



Association for the Conservation of Energy

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Ofgem: *Retail Market Review Consultation*

ACE response – June 2011

Introduction to the views of ACE

The Association for the Conservation of Energy is a lobbying, campaigning and policy research organisation, and has worked in the field of energy efficiency since 1981. Our lobbying and campaigning work represents the interests of our membership: major manufacturers and distributors of energy saving equipment in the United Kingdom. Our policy research is funded independently, and is focused on three key themes: policies and programmes to encourage increased energy efficiency; the environmental, social and economic benefits of increased energy efficiency; and organisational roles in the process of implementing energy efficiency policy.

We welcome the opportunity to respond to this consultation.

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Summary

1. The Association for the Conservation of Energy welcomes Ofgem's proposals for the simplification of evergreen tariffs. Simplification of energy bills will not only help consumers engage with the retail energy market but also help them to engage with and understand their own energy consumption.
2. The fixed charge elements of fuel bills cause low income households to spend more per unit for their energy needs. We believe that a 'standardised charge' is not only an essential part of the simplification of tariffs but also an opportunity to ensure that the fixed charge element is truly cost reflective. This would mean ensuring that only 'per customer' costs are included in the charge to ensure that the fixed elements of energy bills are as small as possible.

Answers to Specific Questions

Q1. Do stakeholders agree with our findings of the Review in relation to causes of persistent consumer harm and barriers to entry in the energy retail markets.

3. The Association for the Conservation of Energy agrees with the Review's finding as to the causes of consumer harm.

Q2. Do stakeholders consider that Ofgem should take action to reduce the complexity consumers face and enhance engagement with the energy market?

4. Yes, we would also emphasise that complex billing not only disengages customers from the energy market but also from their own energy consumption patterns. As a result disengaged customers may not only be missing out on the lowest energy tariffs but also missing signals that could encourage them to reduce their energy demand through efficiency measures and behavioural changes.

Q3. Do stakeholders agree with our initial proposal for intervention to reduce the complexity consumers face and enhance engagement in the energy market?

5. Yes ACE believes that a simplified charging structure is a vital step in engaging customers with their energy consumption and bills. More could be done however to explain the different features and services included in the price of different tariffs.

Q4. If not, then do stakeholders have alternative suggestions for proposals to reduce the complexity consumers face and enhance engagement in the energy market?

6. See answer to question 7.

Q5. We are proposing to standardise evergreen contracts across suppliers. Do stakeholders agree with the proposed contents of the standardised charge?

7. ACE believes that only obligations placed on suppliers on a per-customer basis should be included in the standardised charge. Whilst we understand the need for cost reflectivity within energy bills there are a number of reasons to keep ‘standing charge’ elements of energy bills as low as possible. Ofgem have previously identified these problems in their discussion paper ‘can energy charges encourage energy efficiency’¹.
 - Higher consumption is rewarded with a lower price for energy, since the fixed costs are diluted over a greater number of units
 - Energy efficiency investment becomes less cost-effective, since the marginal cost saving is lower than the average unit cost
 - Low income households typically consume less energy than higher income households; as a result they have to pay more per unit of energy consumed, which exacerbates the problems of fuel poverty.

8. ACE would like to see clear rules for the inclusion of ‘some environmental and social charges’ within the proposed standardised charge. Environmental charges currently make up 12% of electricity bills and 4% of gas bill. The burden of these charges are set to grow with future policies likely to be funded in this way, ACE estimates that by 2020 these charges will increase electricity prices by 36% and gas prices by 8%².

9. If these extra costs are passed-through to customers on their standing charge there will be a highly regressive impact on low-income households. The alternative, of passing-through costs to the unit price of energy is less regressive and would fit with the ‘polluter pays’ principle as those who use more energy would contribute more to the costs of environmental policies.

10. We cannot be certain of the method by which energy suppliers recoup the costs of the supplier obligations. Whilst many *expect* that the ‘per gas and electricity account’ division of the obligation between the suppliers would lead them to incorporate these costs into the standing charge portion of the energy tariffs, in fact suppliers are free to set their tariffs as they like. Whilst a perfectly effective competitive market would force them to be fully cost reflective, at present, as one respondent in interviews with energy supplier representatives told us: “suppliers have costs, but their products are priced according to what the market will bear”.

¹ Ofgem (2009) Can energy charges encourage energy efficiency?
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=28&refer=sustainability>

² ACE (2011) Costs of the ECO: The impact on low income households (in press)

11. This means that policy makers are currently unable to assess the negative impacts of policies paid for through fuel bills and it is impossible for them to enforce a desired method for passing-through the costs.
12. Ofgem's proposal would go a long way towards solving this problem, however ACE believes that the standardised charge should strictly contain only those costs placed on suppliers on a per customer basis. This would maintain cost-reflectivity whilst allowing environmental charges to be set in the way intended by policy makers.

Q6. We are proposing to create a standardised metric to allow consumers to compare evergreen and fixed term contracts across suppliers. Do stakeholders agree with our proposal for a standardised metric?

13. ACE agrees with the Report's proposal for an 'evergreen equivalent' metric for the comparison of tariffs. However, it is important that consumers are able to compare like with like and not all tariffs provide the same services. The key thing is not for customers to find simply the cheapest available tariff but to be aware of the service they will receive and the relative costs of different tariffs.
14. We propose that all tariffs are assessed against a standardised list of 'key features' decided by Ofgem. These might include; length of contract, method of payment, method of meter reading and other services offered as part of the tariff. Consumers would then be able to compare the cost of tariffs which offered the same or better services or see the savings they could achieve by reducing the service level they currently receive.

Q7 Do stakeholders have any comments on the costs and risks of our proposal, or any alternative suggestions that you have put forward, to reduce the complexity consumer face and enhance engagement in the energy market?

15. Whilst we agree that the simplification of energy bills is an important part of improving consumer engagement with their energy consumption, more detailed information should also be made available to those interested. A comprehensive bill breakdown will give consumers a better understanding of why their bill is, say, higher than last year or higher than their neighbour's on a different tariff type.
16. Whilst ACE has been pleased to see the roll out annual statements, far more could be done to aid consumers' choice. As well as presenting estimated fuel costs for the next year based on the current tariff, the estimated fuel cost based alternative tariffs from the same provider could be presented. In addition a predicted fuel cost could be presented on the basis that the home owner take up energy efficiency measures under the 'Green Deal' or other supplier obligation offers.