

Mr W Fletcher  
Project Manager  
Competition and Marketing Authority  
Victoria House  
Southampton row  
London  
WC1B 4AD

Dear Mr Fletcher,

### **Energy Market Investigation**

Changeworks welcomes the investigation into the energy market undertaken by the Competition and Marketing Authority (CMA). This response represents the view of Changeworks, an environmental charity that exists to improve quality of life and to protect the environment. We work with passion, integrity and in collaboration to develop and deliver innovative projects and businesses in energy, fuel poverty, waste prevention and transport that inspire and empower people and communities to make a difference.

Rural areas in Scotland are significantly disadvantaged by an energy market that does not work effectively. These areas contain the highest areas of fuel poverty in Scotland, as shown in the attached fuel poverty map, and for the vast majority of householders in the area there is no access to mains gas. Electricity is therefore the principle means of heating for a large number of householders. The weather plays a significant part in the amount of heating required in rural areas and in particular the highlands and islands where we experience highest wind speeds, lowest temperatures and high rainfall. As a consequence consumers use on average 26% more kwh to heat their homes than the UK average.

The CMA report rightly recognises the sense of loyalty that customers have to existing suppliers and this is particularly true in the highlands where Scottish and Southern Electricity (SSE) is still referred to as the "Hydro," an organisation that has a special place in the hearts of many going back to it being a publically owned and public serving organisation. This loyalty and reticence to switch is well made in the report.

We have made detailed comments in Annex 1 to the questions posed in the Notice of Possible Remedies. However, two other important factors that restrict householders' ability to switch and reflect higher distribution costs are omitted. This is a significant oversight and we request that CMA address these in the final report. These specific issues are detailed below.

### **Tariffs**

There are two tariffs that are unique to SSE. The first is called Total Heating and Total Control and is a demand responsive tariff. As the company has a monopoly on customers who have this tariff it is one of the most expensive tariffs in the country. As at 1 July 2015, customers on this tariff were paying 9.84p p/kwh for the heating element and 18.5p p/kwh for



their other domestic use. It is worth giving a dual fuel comparison using the same utility company which gives figures of 4.2p p/kwh for gas and 14.86p p/kwh for electricity. Consumers are therefore paying 134% more for the heating element and 25% more for their other domestic use. Scottish Power has a similar specific tariff called Comfort plus which is only operated by them and which proves costly for those who have their heating and other electricity use separately metered.

The second tariff is called Economy 10. Again, there is no comparative tariff offered by other suppliers and the peak and off peak rates at 1 July 2015 were 11.8p p/kwh and 17.78p p/kwh. The comparison over the same dual fuel customer from the same utility company sees these customers paying 181% and 19.6% more.

Neither of these tariffs appears on price comparison websites. This monopoly arrangement is exactly what we would have expected your report to address and we are extremely disappointed that it is neither mentioned nor addressed. We strongly favour the prescription of off peak / economy rate electricity available to all domestic consumers at exactly the same minimum unit cost wherever they live in the UK.

We have provided further feedback on this topic in Annex 1, *Issues for Comment 3*.

#### **Distribution costs**

The report fails to address the serious anomalies that exist across the UK and particularly in the north of Scotland on the cost of distributing electricity. Consumers in the SSE area pay on average 2p p/kwh more than their counterparts in the south of Scotland. The existing mechanism – the Hydro Benefit Replacement Scheme – has signally failed to redress this issue. Consumers have no choice in this matter as there is a monopoly on distribution. Where there is such conspicuous market failure there is a requirement for the regulator to intervene.

We would wish to see the final report of the CMA address this anomaly by putting forward mechanisms that ensure a standard UK distribution cost for all domestic consumers irrespective of where they live.

