in advertising.

We are pleased with the content of the **annual statement**. We would be comfortable with having a dual fuel annual statement as long as it was very clear how much a consumer was spending on gas and on electricity. At the very least, we think suppliers should be able to mail separate gas and electricity annual statements in the same envelope as this will reduce costs and make price comparison easier.

We are pleased with the proposed **price increase notification** (PIN). The proposed template addresses the concerns we raised in our open letters on energy tariffs and previous RMR responses. Our one caution is that the Citizens Advice consumer service, which will be referenced on the PIN letter, is not currently equipped to provide consumers with detailed information on energy efficiency and associated measures. Consumers seeking this information would be signposted to the Energy Saving Advice Service (ESAS). Until such time as the independent helplines for energy consumers are rationalised, it may be appropriate to consider putting the ESAS number and a description of its role on the PIN.

We are pleased with the proposed content for the **end of fixed term notice** and the **mutual variations** communication.

Question 3: Should Ofgem explore further ways in which suppliers might increase the effectiveness of online/paperless communications?

Yes this would be very welcome. With the rollout of smart meters, online account management of more granular data on energy usage is set to become much more widespread. There will be opportunities for suppliers to offer new services and tools to their customers to help them manage their accounts and understand when and how energy is used in their home.

At present there is quite wide variation between suppliers' online account management offerings with some emailing customers a link to a PDF version of their bill and others offering a fuller service that allows them to input additional data. It would be helpful if Ofgem could highlight how the information remedies will work for consumers who manage their accounts online. For instance, it is our assumption that suppliers would use the standard template for the annual statement but customers would be able to click on information and reveal more detail.

Question 4: Should Ofgem consider making further recommendations, or issuing best practice for enhancing the impact of Annual Statements by looking at messaging and co-branding of envelopes?

This is not a priority issue for Consumer Focus. It is unclear whether Ofgem branding would be positively received by the majority of consumers.

Question 5: Do you agree with the view additional contractual information can be included on an additional page on the Annual Statement?

Yes.

Question 6: What are your views on the classification of dual fuel for the purposes of the template designs?

We agree it is important to alert consumers to the fact that it can be cheaper to take their gas and electricity from different suppliers. We are comfortable, however, with the separate gas and electricity annual statements being mailed out in the same envelope as this should result in significant cost savings.

Question 7: What are your views regarding including energy efficiency advice in Annual Statements?

We think that contact details for the ESAS should be included on the annual statement along with a standardised description of the service's role. We appreciate this could send a confusing message to consumers by referencing two separate consumer services – Citizens Advice consumer service and ESAS. However until such time the provision of consumer helplines for energy consumers are rationalised, both numbers should be displayed on the annual statement.

Chapter 6: Supplier cheapest deal

At this stage it is unclear how much it will cost to implement these proposals. We are aware that suppliers have indicated that this will introduce additional complexity with regarding to calculating bills, and potentially increase the risk of errors occurring, given that several new calculations will be required on each bill. It is important to note that in the pre-smart era, many consumers are still regularly receiving estimated bills. While suppliers endeavour to issue bills that are as accurate as possible this doesn't always work in practice. Use of inaccurate estimates could lead to poor decision making by consumers if the information that lies behind the cheapest tariff details provided on their bills is insufficiently robust.

Another concern is that the cheapest tariff prompt could quickly become another piece of information that is ignored by consumers, particularly if there are insignificant price differentials between individual suppliers' tariff prices. This is a particular risk for those consumers who receive monthly bills.

Research consistently shows that people are not interested in spending a lot of time reading or reacting to the information on their energy bills. There is a significant risk that substantial sums of money will be spent by suppliers to implement this requirement, with these costs passed through to consumers, only for it to have a limited impact on consumer behaviour and/or engagement levels.

It is important that Ofgem gets this 'prompt' right in order for it to have the best chance of making an impact. For this reason we would strongly urge Ofgem to develop and test alternatives to the proposed summary box as the current design is not particularly consumer friendly.

Unpublished Consumer Focus research on switching has also shown that many consumers who have switched in the last year (26 per cent) say they would never switch again. For consumers who have made up their minds that they don't want to switch again a prompt on their bill is unlikely to stimulate another switch. Collective switching schemes run by third sector organisations or local authorities may help stimulate interest amongst consumes, particularly the most sticky consumers as they are more likely to be responsive to face to face approaches.

