



House of Commons  
Business and Enterprise  
Committee

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**Energy policy: future  
challenges:  
Government Response  
to the Committee's  
First Report of Session  
2008–09**

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**Second Special Report of Session  
2008–09**

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## The Business & Enterprise Committee

The Business & Enterprise Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Enterprise & Regulatory Reform.

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### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/bec>

### Committee staff

The current staff of the Committee are: Eve Samson (Clerk), Emma Berry (Second Clerk), Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant) and Jim Hudson (Committee Support Assistant).

### Contacts

All correspondence should be addressed to the Clerks of the Business and Enterprise Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is [becom@parliament.uk](mailto:becom@parliament.uk)

## Second Special Report

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1. The Business and Enterprise Committee published its First Report of Session 2008-09 on 12 December 2008. The Government's response was received on 17 February 2009 and is appended to this Report.

2. Following the establishment of the new Energy and Climate Change Committee, it would not be appropriate for the Business and Enterprise Committee to comment in detail on the Government's response to its final report on energy policy. However, in publishing the response we wish to say how much the Committee welcomes the tone and, largely, the content of the Government's observations. While we may disagree about the adequacy of plans to enable increased gas storage, or the transparency of the new consumer complaint and representation arrangements, for example, there are other commitments and observations with which we entirely agree:

- We emphasise the importance of ensuring that the energy-related National Policy Statements are in place in the timeframe promised by the Government in this Response.
- We are particularly heartened by the Government's strong words on the future of direct selling. The industry can now have no doubts about the need to maintain the highest standards of probity in this area.
- The triple policy challenge of providing secure, affordable and sustainable energy supplies in the UK remains one of the most important and complex facing Government. There are no easy answers to this challenge but we are generally encouraged by the spirit of this statement of Government intent.

## Government response

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### Introduction

1. The Government welcomes the **Business and Enterprise Select Committee's First Report: "Energy policy: future challenges"**. The Committee's Report constitutes a constructive assessment of the challenges facing the energy supply markets, and Government, in the coming years.

2. The Government maintains and, as necessary, develops the overarching regulatory framework for UK energy markets. Within this framework Ofgem is responsible for monitoring and promoting competition in the GB energy markets.

3. Within this response, the response will focus primarily on actions being taken by Government in areas relevant to the Committee's recommendations. Where Ofgem or other non-Governmental organisations are in the lead on conducting relevant work, we have summarised this work for the Committee.

## Responses

4. The Committee's specific conclusions and recommendations are reproduced in bold below. Each is followed by the Government response.

### Energy prices

**Given the expectation of recession amongst most advanced economies in 2009, and the absence of a co-ordinated response from OPEC, the price of oil is likely to remain well below its July 2008 peak in the short term. Accordingly, despite the problems with the structure of the wholesale markets identified in our previous Report, we would expect to see a fall in wholesale gas and electricity prices. While recognising that the hedging strategies of the companies means there will always be a lag of weeks or months between falls in wholesale prices and matching reductions in retail prices, we support the Government in calling on the 'Big 6' energy companies to cut prices for their retail customers as soon as possible in 2009, and in pressing for greater transparency on the relationship between wholesale and retail prices. However, we continue to believe that, once the global economy begins to recover, in the long term "the era of cheap energy is surely over" (Paragraph 9)**

### Government Response

5. We largely agree with the Committee's analysis. We have now seen the first decreases this year in household energy prices announced by British Gas and Scottish and Southern. We expect that other companies will follow suit in the coming months. It remains important that all households begin to see the benefits of lower wholesale prices, and that people can have confidence that the full benefits are passed onto consumers

6. In the pre-Budget Report, the Chancellor and the Secretary of State for Energy and Climate Change have asked Ofgem to publish quarterly reports on wholesale and retail prices. This will deliver greater transparency over future price changes. The first of these updates will be published at the end of February.

