



## **Unite Submission to the Office of Gas and Electricity Markets Energy Supply Probe Consultation**

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### **1. Executive Summary**

- 1.1 Unite has serious concerns over the operation of the UK energy supply market and the increasing propensity for consumers within this market to move into the economic definition of fuel poverty.
- 1.2 Unite does not believe that the current market structure with its lack of robust regulation can provide the customer with the best framework to address the increasing burden of energy costs.
- 1.3 Unite is concerned that the remedies proposed in the Energy Supply Probe Consultation will not provide the short term relief that must be delivered to the increasing number of consumers who are now facing fuel poverty.
- 1.4 Unite would be supportive of the proposal that Ofgem should be afforded additional powers to guard against potential market abuses.
- 1.5 Unite believes that the re-introduction of price controls and the implementation of a windfall tax on the energy companies are immediate steps that need to be taken to address the current failings of the market.
- 1.6 Unite welcomes the proposal by Ofgem that the energy suppliers should be referred to Competition Commission if they fail to take action on the disproportionate price differentials being experienced by the most vulnerable consumers in the market.
- 1.7 Unite believes that all energy supply companies should be called upon to offer social tariffs to their poorest and most vulnerable customers, regardless of how they pay their bills.

## 2. Introduction

- 2.1 This response is submitted by Unite the Union. Unite is the UK's largest trade union with 2 million members across the private and public sectors. The union's members work in a range of industries including energy, manufacturing, construction, engineering, transport, information technology, finance, local authorities, education, health and not for profit sectors.
- 2.2 Whilst Unite welcomes the opportunity to address a number of the issues highlighted in the Energy Supply Probe Consultation, Unite believes that the report in itself will offer little comfort to the growing number of consumers who are dreading the coming cold months.
- 2.3 Unite has serious concerns over the operation of the UK energy supply market and the increasing propensity for consumers within this market to move into the economic definition of fuel poverty.
- 2.4 As will become apparent in this consultation response, Unite does not believe that the 'market' provides the customer with the best framework to address the increasing burden of energy costs.
- 2.5 In fact Unite would cite the consolidation of the energy supply market since privatisation, and the proliferation of overseas companies as objective evidence of the disproportionate profits available as a result of the current market structure and lack of robust regulation.
- 2.6 Unite acknowledges that the UK government has voiced its concerns on the impacts of fuel poverty. The union is keen to ensure that the statement made in its response to the House of Commons Business and Enterprise Committee report into Energy Prices, Fuel Poverty and Ofgem, that they are "deeply concerned about the effects of energy price rises on UK households, and particularly on vulnerable households"<sup>1</sup>, does not amount to empty rhetoric.
- 2.7 Through our widely publicised energy justice campaign Unite has sought to highlight the central issue which we believe needs the scrutiny of the regulator, namely why energy supply companies have been allowed to get away with extortionate price hikes, far in excess of the rate of inflation.
- 2.8 By way of highlighting the increasing significance of fuel costs in UK households it is worth noting the fact that in September 2008 the fuel & light component of the retail prices index stood at 39.6%.<sup>2</sup>

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<sup>1</sup> HoC Business & Enterprise Committee, Energy Prices, Fuel Poverty and Ofgem: Government Response to the Committee's Eleventh Report of Session 2007-08.

