

## **London Councils' response to DECC's discussion document on "Ensuring a better deal for energy consumers"**

London Councils represents all 32 London boroughs, the City of London, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority. We are committed to fighting for fair resources for London and getting the best possible deal for London's 33 councils. We lobby on our members' behalf, develop policy and do all we can to help boroughs improve the services they offer. We also run a range of services ourselves which are designed to make life better for Londoners.

Our response has been developed following discussions with, and input from, the London boroughs.

### **Overarching comments**

- 1.1 London Councils welcomes the Department of Energy and Climate Change's (DECC's) focus on household energy bills and the proposals it has put forward in the discussion document. However, we believe that additional targeted measures on energy tariffs to those proposed in the document – plus further action to improve home energy efficiency – are still needed to adequately tackle fuel poverty.
- 1.2 We understand that the government intends to include proposals in the Bill to simplify tariffs and provide clearer information to consumers. London Councils believes it is imperative that provisions to facilitate this are included in the Bill, but that the government should also go further and provide additional assistance for vulnerable consumers. Research<sup>1</sup> has shown that the poorest consumers are much less likely to switch tariff or supplier to get a better deal. Vulnerable residents therefore require accompanying hands-on support – otherwise the change for these consumers will be limited at best.
- 1.3 Aside from measures to reduce the price of energy for consumers, improving home energy efficiency is also an important way of reducing consumers' energy bills. London's housing stock is generally very poorly insulated. Warm Front grants for low income households end next year. The government's key energy efficiency programmes, the Green Deal and the Energy Company Obligation (ECO), will not do enough to reduce fuel poverty. While ECO is a significant step forward in that it will oblige suppliers to deliver high-cost energy efficiency improvements rather than low-cost improvements, and is the first suppliers' obligation aimed specifically at tackling fuel poverty, it will not do enough to help our most vulnerable residents. Impact assessments and recent research<sup>2</sup> indicate that ECO will make limited progress on reducing the number of fuel-poor households.
- 1.4 The problem is especially severe in London – delivery costs are often higher and there are a large number of flats and conservation areas. As a result London's homes have not previously received sufficient energy company funding – through the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP) – to address the problem and should receive a proportionate share of ECO funding. One way of ensuring this would be for London to receive a regional obligation at least equivalent to its population and, if this approach was replicated throughout the country, ECO would be better targeted to where it is most needed. Overall, energy efficiency programmes need to be strengthened to tackle fuel poverty and end the misery of those living in cold homes.

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<sup>1</sup> [http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/RMR\\_FINAL.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/RMR_FINAL.pdf)

<sup>2</sup> <http://www.decc.gov.uk/assets/decc/11/about-us/our-partners/7318-fuel-poverty-advisory-group-for-england-tenth-an.pdf>; and [http://www.ippr.org/images/media/files/publication/2012/12/energy-efficiency-whopays-whobenefits\\_Dec2012\\_10051.pdf](http://www.ippr.org/images/media/files/publication/2012/12/energy-efficiency-whopays-whobenefits_Dec2012_10051.pdf)

## Responses to specific questions

***Is four the right number of core tariffs?; Have we got the right balance between tariff comparability and opportunities to innovate for suppliers?; Do these proposals go far enough in stimulating competition in this market?***