7. In due course, rising international energy demand (though it may decrease temporarily), and the pressing need to develop low carbon energy systems to reduce carbon emissions, are likely to result in higher energy prices for consumers across Europe and the rest of the world. This makes Government's efforts to improve energy efficiency, for instance through the Carbon Emissions Reduction Target (CERT) and Warm Front initiatives, even more important.

### Gas storage

**If the UK is to avoid falling victim to even higher levels of wholesale gas price volatility in the coming years, it requires a level of growth in storage capacity that is an order of magnitude greater than that which the market has achieved on its own to date. The Government's national policy statement (NPS) must set out in detail what level of storage it wishes to achieve in the next decade and the criteria that sites for**

**development should meet. Given that NPSs were announced some time ago, we are very disappointed that the NPS for gas storage will not be available for consultation until mid to late 2009, with final publication in 2010. We call on the Government to bring this date forward. Moreover, given the current economic climate, it must now re-consider the likelihood that investment will take place without some form of regulatory intervention. Given the amount of time that has been lost, and the lack of progress that has been made, we think it likely that the market will fail to deliver. There are many possible solutions. To give two possible examples, some form of storage obligation could be placed on gas shippers or suppliers, or the regulated monopoly role of National Grid could be extended. (Paragraph 13)**

#### Government response

8. The Government is keen to work closely with the energy sector to make sure that avoidable wholesale gas price volatility is kept to a minimum in the years to come. Forecasts for the future need for gas storage change over time, and for this reason it would be unwise to set in stone a national target for storage which may in the end not reflect true need. As a result, we work with market participants to help them to assess the need for storage. Companies have a strong commercial incentive to get this mix right, and to minimise price volatility themselves. This is because they are required, under the industry's governance arrangements, to ensure a precise balance, each day, between their customers' demand for gas and the amount of gas that they put into the system; any imbalance is charged using a formula based on the prevailing market price, which during a gas supply shortage could be very high indeed. As a result, it is very much in a company's interest to make sure it forecasts demand accurately, and is able to meet that demand fully. They do this using a number of tools for balancing supply with demand – including the terms of their contracts with major gas consumers, and their access to gas imports.

9. However, Government has a strategic role in relation to the market, and is far from complacent on this issue. That is why it has enacted legislation (through the Planning and Energy Acts 2008) to ensure up-to-date and fit-for-purpose consents regimes for major gas supply infrastructure, including gas storage facilities. Government is now implementing these provisions.

10. There is strong evidence that these arrangements are bearing fruit, with large volumes of new gas storage in train. National Grid's recent "Ten Year Statement" identifies 17 commercial gas storage projects, in the public realm, at various stages of the project development process. If they all succeed in going forward, by around 2020 our total gas storage capacity could be some 20 billion cubic metres (bcm) – up from around 4.5 bcm now, and equivalent to around 20% of current annual demand. If only half of this anticipated volume materialised, our national storage capacity would still be more than double its current position.

11. As envisaged under the Planning Act, the National Policy Statement (NPS) for gas supply infrastructure is one of a suite of National Policy Statements currently being prepared and covering the energy sector. The NPSs are important documents, which

will give the Infrastructure Planning Commission (IPC) clear guidance on how to take decisions. We recognise the interest of the Committee and many other stakeholders in the NPS. Its production is a complex process which will be subject to Parliamentary scrutiny as part of its production process. All NPSs will be completed in time for the IPC to be receiving and determining applications next year.

12. The NPS for gas supply infrastructure will set out the national need for increased levels of gas storage capacity, and will give guidance to the IPC on generic criteria for assessing whether proposed sites would be acceptable, balanced against national need. Until the new legislative reforms are completed, planning applications for new infrastructure continue to be considered under the existing arrangements. There have been successes under these arrangements. One of these – the Aldbrough facility in Yorkshire – is expected to become operational in early 2009, with storage capacity building up to 370 million cubic metres.