Yours sincerely,

**Teresa Bray**  
**Chief Executive**

## **Annex 1**

### **Remedy 1 – Introduction of a new standard condition to electricity generators’, suppliers’, interconnectors’, transmission, and distribution licences to require that variable transmission losses are priced on the basis of location in order to achieve technical efficiency**

#### *Issues for comment 1*

20. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

**(a) What would be an appropriate method for ensuring that variable transmission losses are priced on the basis of location?**

*We welcome the recommendation and we also think it could go further to encourage lower pricing in areas of higher generation. For example, the Highlands and Islands is a net exporter of electricity and has grid constraints. It is therefore anomalous that consumers in the Highlands and Islands pay some of the highest tariffs in the country when we also generate so much electricity locally and from renewable resources. This geographical area generates at least 2.5 times as much as energy as it consumes. Transmission charges are based on encouraging generators to locate in areas of high demand. So this principle could be extended to encourage reduced flows of electricity by encouraging more localised generation and consumption. Whilst the current pricing signal encourages generation and consumption in the urban areas it positively discriminates against generation and consumption in rural areas through paying higher prices for transmission. Both in large parts of the Highlands and Islands and Borders there are significant areas of local and predominantly renewable generation yet local consumption is penalised through the lack of negative transmission charges. Why is this the case?*

### **Remedy 2a – DECC to undertake and consult on a clear and thorough impact assessment before awarding any CfD outside the CfD auction mechanism**

#### *Issues for comment 2a*

26. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

**(a) Would the remedy ensure that CfDs that are allocated outside the auction mechanism are awarded only when the benefits of doing so outweigh the costs?**

*We would wish to see clear evidence that CfD is supporting the customer. Therefore, we would wish to see far greater clarity and transparency in all decision making and particularly in how it affects future energy price and security of supply.*

#### *Issues for comment 2b*

29. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

**(a) Would the remedy ensure that future decisions by DECC on the allocation of technologies and the CfD budget to the different pots are taken in a robust and transparent manner?**

*We would reiterate that we wish to see transparency in all decision making and particularly in how it affects future energy price and security of supply for the reasons given above.*

*Remedy 3 – Remove from domestic retail energy suppliers’ licences the ‘simpler choices’ component of the RMR rules*

*Issues for comment 3*

51. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

**(a) Would this remedy be effective in increasing competition between domestic retail energy suppliers and/or between PCWs? What additional tariffs would energy suppliers be likely to offer that they currently do not due to the RMR restrictions?**

*The complexity of what is being offered is often the problem for consumers. Clarity and simplicity should be the main drivers. An effective monopoly exists on some tariffs such as SSE’s Total Heating Total Control (THTC). The industry and Regulator should be charged with rectifying this anomaly.*

**(b) Removing the four-tariff rule is likely to increase the range of tariffs on offer and result in different tariffs being offered on different PCWs.<sup>14</sup> Are there, therefore, any remedies that the CMA should consider alongside this remedy, to encourage domestic customers to use more than one PCW in order to facilitate effective competition between PCWs and domestic energy suppliers?**

*There should be no quasi-monopoly tariffs. At present people on the two tariffs that are unique to Scottish and Southern Electricity and Scottish Power pay much more for their heating and lighting than those on standard tariffs. Until such tariffs are made available by all suppliers there will not be competition and these customers will continue to be discriminated against.*

*All suppliers must therefore offer a dual meter tariff that will work for all heating systems.*

**(c) We note that if this remedy were to be imposed, Ofgem’s Confidence Code requirement for PCWs to provide coverage of the whole market appears likely to become impractical as the number of tariffs offered increases and PCWs agree different tariff levels and commissions with energy suppliers.**

**Should this element of the Confidence Code be removed, therefore, as part of this remedy? If so, are alternative measures to increase confidence in PCWs required? For example, in order to maintain transparency and trust, should PCWs be required to provide information to customers on the suppliers with which they have agreements and those with which they do not?**

*Yes and we would wish to see the introduction of regionalised PCWs covering all electricity tariffs.*

**(d) Rather than removing all limits on tariff numbers and structures, would it be more effective and/or proportionate to increase the number of permitted tariffs/structures? If so, how many should be permitted and which tariff structures should be allowed?**

- (i) For example, would requiring domestic energy suppliers to structure all tariffs as a single unit rate in pence per kWh, rather than as a combination of a standing charge and a unit rate, reduce complexity for customers, while avoiding restricting competition between PCWs? Alternatively, would such a restriction on tariff structures have a detrimental impact on innovation in the domestic retail energy markets?**

*We are looking for complete transparency in how each supplier prices. At the moment you cannot tell how suppliers differentiate between different elements of the bill. These elements are a) wholesale energy costs, b) suppliers costs and profit margin, c) network charges and d), environmental and social costs.*

