

## Consumer Action: Understanding and Protecting Energy Consumers

Protecting consumers is Ofgem's first priority. We actively engage with a diverse range of consumers and representative groups. This ensures that we understand consumers and the issues they face and can take their interests into account in our decision making.

Ofgem's consumer action over the last few years has been strengthened through our Consumer First programme; the setting of new complaint handling standards for the energy industry and the protection maintained through our enforcement work.

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### Ofgem's Consumer First Programme

In 2007, recognising the changes that were expected in consumer representation and the growing complexity of the consumer interest in the face of climate change, Ofgem invited Henley Centre HeadlightVision to review the way we engage with consumers against best practice. Out of that the Consumer First initiative was born. This is aimed at ensuring that we understand the way that the diverse range of energy consumers think and behave, and anticipate the issues that may concern future consumers, so that we can regulate in their best interests and provide protection where needed.

As part of Consumer First we have commissioned and carried out a number of major pieces of research over the last year or so to inform our work:

- Alongside an audit of suppliers' complaints handling arrangements we have recently commissioned research amongst consumers who complained to their energy supplier to test how well the complaints handling standards (introduced in October 2008) are working.
- A large programme of customer research with domestic and business customers as part of the electricity distribution price control review. This included interviews with people who are medically dependent on their energy supply, people who have disabilities and customers in areas where there have been particular difficulties with

electricity supply. This work has informed our current policy proposals.

- A survey to examine domestic customers' awareness of suppliers, their attitudes to the energy market and possible barriers to engaging in the market, to inform Ofgem's Energy Supply Market Probe. A similar piece of work was carried out with small businesses. A number of potential remedies are now being developed.
- A programme of qualitative research to develop our understanding of how vulnerable consumers engage with the energy market, including research among: people with low levels of literacy and numeracy; families on low incomes; people with disabilities and those without a good command of English. We are currently working on a number of initiatives designed to help overcome or remove barriers that these consumers may face.

The Consumer First programme has already successfully impacted on a number of key pieces of Ofgem's work including the Energy Supply Market Probe and Distribution Price Control Review. These have not only benefited from commissioned research but also from the creation, in October 2008, of a Consumer First Panel (100 ordinary consumers) and a Consumer Challenge Group .

### The Consumer First Panel

This is a broad cross-section of mains gas and electricity customers in terms of gender, age, housing tenure, socio-economic group, urban/rural, and payment method. They act as a ready sounding board for the issues that matter most to consumers and give us access to a group of people who can help us grapple with some of the more complex challenges around issues such as the environment and energy use. There are five groups of twenty people, in the following locations: London, Glasgow, Caernarfon, Beverley and Leicester.

Issues initially explored with the panel included: their attitudes to suppliers; views of their own energy usage; and what information would make the switching process easier.

More recently, the panel was used to test and develop some of the consumer information remedies that Ofgem is working on as a result of the Probe (price metric, annual statement, billing information) as well feeding into our future consumers work.

## The Consumer Challenge Group

This expert group was established to help inform the Electricity Price Control Review to complement the programme of consumer research being undertaken by:

- enabling Ofgem to get consumer input into some of the more complex issues that we are unable to address through market research;
- providing a 'critical friend' from the consumers' perspective; and
- acting as a counter-balance to industry views.

The Challenge Group has been widely hailed as an innovative model of good practice.

### Members of the group are:

- Sharon Darcy - a non-executive Director of Consumer Focus.
- Trisha McAuley - Head of Services and Advocacy at Consumer Focus Scotland.
- Jeremy Nicholson - Director of the Energy Intensive Users Group.
- Gill Owen - Chair of the Public Utilities Access Forum and a Senior Research Fellow at University of Warwick Business School.
- Simon Roberts - Chief Executive of the Centre for Sustainable Energy (CSE).
- Bob Spears - Chairman of the Utility Consumers Consortium (UCC).

## Consumer representation changes

The Consumers, Estate Agents and Redress (CEAR) Act 2007 created a new set of arrangements for consumer representation in the energy sector:

- a new consumer advocacy body was created, Consumer Focus, which brought together energywatch, postwatch and the National Consumer Council;
- Consumer Direct extended its advice service to cover enquiries and simple complaints from energy customers;
- the introduction of a new requirement on energy providers to belong to a redress scheme approved by Ofgem, the Energy Ombudsman, which acts for customers who have been unable to resolve disputes with their energy provider; and
- a duty on Ofgem to set complaint handling standards which are binding on energy providers.

Ofgem played an integral part in ensuring a smooth transition to these new arrangements. We consulted widely and undertook consumer research before setting the complaints handling standards which apply to complaints from domestic and micro business consumers made to suppliers and distribution companies. We also approved the statutory redress scheme, the Energy Ombudsman, an independent body which provides a final resolution to disputes which the energy company doesn't resolve to the customer's satisfaction (within eight weeks for the major suppliers) and which can award compensation when appropriate. This built on the success of the previous Ombudsman arrangements, which were put in place by industry at Ofgem's instigation.

Ofgem will audit suppliers' compliance with the complaints handling standards to ensure that they are meeting their obligations. Every year suppliers will also be required to give customers information on their complaint process and the number received.

## Enforcement

We have a range of enforcement powers including powers to investigate and take action against companies that we believe are behaving improperly or not meeting their legal obligations to customers. Many of the obligations are contained in licences granted by Ofgem.

We investigate companies which may be breaching: the terms of their licence; competition law or consumer protection law.

In the last two years, our enforcement team has completed eight investigations. In three of the cases a licensee was found to be in breach. Of these two had financial penalties imposed on them of £25,000 and £1.8 million. We have also found National Grid to be in breach of the Competition Act 1998 and fined it £41.6m.

**For further information please contact: [consumer.first@ofgem.gov.uk](mailto:consumer.first@ofgem.gov.uk)**