Online consumers will be able to benefit from Midata and wider personal data initiatives are set to give consumers straightforward access to key data in a portable, machine readable format. This will give rise to a new generation of intermediary services that will both simplify and make more powerful consumer engagement in complex markets, such as energy. Consumers who no longer wish to seek out a better deal themselves may delegate their engagement to an intermediary, who will utilise the consumer's data to identify the best offers that are available to that consumer, based on their specific preferences and circumstances. Should the consumer accept the offer, the intermediary will manage the switching process on their behalf. The consumer will either opt to receive alerts when better offers become available, or choose to be advised of what offers are available to them at defined intervals (when the expiry date of their current contract is approaching, for example).

The mobile phone price comparison service, Billmonitor, is a forerunner of the type of intermediary service we expect to see emerge.

The Energy Best Deal campaign, co-ordinated by Ofgem and the Citizens Advice service should also be built upon. For instance Citizens Advice Bureaux advisers could use a Confidence Code accredited switching site to help people through the change of supplier process, as opposed to just providing people with advice.

Question 1: Do you agree with our view that the cheapest tariff message should include both supplier's cheapest tariff for their payment method, consumption and meter type, and the cheapest overall tariff from their supplier irrespective of their current circumstances, personalised by consumption?

Yes. We think the distinction between the two tariffs is important.

Question 2: Do you agree with the approach to tariff eligibility criteria proposed for supplier's cheapest tariff?

The key difficulty will be how fixed term tariffs are presented. Often such tariffs, while not initially competitive, can turn out to be very advantageous if there are price rises.

We are not convinced of the rationale of totally excluding PPM users from the cheapest tariff messaging. It appears to be a retrograde step by Ofgem. According to the Ofgem social monitoring statistics more than 90% of PPM users are not in debt and could be in a position to switch to a credit tariff by passing a credit check or providing a security deposit14. Providing these consumers with a clear understanding of the savings available from doing could act as an effective prompt for these households. Simply providing information about the Debt Assignment Protocol (DAP) process or generic energy efficiency advice, when the vast majority of PPM users are not in debt, is irrelevant.

The proposal is also not future proofed in any way. The introduction of smart metering is intended to facilitate switching between prepay and post paid options as consumers will no longer have to have their meters exchanged in order to move payment method. This is also a significant and growing market.

- More than 13 percent of consumers in Great Britain pay for their energy by prepayment.[15] Consumer Focus estimates that 9.6 million people in Great Britain live in homes where they pay for their energy through a PPM.[16]

[14] http://cfe.custhelp.com/app/answers/detail/a_id/339/kw/ppm%20to%20credit/session/L3RpbWUvMTM1NTEzODA0Ni9zaWQvV0lEKjRvZGw%3D

[15] http://www.ofgem.gov.uk/Markets/sm/strategy/Documents1/Smarter%20Markets%20Strategy%20-%20Consultation%20document.pdf Page 23 paragraph 3.48. Direct debit is the most popular payment method used by 49 percent of domestic customers. Around 33 percent pay by standard credit and 13 percent use prepayment.

[16] Based on 4.1 million electricity PPM customers (Ofgem Company Performance stats Q3 2011) and average (mean household) size (persons per household) of 2.35 (ONS General Lifestyle

- In Great Britain, the number of energy consumers on prepayment has steadily increased – from approximately six million to 6.8 million between 2008 and 2011. On average, an estimated 1,739 PPMs are installed every working day.[17]
- Experience from other markets, such as mobile telecommunications, as well as customer research suggest it is not unrealistic to expect up to one-third of consumers will be on some kind of prepayment offering once smart meters have been rolled out.
- There are also likely to be a range of new managed credit products introduced that involves the consumer using a combination of credit and prepayment.[18]
- Smart metering has the potential to address many of the existing barriers to consumer interest in prepayment and emerging technology will facilitate the introduction of a range of new offers. Suppliers are expected to encourage consumers to pay up front for energy due to the rising cost of debt resulting from unpaid energy bills. There is also a global trend toward increasing pay-as-you-go products across all sectors.

While not all PPM users in Great Britain are consumers in vulnerable positions, they remain disproportionately on low incomes compared to those using other payment types. It is consequently particularly important that this group are able to take advantage of more competitively priced deals.

