



*Ymgrychu Dras Gartrefi Clyd
Campaigning for Warm Homes*

Energy Supply Markets Probe – Call for Evidence Consultation Response from National Energy Action Cymru

<http://www.ofgem.gov.uk/Markets/RetMkts/ensupro/Documents1/Energy%20Supply%20Markets%20Probe%20-%20Call%20for%20Evidence.pdf>

OR <http://tinyurl.com/5wjxc4>

1. Introduction

- 1.1 National Energy Action Cymru (NEA Cymru) welcomes the opportunity to comment on Ofgem's call for evidence. NEA Cymru is part of the UK National Energy Action (NEA) Charity. NEA has been actively involved in the campaign to eradicate fuel poverty in the UK for over 25 years. We advocate the development and promotion of energy efficiency services to tackle the heating and insulation problems of low-income households.
- NEA Cymru strongly endorses NEA's response to Ofgem's call for evidence and will restrict our response to comments that are specific to Wales.**

This consultation comes at a time when the numbers of Welsh households in fuel poverty have nearly doubled and are at the highest levels seen for a decade as a consequence of increased energy costs. Our particular concerns with the operation of the energy market relate to concerns about inequity in the cost of electricity: both regional inequity and social inequity.

2. The customer's perspective and experience of the market

- 2.2 Wales has particular issues with social and economic deprivation and has a higher number of vulnerable consumers than in most other parts of the

United Kingdom.¹ Ofgem's ²research into switching has shown vulnerable consumers are generally less likely to switch supplier. In part, this is a rational response to risk. Poor households do not have the capacity to manage the financial consequences of double payments, for example because of problems with direct debit. Remaining with their incumbent provider is the safest, and for them, most rational option.

- 2.3 Further, it is clear that the energy market is too complex for the majority of the population to be able to make the most economically advantageous choice. Between one fifth and one third of consumers actually switch to a tariff that is more expensive³. They have not done this because they want to lose money, but because the market and information is so complicated. Although the net cost of such consumer detriment is just £14 to £35 a year, these small amounts can make a significant difference to the budgets of the poorest households.
- 2.4 Engaging in this extremely complex market requires high skills. Far too many people across the UK do not possess these skills, particularly in Wales where there is a significant problem with basic literacy, numeracy and financial skills.

3. Suppliers' market share - incumbent suppliers

- 3.1 Given that vulnerable consumers are least likely to switch, the behaviour of incumbent suppliers impacts disproportionately on this group. NEA Cymru is therefore very concerned at the practice of incumbent suppliers who charge higher rates than their market competitors. NEA Cymru urges Ofgem to intervene to end the practice whereby loyal customers are effectively punished for their loyalty. NEA Cymru believes that social protection is an appropriate justification for market intervention in prices charged to loyal customers, given that vulnerable groups would enjoy the greatest benefits.

¹ Welsh Consumer Council 2001, Consumer Disadvantage and Imperfect Markets

² 2008. Ofgem Consumer First – Key Findings. Consumer research carried out as part of the review and Ofgem's Consumer First

³ Social obligations and economic regulation, Professor Catherine Waddams, Centre for Competition Policy, 2004.

4. The competitiveness of suppliers' pricing and cost-reflective pricing

4.1 NEA Cymru is concerned that consumers in Wales pay more for their electricity than those in other parts of Great Britain. energywatch Wales recently provided evidence to the National Assembly for Wales' Sustainability Committee ⁴showing that the typical Welsh household pays around 10 per cent more for their electricity than customers in other areas. The research indicated that just over half of the premium paid by consumers in Wales could be accounted for by additional costs to serve, in particular grid charges. In our view, it is unacceptable that differential grid charges should be applied to the different regions of the UK, resulting in consumer disadvantage based on geography. NEA Cymru advocates an equitable, universal grid charge introduced across Great Britain. The Royal Mail sets a clear precedent where an essential service delivered through a commercial agency operates a universal charging structure.

⁴ <http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third-sc-home/bus-committees-third-sc-agendas.htm?act=dis&id=80589&ds=4/2008>