13. The Energy Act 2008 also introduces a new regulatory framework to facilitate the storage of natural gas offshore and the offshore unloading of natural gas (most likely from Liquefied Natural Gas (LNG) tankers). The legislation provides for a licensing scheme for these activities. The first step in implementing this regime is an Order in Council – expected shortly – to designate areas of United Kingdom Continental Shelf for gas import and storage purposes. The Government will also shortly be launching a public consultation on how the licensing scheme should be taken forward.

14. The Government keeps the evolution of the gas supply market, and the regulatory framework in which it operates, under constant review. Additional gas supply facilities expected to commission this year include two large LNG import terminals, as well as the Aldbrough gas storage facility. The Government is of course participating in the work on future arrangements for security of gas supply under the auspices of the European Commission.

### **New electricity generating capacity**

**Generating capacity equivalent to nearly a third of current electricity demand will be made redundant by 2020. It will need to be replaced. We believe that in the current economic climate there is a high risk that the energy companies will not be able to raise the finance necessary to build this. It is the Government's job to ensure security of supply. Just as the Government has been quick to respond to the crisis in the banking sector, it must now take action to ensure investment in new capacity takes place as planned. A reasonable level of profit by the big energy suppliers will be a precondition of this investment taking place. The situation is now very serious and we believe that a simple trust in the market's ability to deliver without any intervention will see us facing an 'energy crunch' in the medium term. The social and economic consequences of such a 'crunch' would be disastrous. (Paragraph 17)**

**The Government needs to take action to ensure the credibility of its claims that climate change forms as important a part of the UK's energy policy as security of supply. Further action is required if both nuclear power and coal-fired generation are to form part of the electricity mix in the medium to longer term. The**

**Government will need to learn from the recent Finnish experience of new nuclear build to ensure a UK programme is not subject to the same delays and cost over-runs. The national policy statement on nuclear power should be brought forward at the earliest possible date. In addition, much greater levels of investment in carbon capture and storage (CCS) are required than the current single competition for a demonstration plant if the Government wishes to see environmentally acceptable new coal-fired capacity. (Paragraph 18)**

#### Government Response

15. The electricity generating industry faces a stiff challenge in the coming years and the Government recognises its role in ensuring security of supply in the medium and longer term. No sector is immune from the current economic climate caused by the credit crunch. Along with the regulator Ofgem, Government is closely monitoring the effects on the energy sector, including on investment plans. Industry has strong commercial incentive to ensure that enough replacement capacity is built on time to replace the capacity that is going to have to close. Indeed, some 9.8 Giga Watts of new capacity is presently under construction, 7.2 Giga Watts of which is Combined Cycle Gas Turbines and some of this is expected to be available by 2010. National Grid data indicates that a further 6.5GW of capacity has planning consent (but is not yet under construction). Companies are giving themselves plenty of options so that they can respond to emerging market signals and changing circumstances.

16. However, we are not complacent. The planning reforms contained in the Planning Act 2008 will improve the speed and efficiency of the planning system for nationally significant infrastructure, including new nuclear power stations. The forthcoming Nuclear National Policy Statement will be location specific, listing sites assessed through a Strategic Siting Assessment (SSA), which is a process to identify and assess sites which are strategically suitable for the deployment of new nuclear power stations by the end of 2025. Under arrangements in the Planning Act this will be used as the framework for the new Infrastructure Planning Commission (IPC) in considering planning applications. This, and other actions, will enable companies to make planning applications under the new planning regime from 2010. Because the SSA will have assessed the strategic suitability of sites, the Government does not expect the IPC will need to reconsider this. Instead, the IPC will focus on issues related to specific proposals to build on a site listed in the Nuclear NPS.

17. Clearly Government and potential developers will want to learn from the recent Finnish experience. Oikuluoto is the first European Pressurised Water Reactor (EPR) to be built in the world. Other EPRs are being built in France and China and so there will be a greater experience base from which the UK Government and any developers in this country can draw upon.