- 1.5 We support the move to simplify energy tariffs and provide clearer information to consumers, although we set out below a number of issues that we suggest require further consideration and action to provide more help to vulnerable consumers and better address fuel poverty.
- 1.6 DECC states that its ambition is that by summer 2014, all customers will have been placed on the cheapest price available from their supplier for the tariff type of their choice. However, it is unclear what mechanism will be used to “place” consumers on the best deal. The proposals that DECC sets out in the discussion document to build on Ofgem’s Retail Market Review (RMR) do not specifically require suppliers to switch consumers other than those on poor value “dead tariffs”. It would be helpful if DECC could clarify its intention on this point. In particular the government should give further consideration to how the proposals will ensure that vulnerable consumers – who are least likely to switch – will benefit from the changes as much, or ideally more than, other people.
- 1.7 There are a number of key issues for vulnerable consumers around the link between Warm Homes Discount (WHD) payments and the “Big Six” suppliers. In particular this link and the way that WHD is currently run make it harder for smaller suppliers to compete for business with vulnerable and fuel-poor consumers. None of the suppliers outside the Big Six have a WHD Broader Group obligation so that a Broader Group consumer cannot currently switch to a supplier outside the Big Six without losing their WHD. In addition, the criteria used by each of the Big Six to define which consumers fall within the Broader Group are different, making the situation even more complex and confusing for consumers. We suggest that the solution to these issues is for the Big Six suppliers to finance WHD payments through a single central fund with consistent criteria defining which groups of consumers are eligible, from which WHD payments could be drawn by all suppliers. This would better promote competition and better help vulnerable consumers cope with their energy bills.
- 1.8 We understand that although the government’s proposals will reduce the number of tariffs, suppliers would still be able to offer discounts for lower cost payment methods. However, allowing discounts for some payment methods – such as Direct Debit – but not for other methods – such as pre-payment meters – potentially further disadvantages vulnerable consumers. Many vulnerable consumers use pre-payment meters and find it a useful way of budgeting, and others may not be able to move to cheaper payment methods. Effectively making pre-paid energy more expensive will make the financial situation worse for the many vulnerable consumers who use this payment method, and may potentially prevent a switch to a cheaper tariff due to debt levels. This combined with the relatively little competition in the market for pre-paid energy, and the extra charges that many retail outlets charge for meter credit top-ups, mean that vulnerable consumers who use pre-payment meters are significantly disadvantaged compared with consumers using other payments methods. A more-equitable solution for vulnerable consumers would be for the cost of all payment methods to be averaged out across all bills so all consumers are treated equally with respect to payment methods.
- 1.9 One specific point on the structure of tariffs that we feel merits further consideration by the government is that the higher price charged for the initial units and lower charges for the remaining units of a household energy bill would seem to exacerbate fuel poverty. If this was reversed with a lower unit charge for an initial set number of units, derived from the average number of units used by a fuel poor home, and a higher unit charge for the remainder of the bill, this would be of more assistance to fuel-poor households. This could form the basis of a new tariff offer from energy suppliers and may also encourage energy saving.

***Will these proposals encourage those customers who currently don't switch to engage in the market?; Are the proposals likely to promote greater competition between suppliers in both the fixed term and the standard variable rate segments of the market?; Will a tariff comparison tool enable consumers to compare tariffs sufficiently well to encourage them to shop around and compare tariffs across the market? What would be the most helpful metric to allow consumers to compare tariffs more easily?***

1.10 DECC states in the discussion document that it proposes to take enabling powers in the Energy Bill for a tariff comparison tool that will allow comparison of different tariffs on a like-for-like basis. It would be helpful if DECC could clarify whether such a tool is needed if suppliers introduce a tariff comparison rate (TCR) for each of their tariffs, as the document notes is suggested in Ofgem's RMR proposals. It would also be helpful if DECC could clarify how this proposal relates to the TCR.

1.11 Overall, we believe that it is important that consumers – and particularly the vulnerable – receive clear information to enable them to identify the cheapest tariff on the market, not just the cheapest their current supplier offers. Therefore proposals for any new tool or information should aim to do this. It would also be beneficial if suppliers were required to provide information on household energy bills giving a breakdown of their costs, including the wholesale energy price and their profit, to help consumers better understand which suppliers are offering them the best deal and increase competition between suppliers.

***Are there appropriate networks already in place that could deliver the proactive approach we are seeking to working with vulnerable consumers to help them engage in the energy market?; Taking into account the limited resources available, is the approach outlined above the best way to reach vulnerable consumers or are there different approaches that could be more effective***

1.12 We believe that there is benefit in establishing a coordinated network of community and voluntary organisations to support vulnerable consumers to engage in the energy market. Workshops and events where vulnerable consumers receive one-to-one advice and support on identifying the best deals, receive help to switch and also receive advice on accessing discounted measures to improve home energy efficiency represent the sort of support that would make a real difference. Key issues are:

- Ensuring vulnerable residents are effectively identified, engaged and, if necessary, referred to energy advisers:
  - We believe that a return to locally-provided advice and referral networks would be the most effective means of helping consumers navigate through the Green Deal and ECO as well as the domestic energy market, and would also facilitate better partnership working with the health and voluntary sectors at a local level. Evidence suggests that locally-provided support is more effective in helping vulnerable consumers to switch suppliers<sup>3</sup>. We suggest that the government should consider this approach and initiate further specific discussions with stakeholders on how this could be achieved as soon as possible.
  - It would help councils to identify vulnerable consumers who may need extra support if there was better data sharing between central and local government. We understand that the Department of Work and Pensions (DWP) has provided information to suppliers so that WHD payments could be made to Core Group consumers. It would be helpful if DWP could share relevant benefits data with local authorities to help them concentrate scarce resources to those that most need it. This would be much more effective than simply relying on local engagement without this data.
- Ensuring that there is sufficient energy advisory capacity to make a difference. It would be useful if DECC could provide information on how many advisors there are and what capacity they have to help identify the best approach to reach vulnerable consumers.

