

ENERGY MARKET INVESTIGATION

Summary of hearing with the Energy Ombudsman held on 27 November 2014

Background

1. The Energy Ombudsman (the Ombudsman) was an independent organisation that investigated consumer complaints about energy supplier. It was appointed by Ofgem. Its sole responsibility was to facilitate complaint resolution, and its remit did not extend to advisory functions or advocacy on behalf of the consumer. The role of the Ombudsman had evolved as it now took a more proactive approach with suppliers by identifying trends in complaints and working with suppliers to resolve them.

The complaints process

2. The Ombudsman's terms of reference determined which complaints it should investigate. All decisions made by the Ombudsman, if accepted by the consumer, became binding on the supplier. Depending on the nature of the complaint, the award issued could be financial, non-financial or both. An example of a non-financial award would be a letter of apology issued by the supplier.
3. All licensed gas and electricity suppliers were required under the Consumers, Estate Agents and Redress Act (2007) to be a member of a redress scheme and the Ombudsman operated that scheme. Most complaints recorded by the Ombudsman were related to energy suppliers. About 1% of complaints related to networks such as National Grid.
4. The remit of the Ombudsman also covered microbusinesses. 12.3% of the complaints received by the Ombudsman were from microbusinesses. The threshold of what constituted a microbusiness was an annual level of usage of not more than 100,000 kWh for electricity or 293,000 kWh for gas, an annual turnover of not exceeding €2 million and a workforce of fewer than ten employees (or their full-time equivalent).
5. Whether or not a business fitted into these criteria was determined on a case by case basis based on information provided by the customer about their business. Occasionally the Ombudsman received complaints from

organisations that fell outside of the microbusinesses threshold, but argued that their actual levels of usage should classify them as a microbusiness.

6. Suppliers were required to signpost dissatisfied consumers to the Ombudsman if a complaint had not been resolved after eight weeks. It was then the decision of the consumer whether to take their complaint forward to the Ombudsman. The Ombudsman could receive complaints sooner if the consumer and supplier reached a position where the issue could not be resolved, known as deadlock, and this could happen from the first day the complaint was raised. Since 2010 until September 2014, approximately 22.8% of complaints within the Ombudsman's remit had been referred having reached this position, but this had fallen to 17.6% in the last six months.
7. When a complaint was raised with the Ombudsman, based on what the consumer told it, it chose a main and, where possible, a sub category with which to categorise the complaint. The most common categories were disputed charges, inaccurate invoices and customer service quality. Complaints about pricing did not fall into the Ombudsman's remit; however, it could review supplier activity such as requirement to notify consumers 30 days in advance of an increase in tariff.

The complaints received by the Energy Ombudsman

8. 84.9% of domestic consumers and 80.5% of microbusinesses complained about billing issues. These complaints might have been resolved prior to their referral to the Ombudsman but a consumer might still choose to refer their complaint if they had been unhappy with the way their complaint had been handled.
9. 4% of complaints accepted for investigation were about sales. These included complaints about data protection, erroneous transfers, suppliers making mistakes, mis-selling and the quality of customer service. Sales complaints were likely to be from microbusinesses. Microbusinesses were also less likely to complain about fixed tariffs as suppliers and microbusinesses would negotiate these tariffs and were more engaged than a domestic consumer.
10. Between late 2013 and early 2014, there had been a significant increase in the number of complaints raised to the Ombudsman. The main reasons for complaints during this period were not receiving a bill and disputed charges. After early 2014, back billing and inaccurate invoices were included in the most complained about issues.
11. Each one of the six largest energy firms had been the most complained about supplier at a particular point in time apart from SSE, which had consistently

maintained a relatively low number of complaints within that group of six firms. The Ombudsman was not aware of the exact reason for this, but it might be due to SSE taking a more proactive approach to dealing with complaints. The Ombudsman thought that the high level of complaints relating to Npower and Scottish Power might be due to their change in billing systems. Complaints would usually be dealt with by the supplier itself, but due to the large volume of complaints relating to these changes and lack of capacity to deal with them, the complaints would have been raised with the Energy Ombudsman if they had not been resolved within the eight week timescale.

