

Min Lim and James MacBeth
Off-grid energy market study (2nd floor)
Fleetbank House
2-6 Salisbury Square
London EC4 8JX

17 February 2011

Dear Min and James

Consumer Focus response to off-grid energy market study

Many thanks for meeting us yesterday. I am writing in part to follow up our meeting and in part to provide a few suggestions for the scope of the off-grid study. I understand Andrew Hallet and colleagues in the Consumer Focus Scotland and Consumer Focus Wales offices have already provided you with some of the consumer detriment issues uncovered through our work. I include a very brief summary of these with this letter.

Our draft annual plan (2011/12) also proposes to make 'off-grid' issues a priority area of work. We have established a cross-Nation team with colleagues in Wales and Scotland and plan to work closely with the Northern Ireland Consumer Council on the issue. We therefore look forward to close collaboration with you on the market study.

I suggest particular areas that we could work together on include:

- Continue to provide examples of consumer detriment that we come across
- Collaboration on the consumer survey you plan to carry out
- Send you an advance copy of our analysis of the England, Scotland and Wales house condition surveys, with respect to the household and housing characteristics of 'off-grid' consumers
- Provide details of our experience of running the confidence code for switching sites for regulated fuels, which may be of relevance to off-grid fuels in the future. We consider accredited price comparison sites are a valuable tool for helping consumers make informed choices. They are independent, impartial and not influenced by commercial considerations
- The development of long term policy solutions to some of the issues identified through the market study, particularly with respect to decarbonising our homes and tackling fuel poverty

You may also be interested to know that we plan to hold a joint seminar in the near future with the Energy Efficiency Partnership for Homes, on energy efficiency and renewable solutions for off-grid consumers' homes. Although still early days, I would very much welcome a presentation from OFT at the seminar. I will send you further details once we have firmed up our plans.

Response to market study scoping report

With respect to the market study itself, the main areas we would like to see addressed, in addition to those already outlined in the brief, are:

- Provision for vulnerable consumers. These are tightly defined within regulated fuel markets, for example through licence conditions, energy service obligations and the forthcoming mandated Warm Home Discount scheme. Examples of relevance to the off-grid market include priority delivery of fuels, easy payment terms, arrears recovery procedures and provision of advice
- Provision of energy efficiency solutions, both directly related to off-grid fuels, such as more efficient boilers, and indirectly with respect to advice on insulation. We understand DECC had embarked on a substantial programme of work with the heating oil industry relating to the voluntary (energy efficiency) agreements required by the EU Energy Services Directive. However, we have not seen any outcomes from this work
- Given that off-grid consumers will all have an electricity supply, we suggest OFT works closely with Ofgem to explore the potential for shaping existing electricity regulations to provide more benefits to off-grid consumers. For example, the potential carbon savings from off-grid consumers are considerable – modelled savings from CERT measures should therefore better reflect this. The introduction of a ‘climatic region’ factor to CERT could also benefit off-grid consumers
- The misselling and high pressure selling of micro-generation products, particularly to vulnerable consumers. We are concerned this will undermine consumer confidence in a nascent and undeveloped market. We consider the extensive tax-payer and consumer subsidy of these products, through Feed – in Tariffs (FiT) and the forthcoming Renewable Heat Incentive (RHI), means strong consumer protection mechanisms are even more important
- The ‘triple whammy’ effect faced by off-grid consumers in which the high heating costs relating to these fuels are further exacerbated by the fact that off-grid homes are also more likely to be built with solid walls and detached or semi-detached. These house types penetrate much further down the income scale in off-grid, generally rural, areas than that found in on-grid, generally urban areas

We support the OFT’s intention to investigate the case for improving the transparency of pricing structures of off-grid fuels, developing independent price comparison services and improving consumer redress mechanisms. We consider straightforward, transparent tariffs and billing are essential if consumers are to make informed choices when participating in energy markets, both regulated and off-grid. It is essential that choice is balanced with accessible information to empower consumers to make informed switching decisions.

Yours sincerely,



William Baker

Principal Policy Advocate, 07766 138975

Summary of issues facing off-gas consumers

General

- Dual fuel discounts not available
- No social tariffs for oil or LPG
- Oil, as well as LPG, is now more expensive than gas. Off-gas consumers are further disadvantaged by fact the high proportion of homes that are also solid walled, semi or detached and therefore more expensive to heat
- Very little energy efficiency provision for consumers (no CERT scheme etc)
- No formal provisions for vulnerable consumers (no equivalent to Priority Service Register, licence condition protection, easy payment terms, arrears recovery based on ability to pay)
- Lack of transparency of pricing information
- Difficulties of switching suppliers

Oil

- Competition reducing as large companies, particularly DCC, buying up small companies (while not making ownership clear)
- Local monopolies
- Lack of independence of price comparison sites not made apparent
- Boilerjuice provides a benchmark price but is not a price comparison service (run by DCC)
- No priority action for vulnerable consumers during recent cold weather
- Evidence of companies quoting price but charging different price when oil delivered (ie price that applied on delivery day)
- Volatile prices – particular spikes at winter
- Suppliers not hedging to smooth out price spikes
- Consumers are not encouraged to buy in summer or autumn when prices are lower, rather than winter
- Minimum delivery amounts mean consumers often have to top-up at most expensive time due to size of tanks
- Long delays in delivery due to severe winter conditions – consumers cut back to save supplies or use expensive electricity heaters

LPG

- Little competition – dominated by just a few companies
- High prices
- Very poor consumer service
- Similar issues around delivery and lack of priority for vulnerable consumers

Alternatives

- More efforts needed to extend gas network, particularly when areas/homes very close to network
- Different renewable options are required to reflect the variety of circumstances of off-gas consumers
- Renewable solutions only make sense if installed in new build or alongside extensive energy efficiency retrofit – sales staff currently don't make this clear
- Big issue of misselling and pressure selling, particularly to vulnerable consumers
- RHI should be structured to mainly benefit off-gas – biggest carbon savings to be achieved here
- Given extensive public and consumer monies going to off-gas installers (FIT, RHI), should expect more accountability and high standards of consumer protection
- OFT consumer code for micro-gen should promote REAL scheme
- Tailored, independent advice for energy efficiency and renewable options for off-gas consumers needed, including face to face advice in the home
- Energy efficiency voluntary agreements DECC and oil suppliers started working on – what has happened to this?

Improvements for future

- Separate out unit costs of oil and LPG from delivery costs to make price comparison easier
- Publish prices
- Encourage development of accredited price comparison service (endorsed by CF confidence code?)
- Improve consumer protection in renewable market, as well as LPG and oil
- Design of RHI
- Options already set out in OFT paper, eg regulation, co-regulation, industry code of practice, enforcement action, reference to CC
- Electricity suppliers should give greater priority to off-gas consumers, re CERT