<sup>3</sup>[http://www.kcsc.org.uk/sites/kcsc.org.uk/files/documents/KCSC\\_publications/Reports/Switching%20energy%20tariffs%20Jun12.pdf](http://www.kcsc.org.uk/sites/kcsc.org.uk/files/documents/KCSC_publications/Reports/Switching%20energy%20tariffs%20Jun12.pdf)

- 1.13 A barrier preventing the more-proactive approach that DECC is seeking is that currently individual consumers have to apply to the WHD Broader Group and awareness among vulnerable consumers is low. We suggest that methods should be put in place to allow bulk and third-party referrals by local authorities, residential social landlords (RSLs), and community and voluntary sector partners. This would remove the barrier described and ensure that a greater number of vulnerable consumers eligible for WHD Broader Group payments receive the help they need.

***Will a requirement for energy suppliers to provide customers' data in a format readable by smart phones be of benefit to a wide range of consumers, through personal and third party advocacy use? What customer data, held by energy suppliers, would be needed in order to fully enable development of tariff comparison and energy efficiency applications?***

- 1.14 DECC also proposes to take enabling powers in the Energy Bill to ensure that consumers benefit from innovative technology that facilitates switching through smart phones and other devices. But of itself this is unlikely to benefit vulnerable consumers who most need help, but are likely to have least personal access to the necessary technology. Extra targeted support will be needed to help the most vulnerable to use new tools, otherwise it will simply reinforce the current situation where the most affluent are most able to switch. We suggest that the government should urgently consider how vulnerable consumers can be given the necessary practical support to help them use this innovative technology – whether this is something addressed through the Energy Bill or elsewhere.

***Do you agree that collective purchasing and switching has the potential to encourage participation in the retail market and facilitate consumers getting a better deal on their energy bills?; Have you identified any barriers to operating collective purchasing and switching schemes?***

- 1.15 Collective purchasing and switching do have the potential to encourage participation in the retail market and facilitate a better deal for consumers, but there are currently significant barriers preventing this potential from being anywhere near fully realised.
- 1.16 With collective switching a significant barrier is that energy suppliers currently are not able to offer cheaper deals through collective switching schemes than are already available on the market, which significantly undermines these schemes. We understand that Ofgem is reviewing its guidance to ensure that it does not prevent cheaper tariffs from entering the market. We also understand that this review is also intended to have the effect of allowing suppliers to offer tariffs that are cheaper than those on the existing market through collective switching schemes. But this review needs to be completed rapidly, including testing that the revision will have the desired effect in practice, to remove this significant barrier as soon as possible.
- 1.17 Existing and previous collective switching schemes rely, and have relied on, data from the switching provider with limited or no independent external evaluation of the benefits of the scheme in terms of energy bill savings, energy savings, customer satisfaction levels and levels of engagement with vulnerable consumers. This situation needs to change before more councils and other organisations can be confident about leading new collective switching schemes based on sound evidence.
- 1.18 In addition, the raft of recent announcements from DECC and Ofgem on issues relating to household energy bills have created uncertainty about the value of collective switching in the medium and longer term. DECC and Ofgem should provide clarity on the way forward on all the issues as quickly as possible so organisations can make an informed decision on collective switching.
- 1.19 Collective energy purchasing is more complex and inherently more risky than collective switching – both in terms of financial risks associated with councils or other organisations leading the purchasing making the wrong buying decisions, and in terms of reputational risks. Most boroughs would need significantly more information on the issues, benefits and risks before progressing any significant activity in this space.

***We welcome views on whether there is a need to take a more formal regulatory approach to third party intermediaries given their likely increased role in relation to energy consumers.***

- 1.20 DECC states in the discussion document that it is considering whether to use the Energy Bill to amend Ofgem's existing powers to make it clear they cover "third party intermediaries", but also states that it expects that regulation would only be used where necessary and will not stifle collective switches organised by councils or third-sector organisations. In this section of the discussion document, DECC mainly refers to switching websites in the domestic sector, so it is unclear whether these powers would also apply in relation to switching providers in collective switching schemes. We assume that switching providers are also included in the definition of third-party intermediaries, but it would be helpful if DECC could clarify this. There are certainly serious questions about the value these switching providers offer to consumers through previous or existing schemes, but it is unclear whether a formal regulatory approach would help to address these. Currently it is down to the operators of such schemes to ensure the providers offer the best deal to consumers – for example, low switching fees and no prohibitive exit fees. There may be a case for limiting switching fees and exit fees through legislation and/or regulation to ensure consumers have a minimum level of consumer protection.