



Campaigning for Warm Homes

Consultation Document Response

Proposed corporate strategy and plan 2008-13

Source: Ofgem

Jurisdiction: Great Britain

Helping to tackle fuel poverty is one of seven themes identified as priorities in the work plan proposed by the regulator of the gas and electricity industry. This is NEA's response to Ofgem's consultation.

For the source documents see:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Proposed%20Corporate%20Strategy%200108b.pdf&refer=About%20us/CorpPlan>

(to ensure this link works, copy and paste into your web browser)

Or

<http://tinyurl.com/2jqjpx>

Ofgem's proposed corporate strategy and plan 2008-13

National Energy Action (NEA) is a charity working to ensure that low-income households have access to sufficient warmth for health and comfort at an affordable cost. NEA develops and promotes energy efficiency policy and practical initiatives to tackle the heating and insulation problems of low-income families and individuals. Given our charitable aims we take a particular interest in the contribution that all participants in the energy supply industry can make to the alleviation of fuel poverty. Our comments are accordingly confined to Section 6 of the strategy.

Question 1: Does this theme remain valid?

Ofgem will be well aware that price rises in recent years have more than doubled the number of households in fuel poverty, making it increasingly improbable that the Government targets to eliminate fuel poverty in vulnerable households by 2010, and in all households by 2016-18, will be met. Action to tackle fuel poverty is not simply valid but in our view is the most urgent priority for Ofgem if it is to fulfil its primary duty to protect the interests of consumers.

Questions 2 and 3: Have we identified all the relevant issues within the theme? Is Ofgem's approach to the challenges the right one?

We note the suggestion that the main focus should be on measures which are the responsibility of Government- raising incomes and improving housing. Whilst we agree that these are priorities we also believe that Ofgem is at risk of taking a complacent attitude on the issue of prices charged to low-income consumers, particularly bearing in mind that price rises have been principally responsible for derailing the UK fuel poverty strategy.

Leaving aside the current controversy over the extent to which there is genuine price competition in the retail market, there are genuine concerns about tariff differentials, the availability of social tariffs and the degree of switching by poorer consumers.

After a decade of competition it is a particular concern that only half of all consumers have switched supplier. More alarming from NEA's perspective is the fact that switching rates are lower than average, often substantially so, for many of the indicators of low income and vulnerability- for example using prepayment meters or paying by standard credit, over 65, social class E, unemployed. We do not share Ofgem's evident belief that it is the availability of competitive offers that is the measure of a market which works effectively, rather than the behaviour of those who shop in it. Continuing to monitor the market, as Ofgem proposes, seems unlikely to offer a remedy and we therefore welcome the suggestion that, belated as it may be, more work is to be undertaken to explore the barriers to switching by disadvantaged groups and, more importantly, what help and assistance is most effective in prompting them to switch. However, even in this proposal we note that results will not be immediate and that it is in any event predicated on the assumption that better advice and more persuasion will yield the desired outcome. In our view Ofgem should also now be considering alternative courses of action in the event that low-income consumers continue to be disadvantaged in the competitive market.

Evidence of such disadvantage is most prominently displayed by price differentials. Ofgem has itself calculated that the additional cost of prepayment for a dual fuel customer is £85, but only one supplier has an average prepayment price which is lower than this amount. In the most extreme cases the differential between internet only and prepayment prices can be as much as £300. In general terms the variation between the prices which incumbent electricity suppliers charge to customers who have remained loyal (if misguided) and those which it offers to customers of rival companies seem to be further evidence of market manipulation.

We note that Ofgem's primary duty to protect the interests of consumers refers to this being accomplished wherever appropriate by competition. In our view the evidence of market failure

is sufficient to at least call into question whether vulnerable consumers are best served at present by competitive markets. We see nothing in this proposed work programme to suggest that Ofgem is even prepared to contemplate this possibility, not least because of its dogmatic rejection of mandated social tariffs because they 'are not consistent with a competitive market'. In this context it is illuminating that there is no suggestion that competition should apply to the market for social tariffs themselves, so that consumers could switch to the best available social tariff. Rather Ofgem is prepared to accept that consumers are limited to the tariff that their existing supplier may choose to make available, subject to their meeting eligibility criteria which that supplier determines. Whilst our preference remains a mandatory tariff which provides equal treatment to vulnerable consumers, failing that we believe that Ofgem should establish a level playing field for the supply industry by setting minimum standards for social tariffs, as suggested by energywatch. Whatever conclusions Ofgem reaches on this issue we also believe Ofgem and suppliers themselves should invest considerably more effort and resources in ensuring that consumers and those agencies offering consumer advice are aware of the available tariff offers.

We are somewhat sceptical about the value of the proposal to 'build our understanding of the facets of vulnerability and the issues facing vulnerable consumers'. This is well charted territory in recent years, having been studied by energywatch, the Centre for Utility Consumer Law and the Eaga Charitable Trust. Aside from the special services needed by sick and disabled people it also seems to us that the key and common issue is affordability, which of course can be affected by a wide variety of changes in personal circumstances. Further exploration of particular segments of the low-income consumer base seems to us to offer limited value.

We support any initiatives which aim to ensure maximum co-ordination between EEC/CERT and the Warm Front programme. Much is made of the contribution that EEC/CERT makes to the elimination or alleviation of fuel poverty, but it is a continuing source of frustration that no efforts are made to measure the extent to which this is the case. Whilst we accept that the parameters of this programme are established by Defra it would nonetheless be useful if Ofgem were to investigate what it might usefully do via its role in monitoring progress and achieving targets.

We have also welcomed the efforts made by suppliers to conduct benefit entitlement checks as part of their programmes to identify and support priority group customers. We agree with Ofgem's view that raising incomes in the poorest households is primarily the responsibility of Government but this is clearly an area where the industry can usefully contribute to the objective. This is one issue which is not reflected in Ofgem's analysis of the challenges and we think it should be reflected in the proposed work programme.

Question 4. Should Ofgem revisit the issue of debt blocking to facilitate the participation in the competitive market of customers who are in debt?

We acknowledge that customers in debt, for whom affordability is a self-evident problem, arguably have the most to gain from switching. However we are aware that Ofgem's previous work on this issue, affecting prepayment customers with modest debts, led to a debt assignment protocol which has, to our knowledge, scarcely been used. In the absence of any indication of ways in which the problem might be addressed in future it is difficult to comment on whether action on debt blocking will have a more positive outcome than alternative courses of action, for example making a social tariff available to all those in debt, automatic referral to a Trust Fund for debt relief or provision of assistance with energy efficiency improvements.