

‘Liberalisation of energy markets: risks and opportunities’

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Introduction

What is the point of creating a liberalised energy market? If the answer is to allow power companies a laissez faire profit rush then expectations will be met. If the answer is to reduce energy prices and apply competitive pressure for economic gains then be warned by what has happened in Britain. More than a decade after liberalisation in GB many of the price and quality of service gains have disappeared. Instead of competitive markets and satisfied customers we have soaring prices, lack of innovation and a cosy oligopoly.

When economists talk about competitive markets working well for consumers in terms of choice, price cuts and pressure to drive up standards they are not talking about the GB energy market. There the consumer experience is the reverse. Price reductions have reverted to escalating prices year on year as smaller suppliers left the market to the mercy of the current six major companies. These companies have raised prices by double percentage figures¹ almost in unison and have proclaim record profits, in one case up 500% in one year. They have the power and they use it to the detriment of 4.5 million people who now live in fuel poverty in one of the world's richest nations and many millions more who are shackled to their energy supplier by debt².

In this market for essential services some might expect that responsible companies would try to find ways to help their customers to manage this debt; in fact they make the poor pay more for their energy. Other landmark features include: mis-selling, chronically poor billing, erroneous transfers, near non-existent complaint handling and sometimes laughable incompetence. This is an industry which can legally pick the lock of your house and install a prepayment meter (PPM) or cut off supply without properly identifying that you are actually the debtor!

One third of all bills are estimated, creating a significant margin for error for thousands of consumers who may find themselves paying too little or too much. Some consumers find themselves begging to get a bill at all. This kind of sloppiness can lead to a build-up of debt for consumers, through no fault of their own.

¹ Since 2003 the average gas bill has risen by 109% and the average electricity bill by 69%.

² The accelerating trend of suppliers installing PPMs to recover debt means that close to one million PPM users (c. 1 in 6) are now chained to their current supplier.

The Present Situation on Energy Poverty in the United Kingdom

Fuel poverty arises when three factors conspire to put thermal comfort beyond the reach of the household affected:

- poorly insulated, energy inefficient homes with sub-optimal heating systems,
- low disposable household income and
- price of fuel

The first of these factors – the energy efficiency of the dwelling – is often at the heart of the problem and fuel poverty ‘proofing’ the fabric of energy inefficient households through the provision of insulation measures and efficient heating systems (i.e. taking buildings out of fuel poverty) is the key to the sustainable eradication of fuel poverty in the long-term. However, in the short–medium term high prices require that concerted action is taken on low-incomes and on the actual cost of energy to the fuel poor.

For many low-income households, spending 10% of their income on heating remains an aspiration. Some consumers either cannot afford to, or, especially for pensioners, the fear of unmanageable bills, debt to suppliers and the spectre of disconnection mean that severe rationing and often hazardous coping strategies become the norm.

The lived reality is cold, damp homes where consumer choice is limited to stark decisions as to whether eating takes precedent over other basic essentials and where hazardous coping strategies, such as self-disconnection and the rationing of heat and light, become commonplace. It is also households spending 20, 30 and even 40% of income to keep warm. Certain vulnerable groups may need to stay in the home for longer periods of the day, or have a condition that necessitates continuous warmth or additional spend on energy intensive appliances (i.e. washing machines) and putting themselves at risk of energy debt.

The human manifestation of fuel poverty is respiratory illness, depression and heart disease, increased risk of strokes and other cold-related ill health:

- There were 25,700 excess winter deaths in England and Wales in 2005/2006
- Circulatory diseases are responsible for around 40% of excess winter deaths
- The cold increases blood pressure (one study showed a 1°C lowering of living room temperature is associated with a rise of 1.3mmHg blood pressure) a rise in blood pressure during the cold increases the risk of heart attacks and strokes.
- Respiratory Illness is the cause of around 1/3 of excess winter deaths
- The cold lowers resistance to respiratory infections, impairs lung function and can trigger broncho-constriction in asthma and COPD.

- Damp increases mould growths, which can cause asthma and respiratory infections (home energy improvements have decreased school sickness by 80% in children with asthma or recurrent respiratory infections)
- Cold houses affect mobility and increase falls and non-intentional injuries, it worsens the symptoms of arthritis, strength and dexterity decrease as temperatures drop, increasing the risk of non-intentional injuries.
- Damp, cold housing is associated with an increase in mental health problems for example some people become socially isolated as they are reluctant to invite friends round to a cold house.
- Cold homes where only one room is heated, make it difficult for children to do homework, affecting educational and long-term work and health opportunities.

The *Warm Homes and Energy Conservation Act (2000)* obliged the UK Government to develop and implement a strategy for eliminating fuel poverty in England and to set targets for its implementation.

