

Consultation on the Proposed Default Tariff Cap

Submission by Prospect to Ofgem

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Introduction

Prospect represents 141,000 engineers, scientists, technical specialists and managers across the public and private sectors, and is the union of choice in the UK for managerial and professional employees. For more than a century, Prospect, and its predecessor unions, has represented managers and engineers in the electricity supply industry, and we have a unique insight into the challenges and opportunities facing the UK electricity sector. As a result, we believe it is essential that the collective expertise and experience of our members is given a central place in the formulation of policy concerning the retail energy market.

Prospect is cognisant of growing public concern about energy prices, whilst also noting that the public attitudes tracker run by the Department for Business, Energy and Industrial Strategy (BEIS) continues to suggest that most consumers are not worried about meeting their household energy costs. We continue to believe that public concern about rising energy bills is less about affordability and more about market design – consumers feel the energy market lacks transparency and that their bills do not accurately reflect actual costs. To the extent that this is the case, Prospect does not believe that a price cap is the most effective response to the problem and this policy approach carries the real risk of unintended consequences, in particular for the energy workforce.

Impact of the proposed cap on workforce resilience

Prospect is concerned that Ofgem's proposals for the default tariff cap do not contain sufficient safeguards to protect the workforce from company efforts to preserve higher EBIT margins at the expense of decent pay, benefits, and working conditions for staff. This is not a purely theoretical risk. More than one major supplier has already announced plans to reassess its pension benefits since the price cap proposals have been announced.

This is clearly unacceptable, and it is unjust and counterproductive to leave workers paying the price for a policy whose impact has not been adequately thought through. Needless to say, if the price cap results in a race to the bottom on pay and conditions for staff, this will have a significant impact on service quality and customer satisfaction, potentially resulting in a situation where consumers are trading higher service levels for a relatively small reduction in costs. This would be a particularly worrisome outcome in a context where high standards of customer service will be essential to improving customer engagement, which will in turn be essential to the successful functioning of smarter energy networks and systems.

Prospect notes and welcomes Ofgem's commitment to closely monitor the impact of the cap on the quality of customer service, but we feel strongly that this is not sufficient to mitigate the risk of long-term detriment to workforce resilience, and ultimately to the consumer. The kind of cost-cutting measures that suppliers may adopt to preserve profits from the impact of the cap, may not automatically and straightforwardly translate into worsening customer service in the short term and yet could still have an ultimately detrimental impact in the long term. For example, downward pressure on wages and benefits will impact suppliers' ability to recruit and retain the best staff,

while an intensification of the work process may lead to higher levels of stress and time lost due to ill-health.

For this reason, Prospect would like to see a commitment from Ofgem to consider the impact of the cap on workforce resilience at the time it updates the cap level every six months. This could straightforwardly be done, through regular, formal consultation with the workforce and their representatives, which would serve as an important and meaningful check on counterproductive supplier reactions to the cap.

We hope that Ofgem will give serious consideration to this proposal, or to implementing an appropriate and robust alternative mechanism for monitoring the impact of the cap on workforce resilience. If the price cap is to retain public legitimacy and be a just policy instrument, then it must not end up pitting consumers against energy workers, which would only lead to the ultimate detriment of both.