<sup>2</sup> Office of National Statistics – 14<sup>th</sup> October 2008

### 3. Failure of the Market

- 3.1 The UK energy and utilities sector is under the microscope like never before. This is not surprising considering the fact that in 2008 the privatised utility companies have set a new record for energy price increases, in the decade since the market was opened up. Average prices have risen 38% since 2007, eclipsing 2006 when average prices rose by 32%.<sup>3</sup>
- 3.2 Despite claims that their costs are soaring it is these same privatised energy companies who have managed to increase shareholder dividend payments by £257 million<sup>4</sup> in just 12 months.
- 3.3 The standard response from energy supply companies that increased prices are solely the result of increasing wholesale costs can be questioned further when we note that such costs “typically account for around 60% of a domestic consumer’s gas and electricity bills.”<sup>5</sup>
- 3.4 Such a formula might suggest a fairly consistent profit margin for energy supply companies, but not so. A number of these companies are rapidly increasing their profits. In 2007 Scottish Power saw their pre tax profits grow by 48.4%, a feat matched and bettered by NPower (110%) and also Eon (318.4%).
- 3.5 Unite is also mindful of the fact that these companies are set to make an estimated £11 billion<sup>6</sup> windfall profit over the next 4 years as a direct result of the European Union (EU) emissions trading scheme.
- 3.6 The figures show a stark reality - an increasing number of households are falling into fuel poverty (defined as having to spend 10% of their disposable income on heating and lighting their home). Current estimates suggest that 5 million households will face this economic reality by the end of 2008.
- 3.7 Unite believes that the existing state of the domestic energy market is unsustainable and is mindful of the recent observation made by the House of Commons Business and Enterprise Committee that “Energy prices are likely to remain high, and the government will have difficulty in increasing incomes rapidly enough to eradicate fuel poverty”.<sup>7</sup>
- 3.8 This view is supported by the Fuel Poverty Advisory Group who claim that current developments will mean that “the government is unlikely to meet its 2010 target for eradicating fuel poverty in all vulnerable households”.<sup>8</sup>

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<sup>3</sup> EnergyWatch Press Release – 29<sup>th</sup> August 2008

<sup>4</sup> Summary of UK Dividend Payments by the Major Energy Suppliers in 2006 and 2007

<sup>5</sup> Ofgem Energy Supply Probe Consultation

<sup>6</sup> The Observer, Business & Media – 31<sup>st</sup> August 2008

<sup>7</sup> Eleventh Report. Energy Prices, Fuel Poverty & Ofgem – HoC Business & Enterprise Committee

<sup>8</sup> Fuel Poverty Advisory Group Press Release – 9<sup>th</sup> April 2008

- 3.9 In fact the number of households in fuel poverty is increasing to pre 1997 levels. Latest figures suggest that 3.6 million<sup>9</sup> homes in England alone are now fuel poor.
- 3.10 Whilst Unite broadly welcome the government's Home Energy Saving Programme announced on the 11<sup>th</sup> September, the union believes this is merely inching in the direction of social justice. Government must do much more to stop the fuel companies from abusing their market position and counteract the social impact of rising energy costs.
- 3.11 In this respect Unite are in full agreement with the House of Commons Business and Enterprise Committee's statement that, "the additional money pledged by the energy companies, while welcome, will make very little difference to the overall number of fuel poor households."<sup>10</sup>
- 3.12 Unites believe that the UK has much to learn from its European counterparts in establishing a regulated energy market where its citizens are protected from the extremes of the free market. Giving the energy sector companies a license to print money appears abhorrent to many other European governments.
- 3.13 This fact is best highlighted by the latest figures from the Organisation for Economic Co-operation and Development (OECD) whose statistics showed that UK gas and electricity bills rose 29.7% in the past year compared with an average of 15% across the rest of the European Union. The OECD figures also showed prices for customers were up by just 12.2% in Germany and 14% in France.<sup>11</sup>
- 3.14 Even the centre right government in Italy has taken steps to counteract the obscene profits of the energy sector. Most recently the Italian government has increased corporation tax for energy companies from 27.5% to 33%. It is estimated that the proceeds generated from this initiative along with a contribution of €200 million from Italy's largest utility company, Eni, towards a welfare fund have created a surplus for the state of €1 billion, €300 million<sup>12</sup> of which has been identified to provide immediate financial relief to the poorest members of society with their energy bills.

