



Forward Working Plan Team
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By email to: fwp@ofgem.gov.uk

14 February 2018

Dear Forward Working Plan Team

Draft Forward Work Plan

We welcome the opportunity to comment on Ofgem's proposed Work Plan for 2018/9.

We agree with your four priorities: delivering a fairer, smarter and more competitive retail market; protecting the vulnerable; facilitating the transformation of the energy sector and ensuring networks provide good value for money.

We also warmly welcome Ofgem's increasingly collaborative approach to delivering those priorities, such as early opportunities to comment on working papers in order to shape consultations (such as the Supplier Communications Working Paper); draft RFIs; and non-traditional forms of consultation, e.g. workshops.

In terms of the first two priorities (delivering a more competitive retail market and protecting the vulnerable), we support protection for those on Standard Variable Tariffs (**SVTs**), above all the vulnerable, and will work constructively with Ofgem to deliver that protection where needed.

However, it is essential that any price protection is appropriately costed and targeted: for example, we agree with Ofgem's headline proposal to extend the Safeguard Tariff (**Tariff**) to more customers, based upon the detriment suffered by those most in need. However, in order to effectively tackle this detriment, it is essential that the Tariff is both appropriately targeted (in terms of eligibility, by using data matching) and costed (by building a "bottom up" cost stack as a basis). Without such an approach, there is an unacceptable risk of inconsistency and adverse consequences between different groups of customers and suppliers. This risk is made much sharper given the possibility that this approach could become hard-wired in terms of price protection for vulnerable customers (although we note with approval Ofgem's indications that the basis for the up-coming market-wide safeguard cap will be considered *de novo*).

In the case of the wider SVT cap, we agree that price protection should be temporary, until, as Dermot Nolan said recently, Ofgem's *"reforms to create a better retail market take effect and the rollout of smart meters completes."*



We likewise agree that these reforms should include faster switching; more work to guard against erroneous transfers; reforms to supplier communications and trials to "Check Your Energy Deal" and "Cheapest Market Offer".

However, effort must be concentrated on where consumer detriment/potential consumer benefit is highest. For example, engagement trials should be focused on those suppliers with a large proportion of customers on SVTs for a significant period of time, or with suppliers with a lower quality of prompts and communication. This approach would ensure Ofgem's limited staff resources are concentrated where they are most needed. We are concerned that, at times, Ofgem has taken on too much and has therefore explicitly ruled out necessary work (such as producing a "bottom up" cost stack for the extended Safeguard Tariff).

Likewise, efforts to improve industry processes should rigorously analyse the potential costs and benefits to concentrate effort. Whilst we strongly support both faster switching and the smart meter rollout, Ofgem must remain vigilant and have sufficient resources to address the risk of cost and time overruns by the Data Communications Company (DCC) in particular and indirectly the wider contractual web anticipated for delivery of Reform Package 2a. We are also concerned that, at times, the benefits case for certain programmes (e.g. the 15% switching increase presumed by faster switching) have likely been overstated and the challenges of meeting certain deadlines (e.g. the 2020 smart meter rollout target) underplayed. Compressed or unrealistic timelines ultimately add cost for all stakeholders, and ultimately and more importantly for consumers. Programme costs and benefits need to be regularly scrutinised and updated. We do recognise that Ofgem is aware of these risks given its experience on Project Nexus, and now Faster Switching, and that e.g. for Faster Switching, this has been taken into account in the detailed delivery work.

Concentrating Ofgem's time on where customer detriment is evidently most significant would also reduce regulatory burdens for suppliers, one of the Work Plan's priorities. For example, our proportionately sized Data and Insights Team faces seven Government/Ofgem data requests to fulfil in the upcoming fortnight alone. Whilst we very much welcome the ability to comment on draft RFIs, the information gathering process of the RFIs themselves remains burdensome and is causing significant staff bottlenecks for mid-tier and smaller suppliers.

We note that customer detriment also arises when suppliers fail to, or poorly, implement industry processes. For example, the Erroneous Transfer (ET) process is often poorly executed, leading to confusion and stress for customers. Industry has historically been left to manage this, but self-governance of complex processes such as ET's has not been, and is unlikely to ever be, effective. We welcome the work of industry groups set up to improve matters, however the focus has not been on the root causes and in our view not on incentivising good process operations. Poor performers could be highlighted on the Citizens Advice league table for example, a type of suggestion which often seems overlooked. It is essential that continual pressure be brought to bear and any bottlenecks to solutions worked through within the Faster Switching programme or otherwise to address this long-running concern. Again, we are aware Ofgem is alive to this, in particular given the challenge to consider compensation at retail level for customers suffering from switching delays and other issues.