The resultant UK Fuel Poverty Strategy saw the Government set itself legally binding deadlines for the eradication of fuel poverty in all vulnerable households by 2010; and in all remaining households by 2016, with the devolved administrations in Scotland, Wales and Northern Ireland implementing equivalent targets. The Strategy adopted a definition of fuel poverty that classifies households as fuel poor if they would need to spend in excess of 10% of household income in order to maintain a satisfactory heating regime³.

Prior to the Strategy being published in 2001 the level of fuel poverty in the UK had declined year on year, dropping from around 7.5m households in 1996 to 3.5 million by 2001. The introduction of initiatives heralded in the Strategy contributed to continuing year on year drops in the years 2001- 2003, with the global UK figure declining further to 2.75m in 2002 and then to 2.5m in 2003 (on the basic income definition⁴).

In England reductions in fuel poverty were attributed to the following:

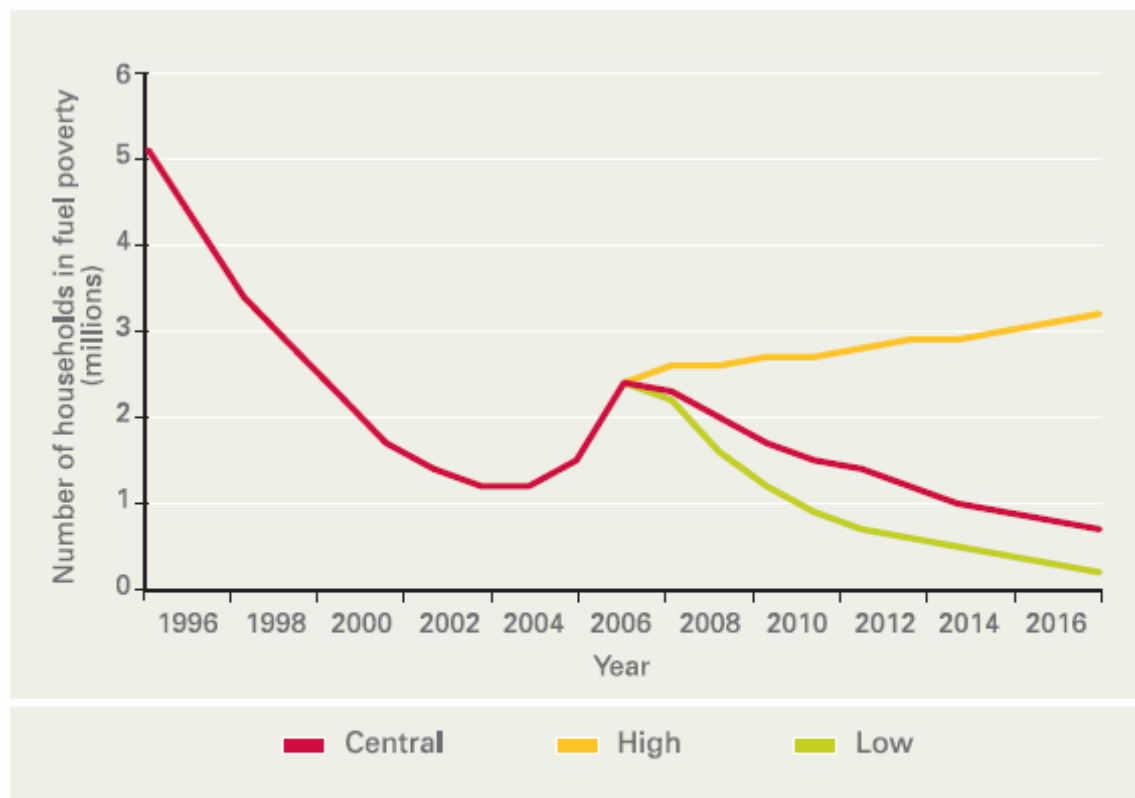
- *61 per cent attributable to improvements in incomes*
- *22 per cent attributable to energy price reductions*
- *17 per cent attributable to energy efficiency improvements*

However, since 2003 the combined average annual household energy bill for a consumer paying by quarterly credit has jumped from £572 (€749) in 2003 to £1037 (€1358) currently.

³ A satisfactory heating regime is defined as 21°C in the living room and 18°C in other occupied rooms, as recommended by the World Health Organisation

The escalating price of gas and electricity in the UK since 2003 has single-handedly undermined initial progress - outstripping income growth and outpacing the rate at which energy efficiency and heating improvements can be installed. The Government department responsible for energy policy has estimated that in England every 1% increase in prices forces an additional 40,000 households into fuel poverty. It is estimated that there are now 4.5 million fuel poor households in the UK, half a million of which have been added as a direct result of the double digit price rises we have seen already this year. This means that fuel poverty is now at a higher level than when the Strategy to eradicate fuel poverty was published in 2001 and that (as demonstrated by Figure 1, below) the Government's own targets are now looking unattainable.

