



Action for Warm Homes

Maxine Frerk
Ofgem
9 Millbank
London
SW1P 3GE

National Energy Action
West One
Level Six (Elswick)
Forth Banks
Newcastle upon Tyne
NE1 3PA
Tel: 0191 261 5677
Fax: 0191 261 6496
Email: info@nea.org.uk
<http://www.nea.org.uk>

23 May 2014

Dear Maxine

Consultation on a proposal to make a market investigation reference in respect of the supply and acquisition of energy in Great Britain

NEA is a national charity working to increase investment in energy efficiency to tackle fuel poverty in vulnerable households. NEA believes that radically improving the fabric and increasing the efficiency of heating within our homes represents the most cost effective, long-term domestic solution for tackling high energy bills and fuel poverty. Within the recent 'State of the Market Review' Ofgem found that trust in energy suppliers is currently very low. Many organisations, including suppliers, have therefore welcomed the opportunity of a market investigation by the Competition and Markets Authority (CMA) to improve confidence and ensure that the barriers to effective competition within the energy market are finally addressed. NEA also believes that any concrete steps at boosting trust in the energy market (and in particular with suppliers) is critical, especially in order to ensure low income and vulnerable households come forward and receive the assistance provided by the obligations placed on Britain's largest energy companies by the UK Government.

Concluding the Ofgem consultation and any resulting CMA process and remedial action could however take well over a year to complete. With over 4.5 million households across the UK currently living in fuel poverty, all of whom need assistance now so they can adequately heat their homes, NEA urges Ofgem to ensure that in the interim there is no hesitation or hiatus in providing (or through the new Fuel Poverty Strategy in England, expanding) necessary support to these households.

In addition, NEA would also urge Ofgem (and if referred, the CMA) to note that whilst energy bills have risen much faster than inflation for all households and businesses, in March 2014 the Institute for Fiscal Studies (IFS) illustrated that the largest impact on living standards of UK households was being felt by the poorest households. In particular, the IFS showed how there are significant differences in the spending patterns of low- and high-income households and critically that increases in energy prices have been (and are) disproportionately felt by low income households. Left unchecked these trends will continue and enhancing competitive pressure alone will not end the scandal of the poorest households living in the coldest homes.

Continued.../

the national energy action charity

President: Charles Hendry MP. Vice-Presidents: David Green OBE; Baroness Hilton of Eggardon; Ruth Thompson OBE; David Porter OBE; Baroness Maddock; Lord O'Neill of Clackmannan; Lord Shipley of Gosforth OBE. Chairman: Patrick Law. Chief Executive: Jenny Saunders OBE.
NEA is an independent charity, Registration No. 290511. Company limited by guarantee. Registered in England No. 1853927.
Registered office as above

Due to the policy decisions made by central Government over successive Parliaments, suppliers are currently central in addressing this broader issue. However, whilst there remain genuine question marks over whether it is appropriate for energy suppliers to continue to deliver all environmental and social schemes on behalf of the UK Government (especially in England), as noted above, the CMA process must develop terms of reference which allow for a review of the extent to which these policy delivery decisions are causing distortions within the competition of the energy market but without proving a platform for the industry to argue there should be a let up in the delivery of the current programmes. The review must also not unfairly tilt this discussion towards the largest energy companies and the CMA must also investigate whether any distortions are being created (or exacerbated) by the current (and growing practice) of exempting smaller suppliers from these programmes and whether this is sustainable in the longer term.

Finally, if the CMA is intended to improve trust and transparency in the sector, the Government must also acknowledge that their actions are also resulting in activities that exacerbate energy related hardship (without contributing to enhanced environmental or social goals). In order for the CMA to be effective it must be required to establish the true extent to which HM Treasury are currently benefiting from a windfall through the Carbon Price Floor and the extent to which carbon tax proceeds increase in the future. The CMA should also investigate the distortion created within the energy market (between different categories of consumers) as a result of policy decisions to protect energy intensive users from the escalating costs of the Government's own Electricity Market Reform (EMR) instead of funding these policy exemptions out of general taxation. In addition, NEA has investigated the way in which VAT is currently applied to these policies. As a result, NEA asserts the current way in which VAT is applied to all consumer funded levies (but particularly the Carbon Price Floor) should be construed as 'double taxation' and this too should be investigated.

We would be happy to discuss any issues raised by us in more depth if you would find this helpful.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jenny Saunders', with a small flourish at the end.

Jenny Saunders OBE
Chief Executive
National Energy Action (NEA)