

Annex 2D

The role of energywatch and Ofgem

Introduction

2D.1 The domestic gas and electricity supply markets were opened to competition in the late 1990s. This has delivered choice and lower prices. But suppliers must maintain high levels of service. Because of the importance of energy supply, Energywatch and OFGEM have been given the task of ensuring that they do.

Energywatch's role and the Government's proposals on consumer representation

2D.2 Energywatch is an independent consumer body, which was set up in November 2000 to promote the interests of all gas and electricity consumers. It is a Non-Departmental Public Body (NDPB), sponsored by DTI, and is ultimately funded by gas and electricity licence-holders. Energywatch is overseen by a Chairman and eight non-executive Council Members, appointed by the Secretary of State. It has its headquarters in London and six regional offices (in Glasgow, Cardiff, Newcastle, Birmingham, Bournemouth and an office covering the South East, also in London).

2D.3 As a consumer advocate, Energywatch advises Government, Ofgem, licence-holders, the media and other bodies whose activities may affect the interests of consumers, such as local authorities; draws the attention of interested parties to problems requiring action; and publishes information and advice of use to consumers. Through its campaign work, Energywatch seeks to highlight the issues of greatest concern to consumers.

2D.4 Energywatch also handles complaints on behalf of consumers who have failed satisfactorily to resolve problems with energy companies. It works with companies, initiating changes to their policies, processes and systems that will make them more responsive to the needs of their customers. Energywatch does not have enforcement powers, as it would be inappropriate for an organisation with a vested interest in assisting consumers to regulate the industry - that is the responsibility of Ofgem. Energywatch aims to resolve 75 per cent of cases within thirty-five working days of receiving a complaint, and 95 per cent within sixty-six working days.

2D.5 In July 2006, a new ombudsman scheme for resolving difficult billing and transfer complaints was introduced by the industry. This scheme, which is additional to existing complaint procedures, can award compensation of up to £5,000.

2D.6 The Government is in the process of considering what changes might be made to the arrangements for utility consumer representation. Earlier this year, it consulted on the introduction of new arrangements that would bring together a number of existing bodies in a new structure. This would entail the use of Consumer Direct as a front-line organisation taking calls from consumers; the establishment of sectoral

ombudsman schemes to resolve disputes that operators had not dealt with to the customer's satisfaction; and a new cross-sectoral policy-making and advisory body to provide advice to consumers, Government and others. Energywatch would be one of the bodies subsumed within these new arrangements, the introduction of which would require primary legislation. If the Government follows this approach, legislation would be likely to be introduced in 2007, and new arrangements introduced in 2007 and 2008.

Ofgem's role

2D.7 As the gas and electricity industries' regulatory body, OFGEM's primary duty is to protect the interests of consumers, where possible by promoting competition. As an independent economic regulator, it acts without interference from Government, and is answerable to the Public Accounts Committee (PAC) of the House of Commons. It is a Non-Ministerial Department, governed by a board known as the Gas and Electricity Markets Authority (GEMA), which makes all major decisions and sets policy priorities. Ofgem's budget is recovered from gas and electricity licence-holders. Ofgem's powers are derived from the Gas Act 1986 and the Electricity Act 1989, as amended. It also has enforcement powers under the Competition Act 1998.

2D.8 Since domestic supply competition was introduced in the late 1990s, prices have fallen in real terms. By the end of 2005, 44 per cent of domestic electricity and gas customers were no longer with their home supplier. Switching rates remain higher in energy than in any other sector except car insurance. Ofgem specifically regulates those businesses that cannot be opened up to competition, or where competition is not yet established, such as gas and electricity transmission systems and electricity distribution networks. To protect consumers from unfair pricing by these monopolies, Ofgem sets price controls. Over the past three years, price controls have reduced customers' bills by over £1 billion per year.