Figure 1 - Historic and Projected Numbers of Households in Fuel Poverty in England, 1996-2016



Source: DTI, 2007

- Positions in 2005 and 2006 are based on the modelling of the impact of income, energy prices movements and energy efficiency measures on the number of vulnerable households in fuel poverty.
- Positions from 2007 to 2016 are based on modelling and show central, low and high price scenarios. These are based on the fossil-fuel price assumptions published at the same time as the White Paper.

4 Government reports fuel poverty figures in two ways: the first includes housing supplements such as Housing Benefit and Income Support for Mortgage Interest as income and is referred to as the *full income definition*, while the second excludes housing supplements from discretionary spend and is known as the *basic income definition*.

Source: UK Government Energy White Paper, May 2007
<http://www.berr.gov.uk/energy/whitepaper/page39534.html>

The maintenance of a downward pressure on prices envisaged by the government's Fuel Poverty Strategy evaporated as bills started to rocket in 2003. There is now a debilitating vacuum where action on the cost of energy to fuel poor households has to be. Government has sought to address this by challenging suppliers to offer voluntary assistance to fuel poor consumers as part of their corporate social responsibility packages. While this has resulted in some improvement, certain suppliers have developed more meaningful progress than others and the response of the industry as a whole falls short of what is required. energywatch is therefore pushing for the Government to oblige suppliers to offer social tariffs in accordance with minimum standards as the most effective way of addressing this.

From Common Definition to Joint Action

An examination of fuel poverty across Europe will reveal that Member States have some areas of common ground:

- 1) Fuel poverty will affect broadly the same consumer segments across Member States - i.e. consumers in the lower income deciles who are more likely to pay a greater proportion of their income on fuel and keeping warm. Typically this will be the elderly on low fixed incomes, the disabled and long-term ill, single parents and those who are supported by welfare payments;
- 2) The root causes will be the same: low household energy efficiency and sub-optimal heating / cooling systems, low disposable household income, and the price of gas and electricity. The only differences will be in which of these three factors is the primary driver; and
- 3) The need for Member States to employ a suite of solutions that incorporate action on all three fronts.

However, there will be key differences - not least that fuel poverty will manifest itself in different ways in each Member State and that respective manifestations will in part be a reflection of the following factors:

- The condition of the housing stock in each Member State – i.e. to what extent have energy efficiency and housing standards and policies eliminated housing susceptible to fuel poverty?
- Climatic differences – fuel poverty in Northern Europe will be centred on keeping Warm in the winter, while in Southern Europe this could be keeping cool in summer.
- The extent to which each Member State government has formally recognised fuel poverty as a social problem and the steps they have taken to ensure its eradication. To what extent have these succeeded?

- The extent to which the welfare system in each Member State mitigates against fuel poverty.
- The extent to which energy is included in payments towards rent.
- Access to gas and the extent of exposure to volatile commodity prices.

Given the above, a common definition of fuel poverty is desirable to the extent that it would enable the level of fuel poverty in Member States to be quantified on a uniform basis and for progress in eradicating fuel poverty to then be monitored. A common definition would also stimulate a recognition of this social ill in all member states.

The definition of fuel poverty adopted in the UK (the need to spend in excess of 10 per cent of income on fuel) could provide the basis for a Europe-wide definition. However, it should be recognised that the UK definition has a number of imperfections, not least that its practical application is somewhat limited in that it is difficult to identify individuals who are actually fuel poor by this measure. The prospect of a common definition therefore offers the opportunity to build on the lessons learned in the UK and to formulate an improved definition.

However, whilst a common pan-European Union definition of fuel poverty is necessary, the different manifestations of fuel poverty in each Member State will mean that joint action at the European level should avoid taking the form of 'one size fits all approach'. Instead European actions should incorporate:

- 1) A commitment to eradicating fuel poverty in every Member State; and
- 2) Actions that complement and reinforce, rather than supersede, national level initiatives that are tailored to addresses the specific nature of fuel poverty in each Member State.

Buying Energy in Great Britain

Consumers in GB, including consumers who live in social housing, are responsible for buying their own gas and electricity. The industry has seen consolidation and the current six suppliers are all ex regional monopoly gas or electricity suppliers who mostly inherited their customers. All the suppliers own upstream assets including balanced electricity generating portfolios and gas fields.

Changing supplier takes about 6 weeks to complete and has enough delays and hurdles in the system to mean people frequently abandon the process. Only about 50% of customers have changed to a different supply company. The industry also uses debt blocking – a means of ensuring debtors could not switch to cheaper suppliers.