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<sup>9</sup> Utility Week – 10<sup>th</sup> October 2008

<sup>10</sup> Eleventh Report. Energy Prices, Fuel Poverty & Ofgem – HoC Business & Enterprise Committee

<sup>11</sup> [news.bbc.co.uk/1/hi/uk/7709935.stm](http://news.bbc.co.uk/1/hi/uk/7709935.stm)

<sup>12</sup> Financial Times – 10<sup>th</sup> September 2008

## 4. The Reality of the Situation

- 4.1 Headline figures are essential to highlight the reality of the current situation.
- 4.2 However, it is also important not lose sight of the real social impact that rocketing energy costs are having on the whole of the UK economy.
- 4.3 Since launching its Energy Justice campaign Unite has been contacted by hundreds of its members facing real economic hardship as a result of disproportionate energy price increases.
- 4.4 Clearly the purpose of the consultation is not merely to recite all of the examples which we have been made aware of, but as a member organisation we feel it is essential to highlight a few salient cases. Further and more detailed information on such cases can be provided separately on a confidential basis.
- 4.5 One such member, Janet from North Wales, told us “I am disgusted at the way big business can call the shots and increase prices at will without any curbs or checks. It is immoral and quite sickening. The same goes for the inability of politicians to understand what goes on in the real world”.
- 4.6 Unite has also been contacted by Paul from Salford who told us that his current electricity bill now takes up more than 10% of his incapacity benefit, who despite his circumstances agreed that “I'm better off than some”.
- 4.7 Many members fear that there is worse to come, such as Nicola from Northumberland who anticipates her gas and electricity bills will soon exceed £120 a month. She went on to tell us that “even if we were to qualify for the help towards home efficiency improvements offered currently, we couldn't afford to pay the other 50%, therefore it's not much of a help”.
- 4.8 Unite were also interested to hear from Brenda from Cardiff who, after seeing an increase of 29.2% and 19.2% in her gas and electricity costs respectively since August 2008, told us that “It is no compensation that fuel companies and governments are offering us insulation grants. We do not need a sticky plaster to mask the effects we need to attack the profit mongering greedy companies who are forcing their actions upon the consumer”.
- 4.9 Such experiences certainly appear to contradict the view expressed by the Energy Retailers Association that “the energy market is working in the interests of most consumers.”<sup>13</sup>

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<sup>13</sup> ERA Press Statement in Response to Energy Supply Probe Consultation, 6<sup>th</sup> October 2008

- 4.10 It is not just members of Unite who are apprehensive about these current developments. In fact the list of organisations voicing their concerns about the consequences of fuel poverty is growing on an almost daily basis.
- 4.11 Unite is mindful of a number of contemporary reports, not least most recently from Dr Stirling Howieson, from the University of Strathclyde, whose extensive research supports the claim that “for every 1% increase in the real cost of fuel the numbers in fuel poverty in Scotland alone increase by 8,000”.<sup>14</sup>

## **5. The Need for Robust Regulation**

- 5.1 Unite has significant concerns that regulation of the energy supply market does not include price controls and would wish to see this element of the current structure reversed at the earliest opportunity.
- 5.2 Unite believes that Ofgem should act now to regulate prices. The current approach being taken - namely that market forces and competition will ultimately protect the consumer - is flawed.
- 5.3 In addition, Unite would welcome the regulator being granted sufficient powers to ensure that it could curb the excesses of the market now and in the future.
- 5.4 Unite is in full agreement with the observation made by Ofgem that vulnerable households are being disproportionately affected by current developments in the energy supply market.
- 5.5 Unite welcomes the proposal by Ofgem that the energy suppliers should be referred to Competition Commission if they fail to take action on the disproportionate price differentials being experienced by the most vulnerable consumers in the market.
- 5.6 The media coverage of such market discrepancies ensures that they are afforded a sufficiently high profile. Headlines such as “Energy Bill Rip Off”<sup>15</sup> if not articulate at least highlight the issue to a growing percentage of the population, especially when such observations are supported by research which confirms that the average annual bill for a pre-paid meter customer is £118<sup>16</sup> higher than for those who pay by direct debit.