Economy 7 tariffs: We agree with Ofgem's approach. We think that the regulator should publish guidance for suppliers on how to determine whether an individual consumer would be better off on a standard tariff.

Question 3: We seek views from stakeholders on whether consumers with smart meters and any relevant time-of-use tariffs that the suppliers is offering require separate consideration in relation to this policy proposal.

We agree that this needs separate consideration. Ofgem is right to raise the complexities of flagging a time of use (TOU) tariff as the lowest cost deal. There is also an opportunity here to address some of the existing problems which consumers on time of use meters face before uptake increases further. We make the following initial comments:

- Currently an estimated 19% of domestic consumers in GB have a meter capable of demand side response, and may be on a TOU tariff[19]. Most of these tariffs are variations of Economy 7 or Economy 10, in which electricity is cheaper for a certain number of off-peak hours (usually during the night), and more expensive at other times; consumers control their own appliances to take advantage of the cheaper rates. A small number of consumers also have teleswitching, in which the electricity network sends signals to their storage heating systems to turn them on and off so that they can take advantage of cheaper, off peak electricity.

Survey 2010). Consumer Focus research showed that the majority of PPM households paid for both gas and electricity via a PPM: **http://www.consumerfocus.org.uk/files/2010/10/Cutting-back-cutting-down-cutting-off.pdf** Page 7.

[17] **http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/SOR%20annual%20report%202011.pdf**

[18] We expect to see a range of other offerings, such as managed credit, where the customer is given a maximum credit limit, which will use the prepayment smart meter technical architecture and related infrastructure.

[19] **http://www.consumerfocus.org.uk/files/2012/09/From-devotees-to-the-disengaged.pdf**; this statistic was calculated using metering data provided to Consumer Focus by Elexon; in a poll commissioned by us of 5,914 consumers only 13% of consumers said they were on time of use tariffs; one reason for this may be that not all consumers are aware that they have a TOU tariff.

- In its Smart Metering Impact Assessment, the Department for Energy and Climate Change (DECC) estimates that by 2030 an additional 20% of consumers will be on a static demand side response (DSR) tariff. Other future tariffs may be 'dynamic', meaning that the price of electricity may change throughout the day (or from one day to the next) according to real-time events such as the amount of renewable power available or congestion on the network[20]. Static and dynamic tariffs could also include 'critical peak pricing', whereby on a small number of days during the year, electricity prices are considerably higher for a short period.
- There may be a number of consumers who could, in theory, benefit from a static time of use deal without having to alter their lifestyle or consumption pattern. Some modelling around this is needed before a decision is taken. This should also consider the wider impact in terms of pricing of non-time of use deals. We understand Ofgem and DECC are carrying out a distributional impact assessment of smart metering including TOU deals. This could help to inform a decision.
- Similarly before encouraging greater uptake of time of use tariffs Ofgem needs to be satisfied about the effectiveness of these deals and supplier activity in this area.
- Any assessment of the cost of a TOU deal would need to be based on accurate consumption information across the seasons, especially winter, to be meaningful. For example, it would be completely inappropriate for a supplier to base an assessment on just a few months energy consumption. An assessment based on summer usage only, for example, risks being very misleading and could result in the consumer being significantly out of pocket. As mentioned, guidance would be needed.
- Proposals would need to be considered in the context of changes to the half hourly randomisation off-set as identified in DECC's consultation on Smart Metering Equipment Technical Specifications V2 (SMETS 2). Under new proposals, at its greatest, consumers could be faced with a difference of up to 29 minutes between when they expect their meter to be switched to a different tariff and when it actually happens. It is therefore crucial that suppliers have effective strategies in place so consumers know when they are getting peak and off peak energy.
- We agree that consideration needs to be given to how you communicate the additional risk involved with time of use deals ie how do you make the consumer understand that a change in personal circumstances such as having a baby or changing work hours, could have a greater impact on the cost of the tariff than a standard deal? Further learning is needed to inform any guidance.
- This point is further reinforced by the findings of Consumer Focus research on consumers' experience of current time of use tariffs. This suggests that nearly 40% of consumers on TOU tariffs may not be getting any benefit from them as they have gas central heating and do not use other electrical equipment during off peak times. This suggests that many consumers do not understand the tariff they are on or that they may be able save money by switching away from it. Nearly a quarter (24%) of consumers said that their tariff was not right for their household's needs.
- We would not think it appropriate to flag a dynamic time of use offer such as critical peak pricing as a cheapest deal given the additional risk.

