



Action for Warm Homes

NEA response to the provisional CMA decision on remedies

Introduction

NEA is an independent charity working to protect low income and vulnerable households from fuel poverty and exclusion in the energy markets in Great Britain and Northern Ireland. NEA works to influence and increase strategic action against fuel poverty at a national level through its policy, research and campaigning functions. The charity also works with partners from industry, government and the third sector to deliver practical solutions to UK households – improving access to energy advice, energy efficiency products and other related services for vulnerable consumers.

NEA welcomes the opportunity to respond to the Competition Market Authority (CMA)'s provisional decision on remedies resulting from the Energy Market Investigation. The level of current detriment in the energy market was laid bare within the CMA analysis that demonstrates consumers could have paid £1.7 billion a year less for their gas and electricity bills over the last three and a half years had the competitive markets been working effectively.

NEA's particular focus is on vulnerable energy consumers and in particular those on the lowest incomes who struggle to pay for this essential service. The investigation by the CMA to date has revealed evidence that the competitive markets are particularly failing many low income energy consumers. The CMA, Ofgem, the UK Government and industry must ensure that the introduction of any new remedies not only enhances current protections and support for vulnerable consumers but also maintains safeguards afforded under current licence conditions.

We comment below on the provisional CMA remedies we particularly welcome and which proposed measures may need to be reconsidered or adjusted before being taken forward within the implementation plan.

Response to main remedies

1. A transitional price control for the 4 million households who are on prepayment meters, who face limited competition from suppliers and whose ability to switch and find better deals is far more limited than for credit and direct debit customers.

- 1.1 NEA supports a transitional price control for prepayment customers on low incomes and urge the CMA, Ofgem and UK Government to move quickly to implement this remedy.
- 1.2 A detailed timeline should be included in the forthcoming implantation plan with details of how arrangements would be reviewed in 2020, by which time PPM customers must have benefited equally from the roll-out of smart meters.
- 1.3 As costs are likely to be recovered from other domestic customers on different payment types, this remedy must be focussed on low income and vulnerable PPM customers that are less likely to switch suppliers. Low income standard credit or direct debit customers on variable tariffs will face higher costs as a result of this remedy and by focussing on vulnerable and not all PPM customers these costs will be kept to a minimum and the remedy better targeted.
- 1.4 The following types of low income and vulnerable PPM customers are easily identifiable:
 - Domestic PPM customers on (or subsequently registered) on the Priority Services Register (PRS) by either an energy supplier or a network operator
 - Domestic PPM customers receiving the Warm Homes Discount (WHD)
 - Domestic PPM customers who have had a PPM installed following a warrant related installation
 - Domestic PPM customers on a debt repayment plan (following a disconnection or a non-warrant related installation)
- 1.5 NEA proposes these proxies as the effective targeting of the transitional price control should not lead to any unreasonable costs for suppliers to implement these arrangements and the above categories should lead to cost effective targeting. Suppliers should also provide the tariff on a discretionary basis to other domestic PPM customers who are known to them as suffering from severe financial insecurity or health related issues.

2. An Ofgem-controlled database which will allow rival suppliers to contact domestic and microbusiness customers who have been stuck on their supplier's default tariff for 3 years or more with better deals.

- 2.1 Despite the intention to introduce strict safeguards so that customers can opt out of this database at any time (and to ensure that communication meets strictly controlled criteria) NEA is very concerned that this initiative may have a perverse impact on driving consumer engagement; particularly for vulnerable consumers.
- 2.2 The CMA should restrict the database to microbusiness customers until such time as an independent evaluation of the effectiveness of this initiative has been undertaken in consultation with relevant parties.

3. Strengthening the ability and incentives for third party intermediaries such as price comparison websites (PCWs) to help customers find better deals by giving them access to relevant information like customer meter numbers and allowing them to negotiate exclusive deals with suppliers.

- 3.1 NEA supports the CMA commitment to ensuring Price Comparison Websites (PCWs) are transparent about the information they display.
- 3.2 The CMA must ensure all PCWs provide a link to the non-transactional and independent Citizens Advice price comparison site before allowing customers to click and switch. This is warranted as the CA website includes all current offers in the energy market and not those limited to one price comparison website. As the CA website is non-transactional it is also unlikely to affect the financial viability of commercial PCW. In addition, suppliers could also provide a link to the independent Citizens Advice price comparison site on energy bills and their own websites.
- 3.3 All PCWs must clearly inform customers which energy suppliers are obliged to provide Warm Home Discount rebates and have an Energy Company Obligation (ECO).