18. The Government also sees Carbon Capture Readiness (CCR) as a preparatory stage for Carbon Capture and Storage (CCS). We consulted last year on the EU's proposals for CCR. The Government's policy will be announced in the near future. The UK is a global leader in promoting the development of CCS, launching a competition in 2007 to

build one of the world's first CCS demonstration projects. The UK was instrumental in shaping the agreement in December 2008 on an EU funding mechanism for CCS demonstration projects within phase III of the EU Emissions Trading Scheme (ETS). This has resulted in the setting aside of up to 300 million free ETS allowances to be made available to part-fund up to 12 CCS demonstration projects. This funding is potentially worth billions of pounds and will put the EU at the forefront of the development of this technology. The UK is planning to take advantage of this EU funding and hopes to be able to host more than one CCS demonstration.

### **Wholesale market liquidity**

**We welcome Ofgem's decision to take action to improve liquidity in the wholesale electricity market. This is now more important than ever, as the credit crunch has seen a decline in liquidity from the very low levels that existed in the first place. We look to the regulator to move quickly by proposing reforms in the first half of 2009. These will be crucial for encouraging future new entrants, both in the wholesale and retail markets. Furthermore, we continue to believe the Government and regulator should give greater attention to liquidity in the forward market for wholesale gas, about which a number of witnesses raised concern in our previous inquiry. The Government's response to that Report showed that the last piece of substantive work on the topic was conducted in 2005. It is time for the Department of Energy and Climate Change (DECC) to consider the issue again and without delay. Unless wholesale markets work well there is no chance of achieving a fair deal for retail customers. (Paragraph 20)**

### Government Response

19. We agree entirely with the Committee that liquidity in the traded market for wholesale electricity, as in the traded market for gas, is important in order to send price signals to market participants. We also agree that there has been a lack of liquidity in the markets, as recognised by the initial findings report of Ofgem's probe.

20. There are some indications, however, that the situation may be improving. The latest Financial Services Authority report on trading activity in the wholesale energy markets saw continued strong growth in electricity trading (12%) and whilst trading in gas fell this followed growth rates that were in excess of 100% in the previous reporting period.

21. A small number of specific projects also suggest that market liquidity is improving. For example, U.S.-based Nasdaq OMX and Danish electricity market operator Nord Pool are to launch a power exchange in Britain next year.

22. If these encouraging signs continue they may lead to substantial improvements in market liquidity.

23. However, this is a very complex area, and Government is not complacent about the situation regarding market liquidity, particularly in the current economic climate. That is why we welcome Ofgem's further work on wholesale market liquidity, which will

form part of the work programme following their probe. Since the publication of its “Initial Findings” document, Ofgem has been undertaking further analysis and meeting with relevant parties to unpick some of the issues identified in the initial investigation. We await its detailed findings on the issues concerning liquidity, an update on which will be published in the spring. In particular, we will be paying close attention to the consequences for UK energy market participants.

### **The Energy Act 2008**

**The creation of the Department of Energy and Climate Change has brought about new policy initiatives on feed-in tariffs, incentives for renewable heat and smart metering, which this Committee has advocated for some time. We welcome these developments. It will now fall to the new Energy and Climate Change Committee to scrutinise the finer detail of how the Department puts these policies into practice. In particular, we hope that DECC will treat the twelve year programme for the introduction of smart meters (two years consultation and ten-year roll-out) as an absolute maximum, and aim to complete it much more quickly. The new committee will also need to pay close attention to other aspects of the Energy Act 2008, such as the implementation of technology banding for the Renewables Obligation and the establishment of a framework for financing waste disposal and decommissioning costs arising from future new nuclear power stations. (Paragraph 24)**

### Government Response

24. In recent months the Government has continued to make necessary improvements to the regulatory framework which supports and delivers energy policy. Major developments have included the establishment of the Department of Energy and Climate Change, the Energy Act and the other initiatives the Committee notes here, and new targets on emissions and renewable energy.