*For example, we have provided below a mocked up bill where this information can be clearly seen.*

**Environmental Costs ( these are the same irrespective of where you live)**

These are costs pass onto the customer to pay for UK government environmental programs

			Daily rate £/day	
fixed Environmental cost	28		.147	£ 4.12
Volume environmental cost	300	0.01	£/kwh	£ 3.00

**Elements of your Electricity Supply delivered by your chosen Electricity Supplier.**

**Electricity Supply Costs**

		Unit rate		
Wholesale		0		
Day	300	0.08	£/kwh	£ 24.00
Night	1000	0.04	£/kwh	£ 40.00

**Billing Meter and Customer Management cost**

billing and metering cost	28	0.1	£/Kwh	£ 2.80
			Total	£ 96.65
			Vat 5%	£ 4.83
			Total bill	£ 101.48
			Vat 5%	£ 5.07
			Total bill	£ 106.55

*Remedy 4 – Possible measures to address barriers to switching by domestic customers*

*Remedy 4a – Measures to address barriers to switching by domestic customers*

59. We invite responses to the specific questions set out in this paragraph, including views on the effectiveness and proportionality of the remedies considered, as well as whether there are any alternative or additional remedies that we should be considering to address barriers to switching:

- (a) Will the roll-out of smart meters address the feature of uncertified electricity meters? If not, what additional remedies should we consider to address this feature?**

*We welcome smart meters. However, we have concerns based on our previous experience of technological roll out in the highlands and islands for example broadband and mobile connectivity. We would encourage early resolution of some of these fundamental issues over the electricity market first prior to roll out of the technology.*

*If smart meters are introduced customers must be able to switch without penalty.*

- (b) Will the roll-out of smart meters address the barriers to switching faced by customers with Dynamic Teleswitched (DTS) meters? If not, what additional remedies should we consider to address this feature?**

*In the highlands and some parts of the lowlands of Scotland where there exists a high proportion of people on a tele-switching tariff this proposal will only work once there is availability of proper competition to supply alternative products that suit each individuals heating system.*

- (c) Should PCWs be given access to the ECOES database (meter point reference numbers) in order to allow them to facilitate the switching process for customers?**

*Yes but PCWs should be held responsible for ensuring the smooth transfer of the customer on to the new tariff and that the PCW should bear the risk and be subject to any investigation through trading standards or a similar body. An OFGEM PCW would facilitate this. (See our response to Remedy 6).*

*When suppliers offer tariffs which potentially benefit clients who are suffering fuel poverty then the ability for immediate switching to a more beneficial tariff should be made available.*

- (i) To what extent would this reduce the rate of failed switches and/or erroneous transfers?**  
**(ii) Are there any data protection issues we should consider in this respect?**  
**(ii) Will access to this database still be relevant once smart meters have been introduced?**

*Yes.*

- (d) Should there be penalties for firms that fail to switch customers within the mandated period (currently 17 days, next day from 2019)? How should these penalties be administered? At what level should the penalties be set? Should customers who suffer a delayed or erroneous switch receive the penalty as compensation?**

*Yes but how would this be administered? Suppliers should provide a customer satisfaction rating on switching which actual and potential customers can view.*

- (e) **When next-day switching is introduced, will a ‘cooling-off’ period still be required? Could it be avoided by requiring that no exit fees are charged within two weeks of switching?**

*Yes, a two week cooling off period is a good idea but fundamentally the industry must prove that they can switch all customers speedily and efficiently.*

- (f) **Are specific measures required to facilitate switching for customers living in rented accommodation (either social or private)?**

*Suppliers should have a greater obligation to ensure customers understand the electric heating system installed in their house either by doing the work themselves or paying a third party to do it.*

60. In light of the introduction of smart meters, we are considering whether any other remedies may be required to address barriers to switching for domestic customers. For example:

- (a) **Does the ‘Midata’ programme, as currently envisaged, provide sufficient access to customer data by PCWs to facilitate ongoing engagement in the market? Should PCWs – with customer permission – be able to access consumer data at a later date to provide an updated view on the potential savings available?**

*The report has a high expectation from the introduction of smart meters. We do not share this confidence and therefore other solutions should be found irrespective of smart meters to address the existing problems highlighted.*