[20]**http://www.decc.gov.uk/en/content/cms/consultations/cons_smip/cons_smip.aspx#impact**

- Under DECC's privacy and data access proposals suppliers will not have default access to smart metering customers half hourly or hourly data needed to establish whether a consumer could be better off on a particular time of use deal. Instead suppliers will need to actively seek their customers' informed consent to get access to this information. We understand that this approach will effectively be reinforced by decisions at an EU level in the coming months.
- If Ofgem requires suppliers to make consumers aware if they could be better off on a time of use tariff they would still need to seek their customers' consent to access the data to do this unless Ofgem could make the case for an exemption. If an exemption was granted, and consent was not needed, it would then be necessary to ensure protections were in place so that the collection of this data was carried out as a one-off or periodic event, for that purpose only.
- Very little work has been done on how choices around data sharing will be communicated to consumers in a meaningful way or what take up is likely to be. We expect that some suppliers will proactively seek an-opt in to half hourly data from day one of the customer having a smart meter installed, while others, without this requirement, will collect daily or less granular data. It is possible that if this is introduced that it will encourage greater collection of more granular data for a variety of purposes - the impact of this will need to be properly understood.
- There is a question about whether a paper or online version of a bill would be appropriate for this type of advice. In order to serve as a more relevant prompt for such consumers, there would need to be more context provided, such as when and how they use energy in their home. Proposals around increased data portability could have particular relevance and benefits for time of use consumers. This also needs further consideration.

Question 4: Do you have any suggestions regarding additional rules which they consider relevant for the construction of the cheapest tariff messaging?

No.

Chapter 7: Tariff comparison rate

Question 1: Do you agree with our proposal to introduce a price comparison tool?

See also our response to Chapter 4, Question 3.

We have a number of concerns about the TCR. We are supportive of the goals behind the TCR but the complexity of existing pricing structures eg unit prices and standing charges varying by distribution areas or regions, means it will be a complex calculation. It will also be difficult to explain to consumers why the TCR is not the same as their actual costs, particularly as is currently proposed, the TCR will be listed next to the consumer's actual unit rates. Similarly the TCR could vary depending on what point on the scale within the low, medium and high bands the consumer falls within.

One of the key reasons for introducing TCRs to demonstrate the value of switching to the majority of consumers who do not use price comparison sites. We are extremely sympathetic to this goal. However as Ofgem itself notes in Paragraph 7.38 that the TCR will not provide 'at a glance comparability'.

Separately we think Ofgem should also provide an explanation of why the TCR calculation details that lower users pay more per unit than higher users (which is a function of the standing charge being spread across fewer units). There is potential for significant consumer confusion.

Question 2: What is your view about the terminology we are proposing for the two price comparison metrics? Are they clear and easy for consumers to understand?

Consumer Focus is comfortable with the personal projection calculation. We think it is easy for consumers to understand. The detail behind the personal projection and the TCR eg having two prices that are quoted in p/kwh and how consumers will react to it is unclear.

Question 3: In your view, does our proposal for the TCR strike an appropriate balance between different trade-offs in terms of simplicity, accuracy, confusion and saliency? Please explain the reasons for your view?

We have significant concerns about the use of non-personalised TCRs given the potential to confuse consumers. If generic TCRs are to be displayed on bills we do not think they should be displayed next to the consumer's actual unit rate.

Question 4: Do you agree with our proposal for the different features of the Tariff Comparison Rate, and our related proposal on the personal projection? Do you have any thoughts on whether and how time of use tariffs should be accommodated in the TCR and personal projection? Please explain the reasons for your view.

We agree with the proposed features of the TCR in terms of what discounts should and shouldn't be included. We agree that the personal projection should be presented in £/annum.

Question 5: In your view, should suppliers be required to make available up to date information on TCRs for their tariffs? What is your view on the barriers to the publication of best buy tables, and how could we better facilitate publication by third parties?

Yes.