25. We will continue to examine our framework, for instance to determine what more can be done to protect the most vulnerable, and to put in place further developments that prove necessary. Government needs to take a strong strategic role, beside private companies and well-regulated dynamic markets, in delivering a safe, secure and affordable energy system.

26. The Government shares the Committee's view that the benefits of smart meters should be available to customers as soon as is practicable. The Government is currently considering a range of policy issues that need to be developed further in preparation for the roll-out of smart meters, including the delivery model, meter functionality and programme management. It will make further announcements on these matters when it is able to do so.

27. The Government recognises the crucial importance of technology banding and of the framework for nuclear waste disposal, for delivering a sustainable low carbon energy system.

28. We welcome the establishment of the new Energy and Climate Change Committee, and Ministers look forward to responding to its invitations and requests for information, and to its analysis of policy and implementation.

### **Electricity network infrastructure**

**The UK's future energy mix will come from a more diverse range of sources, including local energy and larger-scale onshore and offshore renewables, as well as new nuclear power stations. More decentralised generation will need technologies that allow more 'active' management of the electricity networks. The scale of investment required to install them is likely to be huge, but could yield substantial benefits both in terms of security of supply and in reducing carbon emissions. In conjunction with new incentives for decentralised generation, DECC, Ofgem and the new committee will need to consider whether the existing regulatory regime governing network investment is sufficient to meet the demands posed by a more complex energy mix. (Paragraph 26)**

### Government Response

29. The Government agrees that a future energy mix which includes increasing levels of renewable generation, with significant amounts connected at local distribution level, will present new challenges for ensuring the effective and efficient management and operation of our electricity networks.

30. Ofgem has set out proposals for new measures that would seek to encourage greater innovation and trialling of new technologies. Via its work on charging, Ofgem is also working to remove barriers to connection of distributed generation that exist at present. These new proposals are in addition to the existing Distributed Generation Incentive mechanism, Innovation Funding Incentive and Registered Power Zone schemes which were introduced in 2005 to encourage innovative technical solutions to connecting distributed generation. In addition, Ofgem has launched a Long Term Energy Networks Scenarios project that looks at a range of possible network scenarios out to 2050, which includes significant penetration of generation at distributed level and the potential for significant changes in the way in which the networks are configured.

31. To ensure that industry, Ofgem and Government have a mutual understanding of the technological challenges facing the energy networks, Ofgem is also joint chair with DECC of the re-constituted Energy Networks Strategy Group. This group (formed in July 2008) provides a high level forum which brings together key stakeholders in electricity networks that work together to support Government in meeting the long-term energy challenges of tackling climate change by reducing carbon dioxide emissions both within the UK and abroad and ensuring secure, clean and affordable energy.

32. The need to stimulate Network Operators to consider more innovative ways to manage electricity flows on the network, such as through the use of 'smarter' technologies that enable greater active network management and to implement new

innovations has been recognised by Ofgem in its current Electricity Distribution Price Control Review.

33. We are working closely with Ofgem to consider the network impact of recent Government policy announcements such as the introduction of feed in tariffs for small scale electricity generation and support moves that encourage Network Operators to develop and trial new technology, to adopt new commercial arrangements and to develop new ways of operating their networks that might be needed in the future.

### **Funding the Nuclear Decommissioning Authority**

**It will now fall to DECC to avoid a potential “car crash” by re-designing the Nuclear Decommissioning Authority’s funding model before the end of the current spending review period. Agreement with HM Treasury on an appropriate framework should provide full protection of DECC’s non-NDA related departmental expenditure limit. This issue should be a high priority for both the new department and the new select committee which will scrutinise it. (Paragraph 28)**

### **Government Response**

34. This is a high priority for DECC. There has been a clear system for dealing with problems of cost escalation or income shortfall within the NDA which has meant that there has been no detrimental effect to the delivery of NDA and Departmental objectives. Notwithstanding this the Government agreed to consider whether there were changes that could be made to the NDA funding model to better enable its funding to be managed effectively while maintaining the right incentives and controls. BERR was working with NDA and HMT to consider options. This work is now being taken forward by DECC, supported by the Shareholder Executive in advance of the next Spending Review.