The most common way people change their energy supplier is still through door to door sales techniques where it is very difficult to be certain you are moving to the best deal. Recent research⁵ suggests that consumer confusion may have an important bearing on diminishing the effectiveness of competition in the UK. Analysis of 3,000 consumers in 2005 found that 32% of switching consumers changed to a supplier charging more than the firm they were switching from; only 7% of consumers achieved the maximum saving from their switch of electricity supplier.

PPMs, meters which automatically disconnect people from gas and or electricity unless they are “topped up” with credit, have become far more common since private companies have supplied domestic consumers. In 1991 there were just 1.9 m PPMs in GB a total which has more than tripled to the current level of nearly 6 million. The big growth came in the first few years after privatisation, between 1991 and 1996 the number of PPMs on domestic electricity supply tripled. Suppliers sought to use PPMs to manage debt and get secure payment terms, something which continues today as over 1000 PPMs are currently being installed every day to recover debt.

The market place has developed different ways to pay for gas and electricity in addition to the traditional method of paying when the quarterly bill arrives. The cheapest prices are only available to those who can pay by direct debit and are able to manage their accounts through the internet. This puts these tariffs out of reach for many fuel poor and vulnerable consumers. “Penalties for the poor” is not a phrase you will find in the companies’ advertising or literature but is one of the most noteworthy features of the GB energy industry. Energy companies force prepayment meter users to pay an average of £215 (€282 or 25%) extra each year for their gas and electricity compared with the best available deals⁶ and in places this premium can be £450 (€589 or 60%). energywatch believes the ‘prepayment penalty’ exceeds £575m (€758m) each year, with the additional cost to companies of serving those meters accounting for less than half that amount (£240m or €314m).

Landlords like PPMs because they isolate them from any problems their tenants might have with the energy suppliers. Landlords, including social landlords, are often ignorant of the costs and inconvenience they are imposing on their tenants. The industry uses old dumb PPM

⁵ The report “Do Consumers Switch to the Best Supplier?” Chris M. Wilson and Catherine Waddams Price, April 2007 is available at: <http://www.ccp.uea.ac.uk/publicfiles/workingpapers/CCP07-6.pdf>.

⁶ People who pay when the bill arrives pay £173 (€227) more.

technology which requires people to go to shops and purchase credit for their cards or tokens. This often means having no gas and electricity when the shops are closed or long journeys at inconvenient times. PPMs have a place in the market but not when they are so expensive to use and trap consumers into price and quality of service ghettos.

The assumption in the GB energy market is that competition and freedom of movement of consumers will bring benefits to all sections of the market. This simply hasn't happened. Record numbers of people changed supplier in 2007 (5.1 million gas and or electricity accounts changed supplier in 2007 but this represents just 11% of the 47.4 million gas and electricity accounts in GB.) but around 50% of electricity customers and 47% of gas customer remained with their home area or legacy supplier⁷. Switching rates are higher amongst people who pay by direct debit and much lower for people who pay their bill in cash or cheque or use a PPM. This despite the fact that people who pay by these methods have most to gain from changing their supplier or the way they pay.

To counter this inertia and unfair pricing regimes a number of organisations have developed active projects to persuade people to change supplier. energywatch is running a pilot project with a social housing provider in the east of Birmingham encouraging people who use a PPM to change supplier. Despite over 340 hours of advisor time having been spent running surgeries and offering advice to date only 19 people have changed supplier. Price rises during the project has meant that a quarter of the people who changed to what at the time was the cheapest supplier are now with only the 4th cheapest supplier turning a gain of about £100 p.a. (£130) into paying about £60 p.a. (£79) more than the cheapest. To gain the best deal they need to switch supplier again.

The regulator continually refers to switching figures as direct evidence of competition. We do not agree that switching is a sufficiently good barometer for healthy competition and is not a theoretically sound basis for a regulator to determine whether there is effective competition.

There have always been problems with the switching data as it can be inflated by involuntary and mis-selling transfers and fails to identify multiple switchers. Switching to new entrants has been moderate and the seemingly high gross levels of switching reflect the introduction of dual fuel offers. What the regulator often fails to recognise is that some consumers are

⁷ Pages 13 and 14 of Department for Business, Enterprise and Regulatory Reform publication, Quarterly Energy Prices, March 2008, <http://www.berr.gov.uk/files/file45393.pdf>

unable to switch for example due to debt blocking or because other suppliers do not offer terms that support their particular metering arrangements. Many consumers state that they are very unlikely to switch whilst others state that they will never switch. Further survey evidence shows that switching is often ill-advised and up to one third of consumers have switched to a deal that left them worse off.

In its press release of 2 April 2008 on switching, the regulator stated that suppliers who do not offer competitive prices and good service will lose customers. Whilst this should be the case in a market where there is vigorous and healthy competition, in practice, we continue to see suppliers winning customers even where they are the most expensive supplier and have the poorest performance record.