Our final comment regarding Ofgem's plans to reform the retail energy market is to note a significant omission: the oversight and regulation of smaller suppliers. There are two specific issues. The first is that the combination of light touch market entry; the increasing trend for suppliers taking money upfront, far in advance of bill receipt; and the "Supplier of Last Resort" (**SOLR**) process has created a real danger that inexperienced suppliers can quickly go under with large credit balances, with the cost of that collapse then smeared across the customers of other suppliers. Given industry has already committed £14.04 million following the collapse of GB Energy, and may likewise be faced with a further call against the levy for Future Energy, it is incumbent on Ofgem to conduct the GB Energy "Lessons Learnt" review pledged in last year's Work Plan. A supplier failure in these circumstances is surely not the much-vaunted play of the market but one where entrants and their customers are protected, the former through the uneven application of policy and other costs and the latter through the SOLR process. This raises at the very least, distributional unfairness and the significant risk of unsustainable entry.

The second small supplier issue relates to market distortion. 52 suppliers with under 250,000 customer accounts do not need to contribute towards the costs of essential programmes to help the vulnerable, from the Warm Home Discount (**WHD**) to the Energy Company Obligation (**ECO**). They also contribute materially less towards the costs of DCC and Smart Energy GB and do not need to submit binding rollout plans. This gives such suppliers a £40 - £50 advantage, distorting the market significantly as even the most efficient supplier simply cannot match their deals. Worse still, vulnerable customers are losing out, unable to switch without losing their WHD and yet funding more and more policy costs as increasing number of active customers switch away to the non-obligated suppliers.

We ask that Ofgem commits to evaluating this competitive distortion and, if found to be significant, to work with Government to reform the Energy Company Obligation and Warm Home Discount to ensure all suppliers contribute equally. Government is already required to consult on the future of ECO and WHD imminently, as the current regulations lapse in the summer of this year. We note that there is no longer an excess cost for smaller suppliers from participating in these schemes. The costs of the WHD will fall as data matching regulations are passed this Spring (we note four suppliers already offer the WHD voluntarily); and the new trading mechanism within ECO means that small suppliers can easily buy themselves out of their obligations (as is already case with the Renewables Obligation, for example).

Turning to your last two priorities, relating the transformation of the energy system and the management of networks: we strongly support your invitation to wider stakeholders to comment on charging consultations, given our customers pay for these charges as a "pass through" cost. We appreciate the parallel work on the 'forward looking' portion of network charges, in addition to the ongoing TCR on residual charging. Tariffs remain the mechanism by which signals are passed to customers on the benefits and costs they cause to the networks. We note the more accurately costed any price protection, the less these signals are diluted and the greater the benefits realised from this area of work.

Likewise, we agree it is appropriate and indeed timely that Ofgem conducts a "future facing" review of regulations through your "Supplier Hub" workstream, in order to facilitate innovation in the future. A smarter, cleaner and more decentralised energy system, with the home rather



than the supplier as the hub, will require a different regulatory approach and its right Ofgem is focusing attention on this matter.

In conclusion, we support Ofgem's four Work Plan priorities and increasingly collaborative approach. We look forward to working with you to deliver those priorities, whilst ensuring activity is focused where consumer detriment is the highest, and that such activity is appropriately targeted and costed. The work anticipated is significant for Ofgem and for stakeholders. This raises challenges for all market participants, of whatever size, to track, actively participate and otherwise contribute to this work programme, from providing robust evidence to contributing views and ideas. Ofgem should continue to make every effort to coordinate and sequence large-scale consultations, SCR checkpoints, large-scale regulatory submissions and RFIs to maximise the likelihood of gathering all the data and views needed to work effectively.

Finally, we would reiterate that for one important omission - the review of GB Energy outlined in last year's Work Plan – Ofgem should reinstate this, together with a general review of the impact of small supplier regulation/obligations on the overall competitiveness of the market.

Best regards

A handwritten signature in black ink, appearing to read "Natasha Hobday".

Natasha Hobday
Group Director of Regulation and Policy