4. Removing the 4 tariff rule which limits competition and innovation. This will enable suppliers and PCWs to offer tariffs designed for certain customer groups.

- 4.1 NEA recognises that energy retailers have been concerned that the current rules which limit the number of tariffs they can offer under RMR has restricted their ability to offer customers new beneficial offerings. In addition, the derogation process for these requirements has been often relied upon to ease these constraints. It is however essential that lifting these restrictions does not open up the market to the previous proliferation of tariffs evidenced before the introduction of RMR. This must be kept under review by Ofgem and they must work with the industry to make it easier for customers to benchmark and compare future tariffs.

- 4.2 It would also be helpful for tariffs to fall under agreed categories/bands to ease comparison. For example, higher user/average user/lower user with the differentials in payment methods set out.
- 4.3 Ofgem should also require the companies to bring forward socially progressive tariffs. This is particularly important for customers that will not benefit from the transitional PPM price control and who remain unlikely to switch supplier.

5. Removing restrictions on the ability of new suppliers to compete for prepayment customers and reduce barriers such as debt issues that make it difficult for such customers to switch.

- 5.1 NEA welcomes the intention to improve access to the competitive market for customers with large energy arrears. CMA must stress the need for any new suppliers seeking to recruit a new prepayment customer with extensive debt issues to explore all alternative payment options with that customer, e.g. Fuel Direct, repayment via instalments and not solely relying on prepayment debt collection method.

6. A requirement that the approximately 700,000 households on non-Economy 7 restricted meters are allowed to switch to cheaper single-rate tariffs without requiring a meter replacement

- 6.1 The CMA has stated that 69% of customers on restricted meters would have lower bills if they were on the cheapest single-rate tariffs available. Based on this analysis NEA welcomes this proposal but requests that the CMA investigates the implications for the other 20% of customers (close to 1 million) that appear not to benefit. If any negative impact on these households can be clearly defined, NEA believes that a further targeted intervention may be required to mitigate any detriment.
- 6.2 NEA has been involved in a project in London whereby customers that were on the Cyclocontrol service (the former London Electricity Board's equivalent of an Economy 7 service who were billed as a communal service on a flat-rate charge) benefited from lower bills by replacing these meters with one that includes a wireless communications module. This allowed consumption data to be aggregated onto just one settlement meter per towerblock. The move enabled consumers to access electricity at commercial rates of around 6.0 pence per kWh. The CMA must specify whether their remedy would support this initiative in other circumstances.

7. Ensuring that the contracts for difference process where the government supports investment in low carbon generation is carried out transparently so that the impact on customer bills is assessed beforehand. There should be a clear rationale for the allocation of funding to different technologies and for the exceptional circumstances when competitive auctions are not used.

- 7.1 NEA welcomes and supports this recommendation. To date, DECC has yet to adopt this practice with the consequence that the impact of policy decisions are often only considered after the event.
- 7.2 The evaluation of the impact of funding policies through customer bills and any resulting impact on fuel poverty must be fully investigated.
- 7.3 This is particularly important in the future as the burden of policy costs on bills looks set to increasingly be shouldered by domestic consumers as a result of the UK Government's plans to further extend exemptions for intensive energy users. Any assessment of the impact on customer bills should therefore be introduced within other departments such as the Department for Business Innovation and Skills (BIS).

8. Improving the policy and regulatory framework to provide a clear division of responsibilities and transparency in relation to policy creation and implementation and changes to industry codes. This includes strengthening Ofgem's independence, reporting powers and ability to drive forward changes.

- 8.1 Ofgem's current duties to protect vulnerable customers must be retained. The CMA findings highlight the need for a regulator with the powers to address the adverse effect on competition for the most vulnerable customers.
- 8.2 Ofgem must be, and must be seen to be, independent of Government. In recent years this relationship may have been complicated by E-serve's administrative role to support the delivery of Government-led environmental and social policies.
- 8.3 But any moves to split out the administrative role from Ofgem must not lead to any hiatus in the effective administration of current schemes (FITs, RHI, ECO or WHD) and Ofgem should continue to provide insight into the costs and any delivery issues encountered within these programmes.