Alternative Approaches for Social Housing

The demographics of people who live in social housing makes it even more important that social housing providers make sure their voice is heard on behalf of their tenants. Broad figures suggest that in the UK 30% of housing association tenants have a gas PPM, compared to 10% of all households, and that 43% of housing association tenants have an electricity PPM, compared to 16% of all households. Some housing associations report that about 70% of their residents use a PPM. 24% of housing association tenants have no bank account.

In response to problems in the market for gas and electricity and to help alleviate fuel poverty social housing providers have tried some alternative approaches:

Community Energy Projects

Through the CHPQA scheme the UK Government has put in place three main incentives to encourage the take-up of 'good quality' Combined Heat and Power (CHP):

- Investment in a CHP plant may qualify for an Enhanced Capital Allowance (ECA). This enables a business to claim 100% first-year capital allowances of their spending on qualifying plants and machinery. Businesses can write off the whole of the capital cost of their investment in these technologies against their taxable profits of the period during which they make the investment.
- Exemption from the Climate Change Levy.
- Exception of Power Generating Plant & Machinery from Business Rates.

Micro-CHP units, miniature CHP units designed to provide heat and power to a small building in place of a conventional boiler are also available. Most Micro-CHP sites use Stirling engines to operate.

Benefits of Micro-CHP are:

- It's a low carbon technology.
- Providing the site energy usage is sufficient, generating electricity locally using a CHP plant will normally be a cheaper than purchasing electricity from a conventional supplier.
- It increases security of supply, especially in remote locations or where the power supply can be interrupted.

Innovative things already happening in Scotland where Aberdeen City Council have invested in the Stockethill multi-story CHP project. This project involves 4 multi-story blocks with 288 flats. The flats originally had electric heating and the average National Home Energy Rating scheme (NHER)⁸ rating was only 3.3, which is very poor.

Various options were considered for improving these properties, including cladding the outside of the buildings but this was found to be prohibitively expensive. It was decided that the most attractive option was CHP and it was anticipated that this would improve the NHER rating to 6 and reduce the heating costs by about 40%.

Financial backing for the scheme came from a range of sources including Aberdeen City Council, the Community Energy Programme, and EEC from ScottishPower. An independent, not-for-profit organisation, Aberdeen Heat and Power Limited, was established by Aberdeen City Council to develop and manage CHP schemes across Aberdeen.

Tenants pay for the heating through a flat rate of £4.75 (€6.22) a week. An interesting aspect of communal heating schemes is that charging for fuel via heat-with-rent is exempt from VAT. Along with the very high efficiency of the CHP scheme, this means that the cost to tenants for space and water heating is much lower than it would be with other forms of heating.

Affinity Deals

The National Federation of Housing Associations (NFH)⁹ has established an energy alliance with EBiCo¹⁰, a not-for-profit social enterprise established in 1998 which social housing providers can use to access cheaper energy for their tenants. EBiCo's price plans are designed with the intent that they offer the cheapest tariffs in the market to customers using PPMs and

⁸ For more information on NHER see <http://www.nher.co.uk/>.

⁹ <http://www.housing.org.uk/>

¹⁰ To find out more visit <http://www.ebico.co.uk>.

to customers who wish to use a weekly cash payment plan - such customers tend to be on lower incomes.

EBiCo has over 25,000 customers and is one of the largest companies in the residential electricity and gas sector outside the major utility companies but that is less than 0.1% of the market in GB.

EBiCo work with social housing providers in operating affinity and void processing agreements. These have brought real savings to tenants and income and process cost savings to the local agencies.

Consortia / Aggregation Deals

Some housing associations have set up their own energy supply companies which buy wholesale energy and resell it to their tenants saving money for them. One example is Energyextra I I, launched in May 2000, it boasts almost 23,000 members. There are a variety of extra services available to their members, including a free home energy advice visit to help tenants to be as energy efficient as possible. Energyextra also have specialist advisors who are able to advice tenants on the intricacies of the gas and electricity markets.

Mis-selling

Following liberalisation consumers could choose which company supplied their gas and electricity, companies aggressively went after customers and they used just about every means at their disposal, including underhand ones. Almost every gas and electricity company was mis-selling products through agents and door to door salespeople who were on very low salaries plus commission or 100% commission. Fraud and preying on people who were vulnerable or struggled with language is now much reduced but still occurs.

Smart Meters

In the medium term, energywatch has long advocated smart meters as providing a technological solution to many of the complaints energywatch and suppliers receive. Smart meters are not a solution to all the ills of the market but they will eradicate the problem of estimated bills and will provide consumers with accurate and regular feedback on their energy

11 The Energyextra website (<http://www.energyextra.co.uk/>) is currently having technical troubles. However, they can be contacted through Anne-Marie Neenan, Business Development Manager: 0121 561 3845 or neenana@bcha.co.uk

consumption and expenditure. They also undermine suppliers' arguments for maintaining the Direct Debit to PPM differential since consumers will have the same piece of 'kit', regardless of their payment method.

