

Response to The Retail Market Review –Updated domestic proposals



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Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS works with both the Scottish and the UK Governments on energy efficiency programme design and implementation.

EAS welcomes the opportunity to respond to this latest consultation on the retail market review.

Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 756,000 (35.6%) in 1996 to 293,000 (13.4%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improve energy efficiency of housing¹. The most recent figures² from the Scottish House Condition Survey Key Findings Report show that there were 684,000 households living in fuel poverty in Scotland in 2011, representing 28% of total households.

According to figures produced by the Scottish Government³ early in 2008, for every 5% rise in fuel prices an estimated 40,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently 900,000 households, more than four in ten, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic fuel prices and EAS is very concerned about the impact on vulnerable customers.

Chapter 6

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?

EAS would welcome the introduction of such information on consumer's bills. EAS believes that it is not always necessary to change supplier to gain a more competitive offer or one that is more suited to the individual consumer's needs. Clearer information that makes different offers more transparent would be immensely helpful in allowing consumers, irrespective of current payment method or tariff to make a more informed choice about their method of paying for energy used.

In addition, EAS believes that 'dead' tariffs must remain an option for those consumers who wish to retain them and that information on these particular consumers' bills must enable them to make accurate comparisons with other tariffs on offer.

¹ Fuel Poverty in Scotland: Further Analysis of the Scottish Housing Condition survey 2002

² Revised Scottish House Condition Scotland Key Findings Report 2009

³ Estimate of Fuel Poverty Households in Scotland: Scottish House Condition Survey March 2011

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

EAS would agree with Ofgem's approach on setting some criteria around the supplier's tariff eligibility. Offers that are only available to selected groups or numbers of consumers for very short periods of time, simply add to the confusion already felt by many consumers interested in switching. EAS would certainly agree that niche, limited application and limited availability tariffs should not be included as examples of the cheapest tariffs available from any supplier.

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

EAS is not convinced that consumers with either smart meters or those on time of use tariffs require separate consideration under these particular policy proposals. Although it might be possible that this type of consumer is already on the cheapest possible tariff from their supplier they should still be aware that this is the case and the inclusion of TCR in the annual statement should allow this type of consumer the further ability to shop around for similar tariffs from other suppliers.

At the same time, EAS would also comment that suppliers should not be allowed to show a ToU as their cheapest tariff if the consumer does not have an electric heating system as this might be seen as encouraging the consumer not only to switch to a tariff that they could not use but also as a means of encouraging them to replace the heating system they are currently using by way of a promise of a cheaper bill. The complex calculations and discussions on what is the right heating system for an individual consumer should be carried out by an expert in a one to one situation and not be promoted by this policy.

In addition, EAS believes that the tariff information presented to ToU consumers must include the times during which each 'element' of the tariff is available. This is not currently available on comparison websites and consumers are unable to make viable, like-for-like comparisons.

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

EAS has no further suggestions on further rules at this time.

Chapter 7

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

EAS would agree that there is a need for the introduction of a price comparison tool. The outlined suggestion and methodology in the consultation seem entirely reasonable and in EAS's opinion would greatly assist in making comparisons much simpler for consumers. When added with the personal projection calculation this will give far greater simplicity and clearer understanding to consumers.

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?

Again EAS is content with the terminology being proposed, however clear we believe this to be we would bow to the experience of the consumer focus groups used by Ofgem and would happily support whatever suggestions they provide in terms of language and terminology. It is important that consumers feel able to read and truly understand the information provided to them.

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.

EAS believes that the proposals do strike an appropriate balance, they are neither too technical in nature requiring the consumer to be technically minded in turn nor are they too simplistic in that they provide information that is too generic, as can be the case currently, that the comparison is worthless as it fails to be in a usable format comparing apples and oranges and not on a like for like basis. In particular the inclusion of the daily standing charge in this calculation is very helpful in providing a true picture of the total energy cost.

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.

With regard to regional TCRs, it is not entirely clear whether the Great Britain averages are the tariffs on offer or whether Ofgem intends that these be presented as an average to better enable comparisons. If the latter, EAS believes that whilst this might appear to 'remove confusion from tariff price comparisons' (and weighting might mitigate risks), there is potential for consumers to misunderstand the tariffs on offer if these will differ by region. Such an approach will do nothing to encourage consumer trust, continued engagement with the market and the switching process.