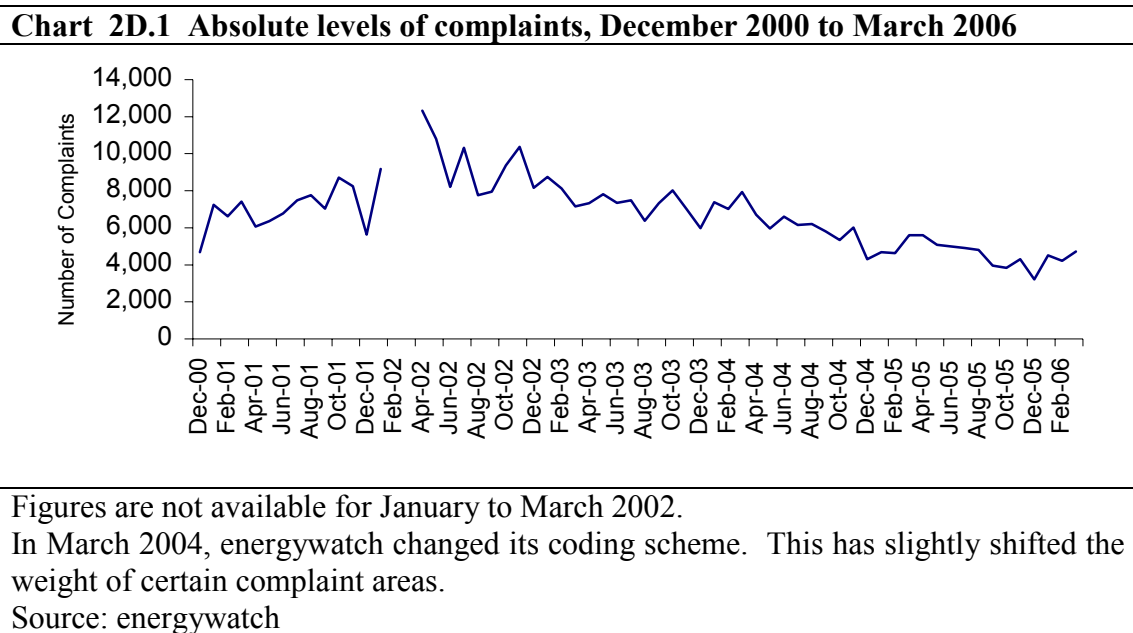
2D.9 Under its Social Action Plan, Ofgem aims to ensure that vulnerable consumers share fully in the benefits of competition and identifies actions to help the fuel poor. Lower prices brought about by competition and effective regulation, have helped the Government towards its fuel poverty targets.

Memorandum of Understanding

2D.10 Both Energywatch and Ofgem are required, under Section 7 of the Utilities Act 2000, to make arrangements to secure co-operation, exchange of information and ensure consistent treatment of matters affecting both organisations. These arrangements are set out Memoranda of Understanding, the first of which was signed shortly after the establishment of energywatch and Ofgem in November 2000. The MoU was revised in January 2005, reflecting developments in the relationship and setting a framework within which it will continue to evolve.

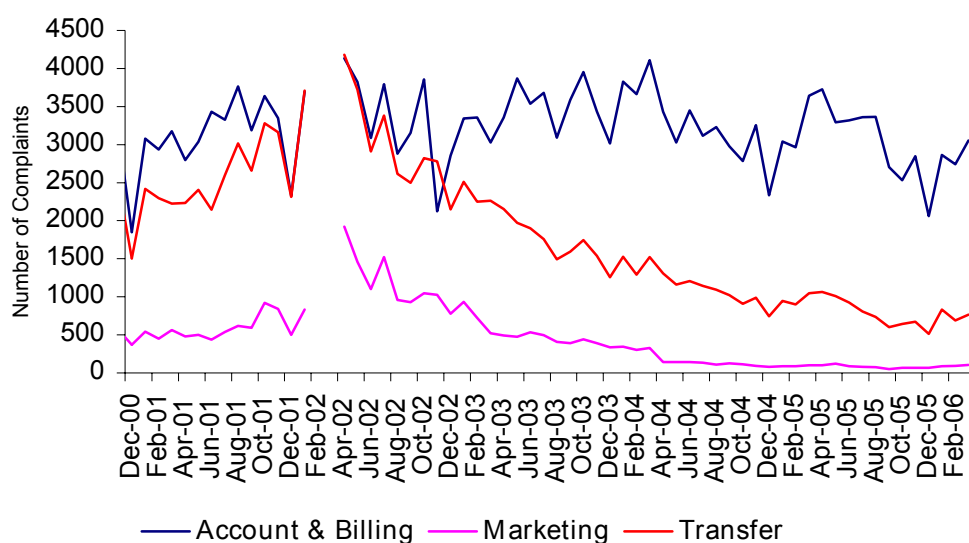
Complaints

2D.11 Total complaints received by energywatch have fluctuated over time, as shown in Chart 2D.1. In April 2002, complaints peaked at over 12,000. Since the start of 2003, complaints have generally declined. In the first quarter of 2006, domestic complaints averaged less than 4,500 per month.



2D.12 The marked reduction in complaints is due to improved company performance, as a result of, among other things, pressure on industry by Energywatch, OFGEM and Government. At the same time, Energywatch has sought to provide customers with impartial, effective and accessible information and advice on how to assert their rights. This is evident from the substantial rise in enquiries.

Chart 2D.2 Domestic complaints by category, December 2000 to March 2006



Figures are not available for January to March 2002.

In March 2004, energywatch changed its coding scheme. This has slightly shifted the weight of certain complaint areas.

Source: energywatch

2D.13 The number of domestic marketing and transfer complaints has shown a general downward trend since April 2002. This reflects the finalisation of a code of practice for doorstep selling, the imposition of better controls on sales agents and substantial changes to transfer processes. As can be seen from chart 2D.2, domestic account and billing now accounts for the majority of complaints. For example, in the first quarter of 2006, Energywatch received 2,900 account and billing complaints each month, compared to 750 transfer complaints and under 100 marketing complaints. The finalisation of a new industry code of practice on billing, and the introduction, in July 2006, of an ombudsman service to resolve difficult disputes in this area, should materially affect the number of account and billing complaints.