We believe think there is a role for Ofgem producing (or licensing a third party to produce) hard copy versions of pricing or TCR factsheets for distribution via Citizens Advice consumer service. Consumer Focus currently produces pricing factsheets which are currently available on our website or can be mailed to offline consumers upon request via Citizens Advice consumer service. With Ofgem due to take on ownership of the Confidence Code from early 2013, we believe our current role should also pass to the regulator. It would be helpful if the factsheets could be hosted on the adviceguide.org.uk website with Ofgem responsible for managing the contract.

Question 6: Do you have any concerns regarding the implementation of this proposal? How long after a decision has been made would you take to implement this proposal? What drives those timescales?

Not applicable.

Chapter 8: Standards of Conduct for domestic consumers

Question 1: So you agree that the revised Standards of Conduct (SOC) will help achieve our objectives?

Yes. We think the SOC will deliver positive benefits for consumers.

Question 2: Is there a different name of the SOC that will have more meaning to consumers and can be used by stakeholders across the industry?

The financial services industry uses 'Treating customers fairly' for its principles based regulation. We think this name is appropriate.

Question 3: Does our approach to enforcement mitigate stakeholder concerns about clarity and regulatory risk?

We remain comfortable with the idea of using a two stage enforcement process for the SOC. Ofgem's enforcement strategy review is following a similar timetable so it is difficult to comment at this stage as to whether it will be sufficient to mitigate existing concerns.

Question 4: Do you have any information regarding potential costs this may impose on suppliers?

Not applicable.

Chapter 9: Protecting consumers on fixed term offers

We are supportive of Ofgem's proposals in this area. The changes should address the concerns raised by Consumer Focus in our previous open letters on energy tariffs and RMR responses. While suppliers have made some positive changes to their processes since the RMR was launched in November 2010, we have been surprised that some companies have introduced tariffs that could be viewed as breaching these new requirements as well as the current voluntary standards of conduct.

Question 1: Do you agree with our proposal for rules to be applied to fixed term offers in the domestic retail market?

In general yes.

Many suppliers have raised concerns with us about the ban on fixed term, variable price tariffs. We think such tariffs have caused confusion to consumers, particularly the tariffs that track another tariff of that supplier eg our capped price tariff is guaranteed to be 2% less than our standard variable tariff. This simply allows the supplier to segment its own customers. The other tariff type that we are glad to see banned is where the introductory price is significantly below the capped price.

The only category of such tariffs that we would be comfortable with retaining would be fixed term, variable price tariffs that track a rival supplier's prices or a basket of rival suppliers' prices where the discount price was fixed throughout the period (eg guaranteed to always be 2% less).

Question 2: Do you agree with our proposed strategies to mitigate concerns regarding increases in network charges?

It has not been possible for us to reach a view on this point as the strategy is ambiguous. It appears to us that you may be proposing that suppliers can agree ex ante re-openers in their contracts with consumers that allow them to alter their standing charges on a periodic basis to reflect increased network costs. To understand the practicality of this and how it would affect consumer experience a great deal more detail would be needed. For example, how would this re-opener be communicated in contract terms and advertising and would all suppliers responding to the same change in network charges have to apply altered changes from the same day.

The issue of informed consent is particularly problematic – and in areas the proposals appear internally contradictory. Paragraph 9.16 suggests that consumers will see the standing charge change take effect unless they opt-out (ie 'If the consumer wishes to manage this adverse variation, then they may decide to change to another tariff with their existing supplier or another supplier') while paragraph 9.18 could be read as saying it will only take effect if they opt-in (ie 'the variation can only be binding following express agreement from, and initiated by, the consumer'). It also suggests that a midway 'limbo' status may exist where the customer has neither agreed to the change nor changed tariff (ie 'suppliers inform consumers that they are under no obligation to agree to a mutual variation'. What happens if they neither agree nor change tariff?).

We are not immediately sympathetic to the proposal to give the Authority discretion to apply derogations to the licence rules. Although allowing the Authority to determine case-by-case exclusions from these general rules may seem proportionate, in practice it may add to consumer confusion. It is important that consumers have an extremely clear understanding of their contractual rights and how their product will behave. A baseline that allows for ad hoc exclusions from this may frustrate this aim.

We would like to better understand what is envisaged. It may also be useful if you can create a process flow that shows how these changes would work in practice – what choices consumers have and when, whether these are opt-in or opt-out etc. This may make the proposals in this area easier to grasp for your stakeholders and allow for any practical issues to be resolved.