### **Cost-reflective energy pricing**

**In the short term energy suppliers may themselves take action to ensure their charges for different payment types are cost-reflective. However, we believe that in future this requirement should be set down in companies’ licences to ensure the issue does not arise again. We also support Ofgem’s proposal for a further licence condition that would prohibit undue price discrimination. This would benefit vulnerable groups such as older people who are less likely to switch, or rural customers who are not connected to the gas grid. Such a condition would, however, need to make an exception for those households who currently benefit from suppliers’ social tariffs. We also repeat that most of those in fuel poverty are on standard credit terms and that, while much is said about pre-payment meter tariffs, too little political attention is focussed on this larger and often more vulnerable group. (Paragraph 32)**

#### Government Response

35. We agree with the Committee on the need to ensure that customers paying through standard credit, as well as pre payment meter tariffs, benefit from changes following Ofgem's probe. Ofgem is currently consulting on ways in which the energy suppliers' licence conditions could be modified to protect all consumers from unfair pricing, especially the vulnerable. Proposals include a requirement for cost-reflectivity for different payment methods which includes a prohibition of undue discrimination, or price controls, and a prohibition of "cross subsidy" between electricity and gas supply. The deadline for responses to this consultation is 20 February.

36. The Government has welcomed Ofgem's decision to establish rules to prevent unfair pricing. The Government is fully committed to ensuring that no group of users, particularly those in vulnerable groups, should lose out. The Government has consistently stated its intention to act – potentially through legislation - should Ofgem's action not achieve the necessary changes in the near future.

#### Direct debit charges

**We welcome the regulator's initial commitment to look into whether the energy suppliers are using higher than necessary direct debit charges to boost their cash flow, and we look forward to its findings. The level of public concern is high and we urge our successor committee to maintain the pressure on Ofgem to resolve this issue. (Paragraph 33)**

#### Government Response

37. We echo the Committee's welcome for Ofgem's action in this area and await their findings with interest.

#### Direct selling

**We are deeply concerned that nearly half of consumers who switch as a result of a direct sales approach fail to achieve a price reduction. We welcome Ofgem's commitment to strengthen the rules governing direct selling. It should ensure new rules are in place within the first quarter of 2009. If they do not significantly improve the level of service to customers by this time next year, then the regulator should not hesitate to ban the practice outright. (Paragraph 35)**

#### Government Response

38. The Government considers that direct selling, which is used in various sectors, can be of value when carried out responsibly. In the gas and electricity markets, it provides a means of reaching customers who might not otherwise engage in the competitive

market. It does not, therefore, believe that direct selling of gas and electricity should be banned at this stage. But unless this sector gets its act together, it is 'supping in the last chance saloon' during the next 18 months. We will monitor with care.

39. However, direct selling must be undertaken to appropriate standards and in conformity with clear rules, whether it be conducted face-to-face or by telephone. It is subject to significant controls, in particular the Doorstep Selling Regulations and the Distance Selling Regulations. Gas and electricity customers have additional regulatory protection under the Marketing Condition within gas and electricity supply licences, which is underpinned by Ofgem's right to impose financial penalties on those who breach licence conditions. They enjoy further non-statutory protection through the Code of Practice for Face-to-Face Marketing of Energy Supply introduced in 2002 by the Association of Energy Suppliers, and now operated by the Energy Retail Association, and the suppliers' EnergySure scheme for the recruitment, training and assessment of sales staff.

40. The Government feels that Ofgem's recent fining of Npower, following an investigation of its sales practices, shows that the regulatory regime provides an effective check on malpractice where suppliers do not meet the requirements placed upon them. Nonetheless, it is clearly preferable that problems should be avoided altogether through the maintenance of the highest standards by suppliers.