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<sup>14</sup> The Profit of Doom, Forecasting excess winter deaths due to the real increase in domestic energy prices – Dr Stirling Howieson October 2008

<sup>15</sup> The Daily Mail, 7<sup>th</sup> October 2008

<sup>16</sup> uSwitch October 2008

## **6. Ofgem Remedies**

- 6.1 Unite welcomes a number of the remedies, proposed by Ofgem in the consultation, designed to address the failings of the current market structure.
- 6.2 That said, Unite has concerns that these remedies alone will not provide the short term relief that must be delivered to the increasing number of consumers who are now facing fuel poverty. (Our proposals in this respect are detailed later in this response).
- 6.3 Nevertheless, Unite is in full agreement with any initiatives that will ensure clearer information in customer billing, allowing customers to have an understanding of the tariff which they are signed up to.
- 6.4 Whilst a number of initiatives can be developed to promote awareness of and engagement in the switching process, this will not address the fact that suppliers in the domestic market have the propensity to increase prices within a relatively short period of one another.
- 6.5 With regard to proposals designed to ensure that customers are better informed to make choices, in respect of their chosen energy supplier, Unite welcomes the identification of the role that smart meters can undertake in this process. Further, Unite is mindful of the of the recent government announcement of their intention to mandate for the roll out of smart meters.
- 6.6 Unite believe that smart meters should put the customer in control of their energy usage with a view to reducing their consumption and that such technology should increase the provision of social tariffs for households facing fuel poverty.
- 6.7 A simplistic belief that competition in the market can lead to lower prices for consumers in the domestic energy sector does not acknowledge that the structure of the current market is somewhat more complex.
- 6.8 Unite agrees that Ofgem are right to articulate concerns that there are barriers to effective competition. Recent consolidation in the sector, despite the increasing profit margins available, would appear to support this view.
- 6.9 To this end Unite would be supportive of the proposal that Ofgem should be afforded additional powers to guard against potential market abuses.
- 6.10 Unite believes that Ofgem are right to identify concerns over unfair price differentials. Regulation must ensure that there is a prohibition on undue price discrimination.

## **7. Unite Recommendations**

- 7.1 Unite has been vociferous in its campaign for energy justice. It is simply unacceptable that in the world's fourth richest economy, millions of households will be faced this winter with an inhumane choice: that of whether to heat or eat.
- 7.2 Unite is fully convinced that the case for implementing a windfall tax on the UK energy suppliers, and return of price controls to prevent further prices hikes, is a robust one.
- 7.3 The immediate task in hand is to help people through the cold months. The government's plans to make UK homes fuel efficient are laudable but they will not help people through this winter.
- 7.4 Unite believe that even a modest windfall tax on energy supply companies could instantly generate sufficient funds to provide financial assistance to vulnerable customers.
- 7.5 The next task is to stop any repeat of the double-digit price jumps common in recent times. A system of rigorous price caps, similar to those in place elsewhere in Europe, to protect customers must be implemented.
- 7.6 Furthermore, Unite would endorse the removal of winter fuel payments for those customers in the higher income tax bracket. Funds generated from should be added to the financial assistance package.
- 7.7 Unite would be happy to engage with government to examine the most efficient mechanism for the distribution of such financial assistance.
- 7.8 This could include a combination of the benefit and pension system or vouchers depending on individual circumstances. Those homes in need of assistance can be readily identified using existing information held by government.
- 7.9 Unite believes that all energy supply companies should be called upon to offer social tariffs to their poorest and most vulnerable customers. These social tariffs should be at least the cheapest energy price that the supplier offers and should be available regardless of how the consumer pays for their bill. Minimum eligibility standards should be set to ensure equal access for all customers and provision should be expanded to include pensioners.

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**11<sup>th</sup> November 2008**

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