Question 3: Is 30 days the appropriate notification period for mutual variations? Should there by any exceptions to our proposals for mutual variations (eg direct debit amount variations)?

We are happy with Ofgem's proposals.

Question 4: Are there any expected implementation issues or costs associated with this proposal?

Not applicable.

Question 5: Do you agree with our proposed timetable for implementation of our proposal?

Yes. It is important that the requirements come into effect as quickly as possible.

Chapter 10: Market Cheapest Deal

Question 1: Do you agree that we should trial a Market Cheapest Deal initiative?

We think this is an interesting initiative. However, we think there are numerous challenges around its implementation, which we will leave to the suppliers to detail. Our main concern is that it relies on consumers taking action to switch to a better deal. We think there is a strong chance that the proposed approach will have only a very limited impact. Our previous research **Missing the Mark** showed that such consumers are less likely to react to prompts on communications from suppliers. The proposed information remedies should have a positive impact on the quality and readability of the bills and statements produced by suppliers. However, it is unclear whether this will translate into further action being taken by consumers, particularly the most sticky consumers.

There is a significant proportion of consumers, many of whom are in vulnerable positions or on very low incomes, who are unlikely to ever voluntarily engage in the competitive market. The most vulnerable consumers often fail to claim existing means-tested benefits and grants, yet these are the consumers who need help most. We are concerned that these may also be the consumers who are least likely to take advantage of the market cheapest deal initiative. Many of these consumers would be better served by directly receiving an automatic price support, as exists with the Warm Home Discount core group.

The issue could potentially be addressed by setting up a process by which WHD recipients (for example) are automatically transferred to the market cheapest deal. Such consumers should be offered the opportunity to opt out of the process if they wish. The involvement of a third, trusted party may make the process more acceptable.

Other low income consumers who do not claim the benefits to which they are entitled may benefit from alternative approaches that do not require means testing. For example, they might relate to inherent characteristics of low income consumers such as their generally low consumption levels (see answer to Q2 below).

Question 2: Do you consider there are other approaches we should consider to address the particular issues with engaging sticky and/or vulnerable consumers? If so, what are they?

As Ofgem is aware, Consumer Focus is leading a Fuel Poverty Advisory Group (FPAG) working group composed of suppliers, non-government organisations (NGOs) and others to investigate the potential for reforming tariff structures. The group is investigating three potential options:

1. Provide a protected block of consumption to which no levies are applied, then progressively increase recovery rates for subsequent blocks
2. Move recovery of fixed costs, both policy driven and other pass through costs eg distribution, to a consumption-basis
3. Provide social tariffs to certain low income consumer groups (based on Ofgem definition of 'social tariff')

The group originally intended to investigate Ofgem's proposal for a 'backstop tariff' pegged to a basket of tariffs to certain low income consumer groups but this concept has now been supplanted by the 'market cheapest deal' proposal.

We welcome Ofgem's involvement in the working group and would hope that it could work with us in providing the evidence base for possible reforms. As well as feasibility, we consider a key concern is the likely extent of take-up by consumers in vulnerable positions. The options under consideration by the working group are either based on inherent characteristics of low income and vulnerable consumers (ie they tend to have low consumption) or they assume benefits are provided automatically (as with the core group element of WHD).

Recent Consumer Focus switching research has shown the poorest consumers are more likely to experience problems during the switching process and are twice as likely as other groups to cancel their switch as a result. These consumers are also three times less likely to use a price comparison service to shop around and, of those who do switch, almost half (43 per cent) say they would not switch again in future, compared to 17 per cent of other groups. All of which shows the extra challenges associated with engaging lower income consumers in the switching process.

It is important to note that significant changes to the benefits system are due to take place during the same period as the RMR proposals will come into effect. Many households will be experiencing significant challenges, including having to manage with less income. It is for this reason that we believe alternative option, in which groups of consumers are proactively offered savings on their energy bill, rather than having to search them out, may be a more suitable alternative and be able to deliver greater benefits to these households.

Question 3: Would you be willing to work with us in conducting the trial?

We would be interested in participating in the working group looking at this proposal.

Consumer Focus
Campaigning for a fair deal

Consumer Focus response to Ofgem's Retail Market Review consultation
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