Smart meters should allow consumers to make savings on their bills by helping reduce unnecessary energy use due to providing clear feedback on their energy use. Smart meters will also allow suppliers to introduce new 'time of day' tariffs that encourage consumers to make savings by reducing their energy use during peak periods or move energy demand to more efficient times of the day. This will help de-carbonise energy generation since the generating stations used to produce at peak times also tend to be the highest carbon producers.

The two way communication capability of smart meters will allow companies to monitor consumption patterns and so identify consumers who are self disconnecting or are at risk of fuel poverty. This will help energy companies target their assistance packages, either through social tariffs or energy efficiency investments. Two way smart meters should also allow government to pay targeted fuel related benefits in a more effective way through crediting fuel poor consumers accounts.

Smart meters should also mean consumers bills are right and not based on estimated consumption patterns. This is a blight on the GB market which not all countries suffer from at present.

energywatch has therefore campaigned vigorously for a Government mandate to install smart meters in the homes of every gas and electricity consumer within the next ten years. For energywatch it is important that the smart meters must provide consumers with accessible real time information about their electricity consumption and costs through a two way smart metering system and effective consumer interface in the home within ten years of implementation of this directive. Smart metering systems should be introduced at no/minimal costs to consumers.

At European level, the European Parliament is currently reviewing Directive 2003/54/EC, which concerns the common rules for the internal market in electricity and through this review the installations of smart meters and grids within a set time framework in member states are being considered.

Making Liberalisation Work for the Benefit of Vulnerable Customers?

Throughout Europe there are consumers who should be considered vulnerable in the energy market. They may be elderly, have a disability or a long-term illness, they may have young children, or they may live in poverty.

When the UK liberalised, these consumers suffered far more than most. The most damaging aspect of the industry's original approach to these customers was its attitude to debt. In one year 23,000 households in England and Wales were disconnected from heat and light, often by mistake and by forcible entry into homes. An estimated further 1.4 million disconnected themselves for fear of bills they couldn't pay. A third of all disconnections in one year were of people living in areas of multiple deprivation.

In liberalising their energy markets other Member States should look at and learn from what has happened in Great Britain. The downsides of liberalisation should be anticipated from the outset and analysis of the problems experienced in the GB market should be used to ensure that more effective policies are implemented across Europe (i.e. social tariffs, suitable debt and disconnection protections, premium prepayment meter pricing etc.). These were all missing from the design of the competitive market in the UK, but the deficiencies have become ever clearer as prices have risen. It is significantly easier to ensure that these deficiencies are addressed at the outset, than it is to try and restructure an established model that is up and running.

In the current climate of high prices, competition in the GB energy market has shown itself to only benefit certain sections of the market, leaving many low-income vulnerable consumers behind in the process.

A social tariff as part of a comprehensive energy assistance package delivered according to minimum standards plus adequate disconnection protection must play an important role in any pan-European approach. European wide legislation offers an important opportunity to capture these protections and will allow more effective cross boarder competition. This will be more effective than the current reliance on a voluntary approach.

There also needs to be a management of expectations on what a competitive market can do to help alleviate the problem of fuel poverty. Liberalisation may make a modest contribution to reducing the problem if energy prices come down, however, it will disproportionately

exacerbate the problem and undermine efforts to address low-incomes and energy efficiency if prices go up.

Opportunities for enshrining these protections:

- The energywatch initiated EU Energy Consumer Charter
- Directive of the EP and the Council amending Directive 2003/54/EC concerning common rules for the internal market in electricity and repealing Directive 96/92/EC – most notably the proposed Eluned Morgan amendment on socially equitable rising block tariffs.

Complaints and Redress

To obtain a snapshot of how consumers are being treated by energy suppliers, energywatch surveyed a random sample of 1,124 consumers who called us for help between July-November 2007. We asked them what their experience had been with their company prior to calling us. The results (in Table 1 below) reflect very badly on the industry and show that consumers' experience of making a complaint is often protracted and unsatisfactory.