12. Complaints about smaller suppliers had increased between the end of 2013 and the beginning of 2014. The largest amount of complaints during this period related to [§]. These increases could be due to a number of reasons such as a growing customer base, increased consumer awareness of the Ombudsman or supplier performance.
13. This increase in the public's awareness of the Ombudsman could be attributed to greater media exposure from the increased political attention the energy market was receiving and due to the work of prominent consumer champions. The Ombudsman had also run campaigns to raise awareness of its service.
14. However according to Ofgem's research, only about 5% of eligible complaints were actually referred to the Ombudsman. To address this the Ombudsman's contact details were made more prominent on the letters issued by the supplier at the eight week mark of the complaint process and on any letters issued by suppliers notifying consumers that their complaint could not be resolved.
15. The Ombudsman observed that its service was accessible but that there were groups of consumers who might find it more difficult to raise a complaint. For example, customers without internet access would not be able to refer their complaint online, and vulnerable consumers might need third party assistance. While the Ombudsman did not collect information on the socioeconomic backgrounds of the consumers that complained, there was a feeling that the majority of complaints came from consumers who could be described as coming from a middle class demographic.
16. While it was not the role of the Ombudsman to unduly engage with consumers to raise complaints, it wanted more people to be aware that the service was free and available should they wish to use it. The Ombudsman viewed complaints as a positive influence on the market as they allowed suppliers to make improvements to their service.

17. The Ombudsman also worked with the trade association Energy UK around a Code of Practice for Accurate Bills. The code set out what domestic consumers could expect from their energy supplier in respect of accurate billing and was signed up to by a number of suppliers. It also hosted Sector Liaison Panels, which occurred every two months, to identify emerging trends and issues and to facilitate a two-way communication between the sector and the Ombudsman in order to maintain and promote effective complaint handling in the sector.

Views on competition in the market

18. The Ombudsman admitted that it would be difficult to use the information it currently collected to understand how competition was working as it did not collect information on market shares or pricing.
19. The Ombudsman could not identify the impact of Ofgem's four tariff limit from the tariff complaints information it received. This was because complaints of this nature were more about the withdrawal of certain tariffs rather than the lack of tariffs to choose from. It noted that there had been a number of complaints from domestic consumers about the requirement to pay a standing charge.
20. The Ombudsman welcomed the recent changes made by suppliers to the format of their bills. These changes included using simplified language to improve the consumer's understanding of their bill. As a result of these changes, there had been fewer complaints relating to this issue.

Complaints, standards of service, trust and transparency

21. A lack of trust in the accuracy of bills was a key underlying reason for consumer complaints. In comparison to the other markets such as the communications sector, it was believed that trust in energy was lower. The Ombudsman felt that this was because consumers had more freedom to switch or walk away if they are dissatisfied with a service in the communications industry, eg a mobile phone contract. It noted that only 0.6% of contracts in the energy market were cancelled, which was far less than the communications sector.
22. As energy was a public necessity, the Ombudsman believed that a lack of trust existed in the market as consumers had no option but to pay for something they needed to have. For example, consumers could choose not to have a phone, or they could choose to have a basic service, but it was not feasible for most consumers to choose not to have electricity. Furthermore, it believed that trust could be obstructive to competition as it could cause a

consumer to be inclined to stay with a particular supplier despite there being more attractive alternatives on the market. For example, a consumer might stay with a supplier because of trust in its customer service rather than seek cheaper prices with another supplier.

23. Some suppliers welcomed complaints and viewed them as a tool to learn and develop their service. In the Ombudsman's experience suppliers were usually willing to work towards resolving a complaint and it helped facilitate this by sharing good practise across suppliers.

Price comparison websites

24. The Ombudsman believed that it was difficult to measure the effectiveness of price comparison websites to improve the experiences of consumers. This was because the information provided by price comparison sites was based on specifications set by the user, who tended to be more concerned with the monthly direct debit rather than the price per unit, which was a more effective method of providing an accurate comparison across different tariffs.

Smart meters

25. The Ombudsman added that an increasingly common complaint was about a supplier not installing smart meters. The Ombudsman also believed that the installation of smart meters could increase the number of complaints. This was because consumers assumed that smart meters would automatically reduce bills when, in reality, consumer behaviour would be the key factor in bill reduction. The Ombudsman believed that the benefits of smart meters, such as energy savings brought about by promoting behaviour change, were not being clearly communicated to consumers.