

# **Response to Ofgem Consultation on Policy Effect and Draft Licence Conditions: Retail Market Review - Final Domestic Proposals**



## **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 Ofgem's RMR Final Domestic Proposals. Given its remit, EAS's response focuses primarily on those areas that it considers impact most on fuel poor and vulnerable consumers

Suite 4a  
Ingram House  
227 Ingram Street  
Glasgow G1 1DA  
Tel: 0141-226 3064  
Fax: 0141-221 2788  
Email: [eas@eas.org.uk](mailto:eas@eas.org.uk)  
[www.eas.org.uk](http://www.eas.org.uk)

## **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 improved energy efficiency of housing<sup>1</sup>. The most recent figures<sup>2</sup> 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 Government<sup>3</sup>, for every 5% rise in fuel prices an estimated 46,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently as many as 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.

## **Simpler Tariff Choices**

EAS believes that there is a fine line to tread between reducing the number of tariffs and continuing to offer consumers a real choice. The final RMR proposals have the potential to stifle innovation and to some extent represent a preference for uniformity at the expense of choice. Although EAS supports a reduction in the number of tariffs currently being offered, EAS firmly believes that the key to tariff simplification lies not solely in the number available, but in the ability of consumers to easily, quickly and successfully compare.

There are currently 68 licenced electricity suppliers and 46 licenced gas suppliers. Even limiting these to a strict and unambiguous 4 core tariffs, there could still technically be 272 electricity tariffs and 184 gas tariffs on the market. Although the reality is that there will be fewer than this number for the average consumer to choose from, each consumer will also still have to be able to take additional factors into account when selecting the most appropriate tariff. Meter type (given that there are 4 core tariffs for each)? Discounts, reward points, dual fuel and payment methods? Bundled products/services and opt-in/opt-

<sup>1</sup> Fuel Poverty in Scotland: Further Analysis of the Scottish Housing Condition survey 2002

<sup>2</sup> Scottish House Condition Survey Key Findings Report 2011

<sup>3</sup> Fuel Poverty Statement: Progress Update November 2010



out/tied 'variations'? Regional tariffs? Collective switching tariffs? Consumers need to be clear on what each of these mean in practice.

Ofgem themselves point out that effective engagement requires consumers to be aware that they might find a better deal if they shop around. There is a general concern about the degree of uniformity presented by having and (more importantly) advertising only 4 core tariffs. Standardisation of tariffs is less likely to drive consumer engagement than financial gain, so the probable consequent reduction in differentials (empirical evidence shows that financial gain is the most important driver in switching) might actively discourage some people from shopping around.

EAS remains concerned about the possibility of price increases resulting from a reduction in the number of tariffs and believes that one consequence will be cheapest tariffs being withdrawn. Active consumers who previously benefited from these offers will be worse off and may become less likely to engage in the future. At the same time, disengaged consumers will not be any better off.

### **Clearer Information**

EAS welcomes Ofgem's proposals in terms of providing clearer information to consumers and in particular fully supports the requirement to provide the specific information that a customer needs to be able to compare alternative tariffs. EAS sees the Tariff Information Label as a welcome addition to the information provided.

EAS has concerns about the TCR, not least because it is a tool that will not be of use to all consumers e.g. not clear whether or how it will be made available, or how it can be effective, for ToU consumers. TCRs cannot fully take into account discounts, bundles, etc, and consumers who make a comparison on the basis of the TCR might switch before realising they're losing out (because the vast majority of switching decisions will be on the basis of price).

There is still a need for greater clarity in terms of the approach to be taken to ensure that consumers understand what a TCR is and how it, along with its associate parts, applies. It has already been established by Ofgem and others that many consumers don't understand what kWh and other energy-related terminology means. It's also not entirely clear how a TCR would work if Ofgem decides to set a standing charge for some tariffs at zero, as they have suggested could be the case?

EAS supports Ofgem's intention to provide more and clearer information, but in terms of how a generic TCR is expressed, EAS does not believe that clarity is achieved by showing/expressing the TCR in ppkWh on the same page as the actual unit rate, also expressed in ppkWh. This information may be misleading, especially for those who use either significantly more or significantly less fuel than average.

Ofgem is prescriptive about what information is to be provided to consumers, but may have to consider alternative approaches if consumers are to get genuinely better deals. For example, in terms of a 'supplier cheapest deal', suppliers must be able to present and promote fixed price tariffs in an appropriate way. The fact that a fixed price tariff is not the cheapest at a particular moment in time does not mean that it will not be the cheapest option over the whole life of the fixed price agreement.

An additional concern, and one not fully addressed within the Impact Assessment, is the likelihood of increased costs for consumers resulting from this proposal. Suppliers will



incur additional costs for design, implementation, administration, etc - also possibly higher licence fees to account for Ofgem's expanded role? EAS could not wholeheartedly condone any scheme that results in higher fuel bills for consumers. Low-income households living in energy-inefficient homes already pay disproportionately more as a result of pass-through costs in support of government policy.

### **Fairer Treatment**

EAS welcomes Ofgem's proposals to ensure 'fairer treatment', though given the degree of prescription imposed on its other proposals within the RMR, is surprised that Ofgem is taking a principles-based approach to implementation. It would be helpful if Ofgem could clarify how they will interpret/measure/judge 'reasonable', since this is the term that seems to govern most elements of the guidance and enforcement processes.

### **Additional Points/Conclusions:**

Ofgem has acknowledged (December 2012) that the proposal to reduce the number of tariffs risks reducing competitively priced variable and fixed offers due to co-ordinated effects, but adds that they consider that overall competitive pressure exerted by a more engaged customer base outweighs this risk. EAS finds little in Ofgem's Impact Assessment or other documentation related to the RMR that would support this considered belief.

'Marketing' of a reduction in the number of core tariffs will be crucial to consumer understanding. A poorly targeted/delivered message might result in some consumers thinking that they do not need to engage with the market either because:

- they think they will automatically be put on the cheapest tariff and don't need to shop around, or
- they might think that all supplier offerings are the same and there is no point switching

The introduction of smart metering was expected to lead to the development and introduction of new tariffs, designed specifically to offer consumers more options and to encourage them to use energy more effectively. Without incentives such as new tariffs for the smart meter market, will there be an adverse effect on this market? With only 4 core tariffs to work on, suppliers are unlikely to introduce tariffs for smart meters until such times as the roll-out is well under way.

EAS continues to express concern at the regressive nature of the levies that already apply to domestic consumers' bills. Vulnerable and fuel poor consumers pay disproportionately more because the levies apply regardless of energy use - a single pensioner in a one-bedroom home pays the same as a working family in a four-bedroom home. Fuel poverty levels in Scotland are already at an all-time high and consumers, particularly the vulnerable, must not be expected to bear even more costs.