



Scottish Pensioners' Forum

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Response to Ofgem's Call for Evidence on the Development of a competition framework for the domestic retail market

The SPF is not convinced of the underlying logic behind this call for evidence.

We note that Ofgem recognises that its primary duty is 'making markets work in the best interests of current and future consumers', but this paper appears to give primary focus to its secondary duty – the promotion of effective competition in the market.

The SPF is not convinced that a 'market' for energy – 'a necessary good, meaning that consumers have no choice about whether they are part of the market or not' – actually benefits consumers, given experience of regulated utilities post privatisation.

In reality, the energy market, as it operates, is hardly a free one, since it is subject to a multi-million pound regulatory apparatus paid for, one way or another, by the end consumer.

Competition, despite regulation, has not generally served the totality of consumers well with loss leaders, cost cutting, poor consumer service standards, billing disputes and bankruptcies, the costs of which have been borne by consumers.

The consumer interface is with the supplier, in reality little more than invoice producers, dependent for their supplies on the network operators, the Grid and the generators who have been accused of 'gaming' the system, withholding supplies, for instance, to obtain higher prices, but benefitting from coupling prices for electricity generation to the wholesale price of gas, even if their costs are considerably lower when they generate by wind or solar power.

Each of these layers comes at a cost, ultimately borne by the consumer, but even with notional 'Chinese Walls' in place, there is a degree of vertical integration – both Scottish Power (heavily indebted to its Spanish owners, Iberdrola) and Scottish & Southern (using a Swiss holding company) are significant generators, distributors and suppliers.

We are not surprised that less than 50% of consumers had ever switched supplier, even when fixed price deals were on offer. Switching requires an ability to navigate a plethora of tariffs, and, even though the actual switching process has been streamlined, it is hardly seamless. The digitally excluded or those with a relatively low level of IT skills are inevitably at a disadvantage.

We believe that price is the main driver for switching, but notional figures of putative savings are based on average household consumption which inevitably does not reflect individual cases. Provided customers know

how much energy they consumed over a twelve-month period, unit and standing charges are of more help in determining the relative value of an individual contract. Early exit charges also need highlighting.

Customer service standards, or rather the lack of them, are more likely to be appreciated after, rather than before, a switch. Good customer experience at their interface with a supplier may well encourage a degree of loyalty. Customer service standards need closer, tighter specification, and should be clearly communicated to consumers so that they can easily understand what they can expect and how to obtain redress when they fail.

Our members are sceptical of offers which purport to supply green or renewable energy, since the actual supply that comes through the pipes or wires does not discriminate between modes of production. The supplier has only contracted to purchase a particular energy mix and bill customers accordingly.

If previous supplier 'offers' are any indication, these tend to involve cross-selling of ancillary services such as appliance servicing, broadband and the like. At the end of the day consumers primarily want their lights to come on and their ovens to heat up reliably and at a price they can afford. There is very little scope for suppliers to affect any part of, no matter how it is packaged.

It is clear from past experience, that much more stringent regulation and monitoring of supplier finances, including levels and terms of indebtedness, and dividend extraction is required. New entrants should have funding in place to give them resilience in the event of market turmoil. Ring fencing Green Levies collected from customers is a start, but our members believe the same should apply to direct debit customer balances, the accumulation of which is still being encouraged by suppliers. From our experience, reducing direct debit payments to realistic levels, or reclaiming accumulated balances is not an easy process. We cannot see any consumer interest being served by allowing suppliers to use these balances as free finance.

Market stabilisation charges appear anti-competitive. Ultimately consumers will be paying for allowing suppliers to be cushioned against loss of customers – a process which is surely a feature of any market. We cannot see why energy suppliers (billers) should be protected against the effects of competition.

The appearance of dominant players in the market should not come as a surprise. New entrants aspire to sit at 'the big table', whether by being more competitive or efficient than their rivals. But more likely through mergers and acquisitions, rather than through fundamental innovation. The question of concern is how such growth is funded – through 'free cash' resources or increased indebtedness to be ultimately back-loaded onto the business.

Bid players in a market, if they are in genuine competition with each other may not be acting against the consumer interest. If there is evidence of cartelisation that must be cause for a reference to the CMA. Relative supplier size and buying power can allow for economies of scale in providing back-office systems and provide a degree of resilience in the face of market fluctuations.

We assume that even if some degree of competition reappears in the energy supply market, consumers will still be impacted by network operators' charges over which they have no real control since these are based on their area of residence, with the result that Scottish Power and ManWeb residents pay the highest level of daily standing charges in the UK. We are keen to learn the justification for this situation, but, if it is not forthcoming, we would assume customers are paying either for organisational inefficiency, or the increasing levels of debt booked against them by their parent, Iberdrola, which also extracts annual interest payments and dividends.

Having created an artificial multi-tiered energy supply structure, attempts to rein in excess or stimulate competition by regulation, can be seen as patching a flawed system.

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