- (b) **Do customers need more or better information or guidance on how their new smart meters will work?**

*Yes.*

*Remedy 5 – Requirement that energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter*

*Issues for comment 5*

65. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

- (a) **Would this remedy be effective in allowing prepayment customers to engage fully in the market and benefit from a wider range of tariffs? Would it be effective in reducing the costs of supply to prepayment customers?**

*Of itself, no. They are paying for their power before they consume unlike everyone else yet have no access to the discounted rates that are available to customers who pay by direct debit or opt for paperless billing. If it can be proved that smart meters will make it*

*easier and fairer for pre-payment customers we would be supportive. We are unconvinced that this will be the case generally as it will be dependent on access to competitive tariffs and suppliers having a positive view point towards these customers.*

*Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers*

71. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

**(a) Would this remedy be effective in increasing customers' trust in PCWs and thereby encourage engagement in the markets and switching?**

*Yes but only if pricing structure are to remain regional and correspond to DNO areas. We are of the opinion that electricity is a local issue and works best at a local level. We therefore believe that any price comparison has to work at this local level. We would only be supportive if OFGEM was able to provide at this fine detail and support local organisations to monitor prices.*

*An example of local groups working to encourage competition, switching and ensure suppliers are doing the right thing is as follows.*

*A recent example of this was when a group working in the highlands and islands became aware that SSE were offering reduced prices for tariffs on which there is no competition. Via publication on local websites site a number of customers were able to switch which would not have happened. SSE perhaps due to unforeseen demand have withdrawn offer. Unfortunately this was not available to all customers. It would be good if local designated groups had authority to ensure fairness.*

*Remedy 7 – Measures to reduce actual and perceived barriers to accessing and assessing information in the SME retail energy markets*

*Remedy 7a – Introduction of a new requirement in the licences of retail energy suppliers to provide price lists for microbusinesses on their own websites and to make this information available to PCWs*

*Issues for comment 7a*

76. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

**(a) Would this remedy be effective in increasing price transparency for microbusiness gas and electricity tariffs? Would it serve to make comparisons between different suppliers easier, either directly or by encouraging the development of PCW services for microbusinesses? If not, are there other measures that would encourage this development either as an alternative to this remedy or in conjunction with it?**

*There should be a responsibility to publish microbusiness price in the same way as domestic the component costs need to be transparent.*

*Remedy 9 – Measures to provide either domestic and/or microbusiness customers with different or additional information to reduce actual or perceived barriers to accessing and assessing information*

For example:

- (a) **Does the current format and content of energy bills facilitate engagement by customers? Is there additional information that should be included on bills? Should the quantity of information on bills be reduced to enhance clarity?**

*No. There needs to be greater clarity between each and all of the component costs that make up the bill. (See response to Remedy 3 above).*

- (b) **When customers seek to switch tariffs, are they given enough/too much information on the terms and conditions of their new contract?**

*Far too much general information is provided which is not directly relevant to the specific customer switching. It needs to be simplified and put into easily understood and directly relevant terms.*

- (c) **Should customers be prompted to read their meters (quarterly or annually), either by information on their bill or by a phone call from their energy supplier? Would this increase engagement by improving the accuracy of billing?**

*Yes. Suppliers should write annually to customers explaining the current tariff and advising on available tariffs.*

**Once customers reach the end of a contract period, should subsequent bills highlight that they have now been moved onto the standard variable tariff and/or other default tariff and encourage them to check whether they are on the most appropriate tariff for them?**

*See above but it should go further. At least 1 month before (similar to car insurance renewal notices) the tariff comes to an end the supplier must be required to explain / offer an equivalent package and any proposed increases should be explained. It should never automatically default to a standard tariff.*

*Remedy 10 – Measures to prompt customers on default tariffs to engage in the market*

90. We invite parties to provide submissions on the following issues:

- (a) **What information should be included in the prompts to customers on default tariffs in order to maximise the chances that they are acted upon?**

*Please refer to the answers we have provided in Remedy 3.*

- (i) **Should customers who have failed to engage be informed that they are ‘no longer under contract for energy’, that they have been ‘rolled onto a safeguard tariff’, or an alternative message, for example, emphasising how many customers in their area have switched in the last year?**