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?

EAS would be very supportive of any requirement that ensured that suppliers provided the most up-to-date information on tariffs. EAS understands that perceived barriers may have been due to the sheer number of tariffs available at any one time and the fact that they changed in what seemed almost a daily cycle. However, given Ofgem's and indeed the Prime Ministers wish to have significantly fewer and simplified tariffs then there should be no real barrier to the publication of up-to-date tables. The question of who should publish them is more complex given the changing landscape of consumer representation. With the demise of consumer focus, who in EAS's view would have been the natural home for the this type of support, it may be that the new role given to Citizens Advice and Citizens Advice Scotland would allow for these two organisation to be the third party publishers of such tables.

Alternatively, given the level of funding provided by the energy companies to Energy UK they could be the repository for the suggested tables given they already have a customer centred part of their website.

However, EAS is very mindful that not all homes have ready access to the internet and as such arrangements would also need to be put in place to ensure that paper copies would

be available to anyone who requested them. Again it might be possible for Citizens Advice and Citizens Advice Scotland to provide this service.

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?

EAS has no concerns other than finding the appropriate outlet for the publication of tables. EAS believes that there should be a period no longer than six months after the decision has been taken to implement the outcome of the decision. This timescale would allow the agencies to provide tables enough time to put in place methodologies for the collection and publication of data and for the energy companies to make such data available.

EAS would suggest that by way of keeping the tables current, any energy company who makes a change to a tariff must at the time of issuing notice of that change also provide that information to the third party who is producing the tables.

EAS understands that there could be a great deal of work for the third party in this, but as previously stated a reduced number of tariffs should lead to a reduction in the volatility of this seeming ever changing market activity.

Chapter 10

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

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?

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

In response to the questions set in chapter ten EAS would provide the following comments. The issue of security of data is one which we believe would make this overly complex and potentially costly to consumers. While some consumers might switch to continually chase the cheapest deal it is unlikely that these will be vulnerable consumers, for these customers EAS would rather see the establishment of an annual review of their account by their own energy supplier, the provision of detailed projection and information on the cheapest tariff and payment method offered by the current supplier before moving to what could turn out to be a costly experiment. As for sticky customers it is EAS's belief that the introduction of simplified tariffs, the provision of the TCR and the personal projection calculation may well be enough to encourage those sticky consumers to shop around if they truly believe that the switching process has become more straightforward and that they have a clearer understanding of the offers from suppliers.

However, EAS would agree that this option is one which Ofgem should retain as a future piece of work if after all of the above measures are introduced there is still evidence to suggest consumers are no better off than at present. EAS would suggest that a decision be taken one year after the introduction of the other proposals suggested in this current Retail Market Review for the reintroduction of the Market Cheapest Deal option.

General comments:

Although we welcome every opportunity for consumers to be better informed and able to make informed decisions, EAS would not welcome any approach that results in additional costs being passed through to consumers, particularly those that are vulnerable and/or fuel poor. There is as yet no indication of the likely costs of implementation and ongoing administration of this initiative. Will suppliers incur significant additional costs? If it should prove necessary to establish a third party agency to facilitate data sharing, what will the additional cost be? Have there been lessons learned from implementation of the Warm Home Discount, for example, that can be used to better inform calculations?

According to Ofgem, ' a lack of standardised language across the energy industry further compounds the belief among consumers that the energy market is confusing in general terms communications from suppliers are not consumer-friendly, and consumers cannot be relied upon to automatically know the meaning of kWh, unit rate, standing charge, or any other energy-related terminology that is not part of their day-to-day vocabulary..... many respondents were unsure or only had a limited understanding of how their energy bills were made up'. EAS would welcome more information/ greater clarity in terms of the approach to be taken to ensure that consumers understand the TCR and its associate parts (regional information, personalised information, projected consumption, etc – all effectively new terminology to the consumer) as well as the meaning of kWh and other energy-related terminology.

Ofgem has indicated that it intends to derogate dead tariffs. While we understand the rationale for this, EAS remains concerned that consumers being moved from these tariffs will end up on a more expensive alternative.