

18 February 2013

Philip Cooper  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Philip,

### **Forward Work Programme 2013/14**

Consumer Focus is happy to respond to the Ofgem consultation on your Forward Work Programme for 2013/14. This submission is entirely non-confidential and may be published on your website.

We broadly agree with the four main work themes of:

- Promoting value for money
- Promoting security of supply
- Promoting sustainability
- Ensuring efficient delivery of Government's consumer and environmental programmes

We also agree with the proposed budget and deliverables under these four key themes. However, we think that Ofgem should take on some additional projects which would fit within the existing proposed themes.

As raised in our response to Ofgem's 2012/13 Workplan,<sup>1</sup> Consumer Focus would like to see Ofgem develop a methodological framework for assessing the distributional impact of major policy proposals on different types of consumers. This could be usefully broken down by income, region, and energy consumption. For instance, this should include distributional analysis of the impact of smart metering and demand response tariffs; paying special focus to understanding the impact on fuel poor customers and those in vulnerable positions.

The regulator should also conduct a study on the consequences and costs/benefits of applying social or environmental levies on a per unit, as opposed to a per household basis. We believe that there is still a need for Ofgem to carry out this work. Indeed there is a greater requirement for this analysis given Ofgem's proposals for tariff reform under the Retail Market Review (RMR) proposals.

We welcome the continuing publication of weekly updates on the links between wholesale and retail prices. We note that industry continues to refute their accuracy and would encourage you to consider whether European transparency powers can be used to force the companies to disclose their actual costs in order to resolve this. We would also like to see you consider whether it is possible to publish disaggregated information on the trends in supplier costs as this would greatly assist in providing scrutiny on their claims around the time of price announcements.

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<sup>1</sup> <http://bit.ly/11QIH9w>

There is a pressing need to get fresh blood into the supply market, and we would encourage Ofgem to identify ways to achieve this. The regulator could usefully look at the credit requirements facing parties to identify if they are finding the right balance between mitigating risk and facilitating open markets; we suspect the market is over-collateralised and that this is protecting market incumbents rather than consumers. This issue is likely to become particularly pressing as both the Capacity Mechanism and Contract for Difference Feed-in Tariff mechanisms in the Electricity Market Reform Bill are likely to result in further credit demands on small players.

While we are unsurprised to see liquidity feature again in your workplan, it would not need to be if progress in this area had not been so slow. Poor liquidity in the wholesale power market has been an acknowledged concern of Ofgem since the Energy Supply Probe of 2008, and appears to have been a corrosive feature of the market as far back as 2004. Illiquid markets:

- constrain competition in both wholesale and retail markets, inhibiting the entry of new generators and suppliers
- reduce transparency on the real cost of energy, reducing consumer confidence that the price they pay is fair
- remove long-term signals on the value consumers place on secure supplies, resulting in increased likelihood of Government intervention to deliver this (for example, through the introduction of capacity markets).

Ofgem urgently needs to make progress in this area – further delay is unacceptable. We will start calling on Government to use legislative powers to tackle this problem if we do not see material signs of progress by summer 2013.

We note that a substantial part of Ofgem's workstream on 'Promoting value for money' will be the development and implementation of the RMR proposals. Consumer Focus intends to work proactively with Ofgem in the development and implementation of this. As well as implementation, Ofgem needs to commit to close monitoring of the RMR package of remedies to ensure that it is effective in achieving the stated aims and also to ensure that any unintended consequences are swiftly dealt with.

As mentioned in previous consultation responses, Consumer Focus would urge Ofgem to carefully consider its plans to publish additional consumer information and advice on its website. There are already multiple 'official' sources of information aimed at energy consumers, which has expanded with the launch of the Green Deal and could expand again with the roll-out of smart meters.

For instance, to help simplify matters, Consumer Focus is in the process of transferring its existing consumer education content to the Citizens Advice Service's adviceguide website.

We would also reiterate our call for Ofgem to look at consumer engagement and redress across the wider energy services market and assess how consumers can be best served given the increasing development of bundled services that often incorporate multiple regulators and redress systems. Ofgem needs to define its role in relation to other regulators and government departments, such as the Department of Energy and Climate Change (DECC) and Department for Business, Innovation and Skills (BIS), to ensure consumers are adequately protected and engaged in an increasingly complex energy supply and energy services market.

Consumer Focus is interested in understanding how Ofgem intends to respond to calls from the Energy and Climate Change Select committee report on consumer engagement in the energy sector<sup>2</sup> for the regulator and DECC to work together to devise an honest and open conversation with consumers about the potential costs of network renewal and ensuring security of supply.

We are pleased that Ofgem intends to tackle the issue of Third Party Intermediaries in both the domestic and non domestic sectors. However, it would be helpful if the timetable (consultation to be published by end of the first half of 2013/14) could be speeded up. Developments in this sector have been moving quickly with a huge increase in collective switching schemes and, just recently, the launch of a new style intermediary service MoneySupermarket/MSE's Cheap Energy Club. These new services have the potential to increase consumer engagement levels. However, consumer confidence could quickly be lost if consumers start experiencing problems with such services. One such issue is the potential loss of the Warm Home Discount for consumers who transfer to 'small' suppliers, and the absence of any warnings about this. Clear guidance and/or a code of practice published by Ofgem for intermediaries will be essential. Ofgem is also aware that the Confidence Code for price comparison sites, which the regulator is due to take over by 31 March, requires updating.

In our response to Ofgem's 2012/2013 workplan we welcomed Ofgem's increase in enforcement activity. However, we are frustrated at the pace of investigations and note that this year Ofgem plans to conclude a number of misselling investigations that were opened in 2010. While we are aware of the complexity of such investigations, we believe that it is essential for the Enforcement Review to look at how to reduce their length. Timely investigations are essential to promoting consumer and supplier confidence in Ofgem.

Finally, we are looking forward to the publication of Ofgem's new vulnerability strategy. Consumer Focus expects to continue working closely with Ofgem on debt and disconnection issues in both the domestic and non domestic sectors.

If you have any further comments or questions about this response please do not hesitate to get in contact.

Yours sincerely



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Director of Energy  
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<sup>2</sup> <http://bit.ly/ZagF2e>

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