41. This requires the ongoing monitoring of the performance of both suppliers and the regulatory regime itself. The Government therefore welcomes Ofgem's commitment, to which the Committee refers, to strengthening rules on supplier behaviour with a view to minimising customer detriment and encouraging better decision-making by customers. The Government also encourages customers, wherever possible, to make use of the straightforward information about tariffs available from Consumer Focus and Consumer Direct and the advice available from accredited price comparison services.

### **Supply for small businesses**

**A consequence of BizzEnergy and Electricity4Business's recent demise is that SME customers have lost two of their most effective advocates. Households are represented by the successor to Energywatch, Consumer Focus, and large-scale energy consumers have two dedicated advocacy bodies in the Major Energy Users' Council and the Energy Intensive Users' Group. Yet SMEs do not benefit from such advocacy, although Consumer Focus is currently looking at its role in representing them. Lack of a dedicated advocate may explain why anti-competitive practices by the 'Big 6' have been able to develop relatively unchallenged in the past. Though Ofgem told us it maintains links to SMEs through its Small User Group, we believe the regulator and DECC must ensure there are effective mechanisms for ensuring the interests of SMEs are identified and properly safeguarded. (Paragraph 38)**

## Government Response

42. The Government agrees that there should be effective mechanisms for ensuring that the interests of SMEs are identified and properly safeguarded. It is aware of the role that Ofgem's Small User Group plays in this and that this group is part of on-going and detailed dialogue with small business groups.

43. Consumer Focus is currently considering how it can play its part in acting as an advocate for micro enterprises, as these make up about 95% of firms and often suffer the same challenges as individual consumers, such as lack of negotiating power or knowledge of their rights. This will, of course, look more widely than just energy.

44. The Government believes that the new arrangements for consumer protection and advocacy introduced by the Consumers Estate Agents and Redress Act (CEAR) will benefit SMEs. They are now able to take complaints about their energy supplier to the Energy Ombudsman and get redress from their supplier in the same way that ordinary consumers can. SMEs who have been or are under threat of being disconnected, and those that meet agreed vulnerability criteria, are also able to get help and advice from the Extra Help Unit run by Consumer Focus.

45. Additionally, Ofgem's recent supply probe identified a number of concerns about the way in which the market worked for small businesses. To help small businesses Ofgem has proposed the introduction of a range of measures, including a requirement to inform small business customers clearly in writing of the key terms and conditions in their contracts, a requirement to introduce a code of practice to govern the objections and switching process, an extension of the accreditation scheme for switching sites to cover those dealing with small business consumers and a strengthening of the existing industry code of practice for Third Party Intermediaries (TPIs). Government fully supports this work, and will monitor the situation closely to ensure that these proposals bring about their desired aim.

## Fuel poverty

**After two rounds of price increases, we estimate as many as 5.5 million households may now be living in fuel poverty. We welcome the Government's package of measures announced in the autumn, particularly their focus on improving the energy efficiency of the existing housing stock. This will prove the most cost-effective means of tackling fuel poverty in the long run. We also welcome the contribution to the package being made by non-vertically integrated electricity generators, which acknowledges the fact that they too have benefited from windfall gains under Phase 2 of the EU Emissions Trading Scheme. (Paragraph 42)**

**The creation of DECC removes one of the fissures in responsibility for fuel poverty within Government, with BERR and DEFRA previously having overlapping involvement. We hope the Department will keep its strategy under review as many of its current measures have a limited lifetime even within the existing spending review period. While there is currently a strong case for the industry's role in alleviating fuel poverty because of the windfall gains it is receiving, these will cease to exist once full**

**auctioning of carbon permits is introduced in 2013. Provided the regulatory framework is sufficient to ensure fairness to all consumers, in the long term the Government will need to consider whether it can continue to expect energy companies and the regulator to be responsible for the delivery of its social policy objectives. We also reiterate our frequent recommendation that much more attention must be paid to groups in fuel poverty other than pensioners, particularly disabled people under 60. (Paragraph 43)**

#### Government Response

46. The Government shares the Committee's concern for the number of people in fuel poverty. The recent increase in the number of households in fuel poverty shows that, despite the range of policies that we have in place, the task of tackling fuel poverty is becoming an even greater challenge. The Government believes that both Ofgem and the energy suppliers have a role to play in protecting vulnerable consumers. Ofgem by making sure that vulnerable consumers can benefit from the competitive market, information is transparent and there are no barriers to switching, and suppliers by ensuring that their pricing strategies are not discriminatory especially against the vulnerable.