Table 1 - Results of energywatch Survey on Consumer Satisfaction on Complaint Handling

Complaint handling and customer service measures	Industry Ave
Average number of times consumers contacted their supplier about their problem, prior to contacting energywatch	7 times
Average number of months the consumers' problems had been outstanding, prior to contacting energywatch	7 months
Percentage of consumers who said that their supplier had failed to deliver upon its promised actions (e.g. resolve problem to their satisfaction)	97%
Average number of opportunities consumers gave their supplier to resolve their problem, prior to contacting energywatch	5 times
Percentage of consumers who said they successfully escalated their problem with the supplier	29%
Percentage of consumers who said they would feel confident in raising a problem with their supplier in the future	15%
Percentage of consumers who felt confident that their supplier would successfully resolve a future problem once it had been raised with them	14%
Percentage of consumers who said that they had been informed about the existence and role of the Energy Supply Ombudsman by their supplier	1%

The results show that not only do consumers go to their company first, they give their supplier many opportunities to put the problem right. Consumers only come to energywatch when suppliers have broken promises, failed to resolve the problem or have failed to take their complaint seriously.

New arrangements, including a new advocacy body are about to be put in place to deliver the Government's goal of strengthened and streamlined consumer redress and representation. More commonly known as the Consumer Voice project, this will see some of energywatch's current responsibilities being carried forward by new or existing consumer support and advocacy organisations. There will be new ways of helping energy consumers who experience problems with their companies. The key changes for energy consumers are:

- Energy companies will be required to take on additional responsibility for resolving complaints from their customers, and will have to adhere to a new statutory complaint handling standard to be drafted by the regulator Ofgem.
- Consumer Direct will provide advice to consumers who are having difficulties resolving their complaints.
- A statutory Ombudsman scheme will be able to resolve the complaints of consumers who have been unable to resolve their complaints directly with their company.
- The new advocacy body will have the power to take up complaints on behalf of vulnerable consumers in certain situations, such as those at risk of disconnection.

energywatch has campaigned hard to get the new complaint handling standards fit for purpose and to make the Energy Supply Ombudsman an effective redress mechanism for consumers. More information can be found at:

<http://www.energywatch.org.uk/publications/campaigns/index.asp> and

http://www.energywatch.org.uk/uploads/Getting_serious_about_energy_complaints_and_customer_service_30_January_2008.pdf

Lessons from the Experience of Liberalisation in GB

- Analyse what has happened in the UK and use this to ensure that the necessary safeguards are in place from the outset. More information on how the GB approach to liberalisation has exacerbated fuel poverty can be found at:
http://www.energywatch.org.uk/uploads/Consumer_Protection_in_a_Liberalised_Energy_Market_and_Lessons_of_the_British_Experience_13_November_2007.pdf
- Reliance on voluntary provision and self-regulation is insufficient in ensuring that vulnerable consumers' interests are properly protected and that this group can access the type and level of assistance they require.
- A common definition of fuel poverty is useful, but needs to be backed by common resolve to address this problem.
- Given the different manifestations of fuel poverty in each Member State a joint European approach must bolster national initiatives and facilitate them to tailor solutions to the specifics of fuel poverty in their countries, rather than impose a pan-European solution.
- The work of energywatch on social tariffs is available at:
http://www.energywatch.org.uk/uploads/A_Social_Responsibility_the_energywatch_consultation_on_the_nature_of_social_tariffs_in_the_energy_market_report_and_recommendations_9_May_20071.pdf and
http://www.energywatch.org.uk/uploads/Proportionality_of_suppliers_social_tariffs_13_January_2008.pdf

Next Steps, Some Action Points

Liberalisation dramatically changed the GB gas and electricity markets, your countries may not currently suffer from the problems described above but it is likely that at least some of them will manifest themselves in your markets. energywatch is very keen that consumers in markets which are about to be liberalised don't suffer in the same way as consumers in GB did.

Markets cannot work well unless consumers are empowered and equipped to act in their own interests but this isn't sufficient they also need sufficient regulation to ensure their rights and protected and enforced and someone has to look after the interests of vulnerable consumers who cannot look after themselves. We hope you will consider the following points and try to make them a reality for your tenants and all gas and electricity consumers in Europe:

- Although the sustainable policy to address fuel poverty is to improve the energy efficiency of homes and make energy consumption of consumer products affordable it will not be sufficient, actions are needed to address fuel prices and low incomes. In GB we campaign for more effective targeting of benefit payments and for the energy suppliers to offer low cost tariffs to fuel poor consumers.
- GB has developed a range of policies to improve the energy efficiency of homes which are inconsistent and oversubscribed. The range of packages include government grants, mandated action from suppliers, local authority actions, don't fit well People often need to make a top up contribution to the government grant and it often takes over 6 months between applying for assistance and the work being done. Using rationing in this way is counter productive.
- Although targeting is notoriously difficult it must be done.
- Our work with the National Housing Federation¹² and individual housing associations has shown us how important it is that social landlords engage with the energy market, understand how it impacts on their tenants and use their influence to make the market work better for them. This will require strategic alliances or taking on board specialist skills.