*Remedy 11 – A transitional ‘safeguard regulated tariff’ for disengaged domestic and microbusiness customers*

*Issues for comment 11*

95. We intend to explore different ways of setting a safeguard level for default tariffs, and the impact of each on competition. We invite views on the effectiveness and proportionality of this remedy and invite parties to comment on the following issues:

- (a) **Should the safeguard tariffs be set on a cost-plus basis, or should they be related to other retail prices?**

*All energy suppliers must supply benchmark tariffs that also enables price comparisons to be made for both the heating and non-heating elements of the bill. These tariffs should be published and audited annually by Ofgem to ensure transparency and fairness. These would be the benchmark prices that all other packages are compared against.*

*Remedy 12b – Introduction of a new licence condition on gas shippers to make monthly submissions of Annual Quantity updates mandatory*

101. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

- (a) **Is it proportionate to require the mandatory monthly updating of AQs?  
Would it be more proportionate to require less frequent updating of AQs?  
Would less frequent updating still be effective in terms of removing the scope for gaming of the system?**

*Remedy 13—Requirement that domestic and SME electricity suppliers and relevant network firms agree a binding plan for the introduction of a cost-effective option to use half-hourly consumption data in the settlement of domestic electricity meters*

103. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

- (a) **Would this remedy be effective in stimulating tariff innovation, in particular in terms of time-of-use tariffs?**
- (b) **How long should the parties be given to agree this plan?**
- (c) **What are the principal barriers to the introduction of a cost-effective option to use half-hourly consumption data in electricity settlement for profile classes 1 to 4? How could these be reduced?**
- (d) **Should the use of half-hourly consumption data in settlement for these profile classes (or certain of them) be optional for energy suppliers, or should it be mandatory? What are the advantages/ disadvantages of each approach?**
- (e) **Are there any distributional considerations that we should take into account in relation to time-of-use tariffs? For example, might vulnerable customers end up paying more if they fail to change their consumption patterns? Or will the decline in the required generation capacity outweigh any increase in peak prices?**

*This is assuming smart meters will work. Currently all domestic customers are priced on the basis of 2 profiles and our understanding is that this will continue after the introduction of smart meters. The number of profiles needs to be expanded to reflect the much diversity of household types and consumption patterns: e.g. size of house, use of renewable technology etc.*

*Remedy 15 – More effective assessment of trade-offs between policy objectives and communication of impact of policies on prices and bills*

112. While there is substantial analysis in the public domain examining the effects of policies, some of which has been undertaken by independent institutions, we invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

- (a) **Are such assessments of the impacts of policies on prices, bills and on the trilemma trade-offs carried out to a sufficient extent currently? Are there specific areas where such assessments are not currently carried out, or might be undertaken more comprehensively?**

*We would refer you to the final sentence of paragraph 13 of the summary report which states “**The costs of the social and environmental policies that energy suppliers are required to deliver on behalf of government (‘obligation costs’) are higher for electricity (almost 15%) than gas (around 5%).**” The report therefore makes the case of the explicit unfairness for those who use electricity for heating paying as they are paying a much greater contribution to green taxes than those who have access to lower cost energy supplies.*

*Remedy 16 — Revision of Ofgem’s statutory objectives and duties in order to increase its ability to promote effective competition*

114. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

- (a) **What specific changes should be made to Ofgem’s statutory objectives and duties in order to ensure that it is able to promote effective competition in the energy sector?**

*Greater detailed scrutiny is required by OFGEM of all companies in the energy supply chain to ensure that the interests of customers are properly protected.*

- (i) **For example, would it be possible to revert to the role of competition that existed before the introduction of the Energy Act 2010?**

*Remedy 17 – Introduction of a formal mechanism through which disagreements between DECC and Ofgem over policy decision-making can be addressed transparently*

118. We invite views on the effectiveness and proportionality of this remedy and invite responses to the following questions:

- (a) **In which circumstance should Ofgem have the right or duty to express views on DECC’s policies and DECC/Ofgem strategy for their implementation? What format should such views take? Should DECC have a duty to formally respond?**

*We agree that this is a serious issue that needs to be sorted out. There should be a clear and concise division of responsibilities with immediate resolution of “grey areas.” This would ensure that everyone knows where each and all the responsibilities lie.*