47. Reducing fuel poverty is a core objective of DECC, which has brought together energy and climate change policies for the first time. In light of market conditions, and as we build on our package of measures to tackle climate change and drive greater levels of renewables, we will be reviewing the impact of these developments on our progress towards our fuel poverty goals.

48. The initial findings of the fuel poverty review are expected by the end of June. The outcome will also feed into the Government's annual report on fuel poverty.

#### The role of Ofgem

**We were pleased that the regulator's initial findings report and suggested recommendations sought to address many, though not all, of the concerns set out in our earlier Report. Indeed, its probe raised some issues that had not come to light in our inquiry. For this we give Ofgem credit. However, it is clear that in 2008 the regulator has been slow to respond to rising concern over the functioning of the energy markets. We hope that in 2009 and onwards, the new Energy and Climate Change Committee will not have to take the lead in setting the regulator's agenda as we have found ourselves doing on too many occasions. (Paragraph 46)**

#### Government Response

49. The Government echoes the Committee's endorsement for the Ofgem probe into the energy supply market. We also feel that this piece of work has unearthed some significant issues for the sector, and we will continue to work closely with Ofgem as they take forward the remedies to the issues with the market which were identified.

**We also express concern that the new consumer representation processes and the plethora of bodies involved—Consumer Direct, companies’ complaints procedures, the Energy Ombudsman, Consumer Focus and Ofgem itself—are opaque. Moreover, they risk reducing Ofgem’s awareness of issues of concern to consumers, such as the recent complaints about direct debits. Ofgem and Consumer Focus will need to have close and frequent contact. Otherwise, the combination of a regulator which often needs to be prompted to take action, and a lack of effective procedures for bringing shortcomings to the attention of the regulator, will be a recipe for poor representation of consumer interests. (Paragraph 47)**

#### Government Response

50. The Government does not agree with the criticism of the new consumer representation and complaints processes. Domestic energy suppliers are required under their licence to provide contact details for Consumer Direct on the back of their customer bills, and most also give information about the Energy Ombudsman and their own complaints procedures. In addition to the new arrangements highlighted above, energy suppliers are now required to record details of complaints made directly to them by their customers and this information will be published by Consumer Focus.

51. Consumer Focus itself will provide intelligence to Ofgem on issues affecting consumers, particularly regarding those who may be vulnerable and on disconnection matters. In addition, reporting arrangements are in place with Consumer Direct and the Energy Ombudsman. Both will be important sources of intelligence to Ofgem and Consumer Focus not only through providing monthly information on contacts but on feeding through emerging issues as they arise. These new arrangements recognise that there are a number of players but their roles are quite distinct. Nevertheless, the Government agrees that it will be important that all the parties, including Consumer Focus and Ofgem, work closely together and each maintain close contact with the others. The Government welcomes the Memoranda of Understanding being developed between the bodies which set out how they will work together.

**We recommend the Government now investigates whether Ofgem should have additional powers to guard against market abuses, particularly in the wholesale electricity markets, and how these powers might be granted. (Paragraph 48)**

#### Government Response

52. Ofgem, following a decision to close a Competition Act enquiry into the behaviour of Scottish Power and Scottish and Southern Energy in the wholesale energy market, will consult on additional powers and/or specific policy proposals to guard against potential market abuse by the end of March. This may include seeking to introduce a new Market Abuse Licence Condition for energy suppliers.