¹² www.housing.org.uk

Appendix I The European Energy Consumers Charter

The aim of the European Charter for Energy Consumers should be to balance consumer interests with corporate interests and confirm that public service obligations are a necessary supplement to competition. As drafted it places a significant stress on corporate social responsibility and special assistance for vulnerable consumers; we hope that this emphasis will translate into new and consistent offerings from the industry backed up by mandate where necessary. Social tariffs, for instance, may well require firmer commitment from Member States than we have achieved in the UK where we are asking the government to mandate their availability.

Our experience is that voluntary agreements with the industry are worth seeking but also in need of monitoring. It is too easy for companies to sign up to change in the teeth of public outrage and then quietly slip back to poor practices when the spotlight has moved on. Self-regulation through codes and standards beats statutory regulation in terms of cost but it has to be monitored closely to be effective.

In terms of priorities, or what would have significant impact on energy consumers, energywatch believe the following should be the key goals of the Charter and the measures of its success.

- Protection of the vulnerable including social tariffs - The suggestion that Member States should adopt and publish a definition of vulnerable consumers is welcomed but not enough in itself. We strongly advise that some guidance is given on how to reach a more sophisticated definition of 'vulnerable' to ensure consistency of response by companies across the internal market. energywatch is asking the UK Government to direct energy suppliers to provide new low-cost tariffs for the poorest and most vulnerable consumers.
- Information which motivates consumers to make decisions about supply – it is not enough to simply provide information that enables a choice to be made, consumers should be persuaded to compare companies and switch to high performers. In Britain only around 50% of consumers have ever switched and in the 65+ age group and in social class D that figure decreases to 33%. It reduces even further to 25% in social group E. The highest incidence of switching takes place amongst the professional and managerial ABs.
- Removal of disincentives to switching.
- Complaint handling and dispute resolution systems which conform to international standards and are monitored. Late, unclear and inaccurate bills are the biggest problem for UK energy consumers. In 2003, energywatch launched its 'Better Billing' campaign, submitting a Supercomplaint to the regulator, which then forced the companies to set up an ombudsman scheme to resolve disputes and to end the practice where consumers could find themselves faced with a bill for energy they had used up to six years previously.

- Access to energy at reasonable prices.
- Protection from unfair trading practices. In their eagerness to sign up new customers in the newly liberalised GB market, companies employed salespeople willing to lie, cheat and forge signatures. energywatch launched its 'Stop Now!' campaign in 2002 and shamed the industry into introducing sales guidelines, paying compensation to consumers and putting their salespeople through mandatory training before they were allowed out on the street.

Three considerations in particular should influence what happens in the internal energy market based on what we have already experienced in GB:

- this market is for essential services and that necessitates responsive government intervention;
- social responsibility must be part of the liberalisation package for the companies operating in the energy market;
- the primacy of consumer welfare is acknowledged by those with shared responsibility for aspects of the market.

Consumer advocates are not averse to suppliers making a profit if the industry meets the diverse needs of its customers.

energywatch has been heavily involved in helping to frame the charter and we are pleased that it will define what consumers should expect from retail markets. energywatch's own Energy Consumer Charter was published on 5 July 2007 and is available at:

http://www.energywatch.org.uk/uploads/Energy_Consumers_Charter_July_2007.pdf

Following the publication of the draft charter energywatch made a more detailed response from which can be found at:

http://www.energywatch.org.uk/uploads/Response_to_EC's_Consultation_on_European_Charter_on_the_Rights_of_Energy_Consumers_28_September.pdf

Appendix 2 energywatch, Some Background

energywatch was formed under the Utilities Act 2000 and opened for business in November 2000. Our mission was and is to be an independent consumer champion, dynamic in developing safe, confident and assertive consumers and committed to improving the services provided to all gas and electricity consumers.

When energywatch was first set up, many consumers felt worried about the recent changes in the energy market. They didn't know who to trust. Our mission was to empower consumers through information and advice, to help them resolve complaints, to build their confidence and, through these actions, force the energy companies to improve their service to their customers. energywatch advisers give consumers information and advice on the telephone or face to face, but most important of all, they give them time and personal attention and stay the course until they have done everything that they can to help solve their problems. energywatch has two major constituencies whom we represent, domestic consumers and small businesses. Larger companies have to fend for themselves.

Last year there were 720,000 new or follow up contacts to energywatch. The new contacts resulted in our advisers investigating 62,033 new complaints and helping consumers with another 270,064 new enquiries either by information, advice or referring cases through our empowerment initiative. Since 2000, the majority of complaints we received have been about estimated, irregular and confusing bills. Yet again in 2006 – 07 most complaints were from worried consumers concerned about their bills.

In 2006 - 7 the energywatch website had 663,335 unique visitors – an increase of 38 per cent on the previous year. There were 614,000 pieces of advice and information downloaded – an increase of 42 per cent on last year. More than 212,000 answers were given through our on line 'ask a question' facility.