

Mr Neil Barnes
Senior Economist
Ofgem
9 Millbank
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11 May 2009

Dear Mr Barnes

Response to Ofgem's consultation 'Addressing undue discrimination - final proposals'

The National Housing Federation represents 1,200 independent, not-for-profit housing associations in England and is the voice of affordable housing. Our members provide two million affordable homes for five million people.

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Summary

- The Federation believes that Ofgem's new licensing conditions do not go far enough as some prepayment meter customers will continue to pay the most for their energy when they can afford it the least.
- We welcome Ofgem's decision not to put pressure on the energy suppliers who have gone beyond cost reflective pricing to offer prepayment meter customer the same rates as quarterly billed customers.
- We are concerned that Ofgem's might have breached EU rules by not ensuring that all energy prices were cost reflective since July 2004 are in accordance with EU Energy Directives.

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New licensing conditions do not go far enough

The Federation has campaigned to ensure that prepayment meter customers are charged no more than quarterly billed customers.

Despite stern opposition from Ofgem, and initially the energy suppliers, three quarters of the 'big six' suppliers' gas and electricity prepayment tariffs are now equalised with quarterly billed rates. Only British Gas, EDF and Scottish and Southern Energy still charge their 1.5 million gas customers more. This clearly shows that there is scope for all suppliers to absorb the added costs of prepayment meters.

The average income for gas prepayment meter customers is £13,500 per year¹. We believe that Ofgem is failing in its duty to these households by allowing their preferred method of payment to cost the most.

¹ Accent April 2009, Research commissioned by the National Housing Federation

Ofgem's new rules are out of synch with public opinion. A You Gov poll recently showed that showed that 64% of people believe energy companies should absorb the extra cost of maintaining meters rather than passing them onto prepayment customers. To date, over 100 MPs have signed a Commons motion² which calls on Ofgem to go further.

The Federation now hopes that Ofgem will support the Energy Minister to act in accordance with the expectation of the public and MPs by legislating to end this injustice once and for all.

Ofgem's decision not to force suppliers away from equalisation

We welcome Ofgem's decision not to pursue the energy suppliers who have gone beyond cost reflective pricing to offer prepayment meter customer the same rates as quarterly billed customers.

We commend Npower, E.ON and Scottish Power for ensure that their prepayment meter customers are not penalised because the market insists on using metering technology that has added costs.

We hope that these suppliers will stay committed to equalisation until the national role out of smart meters, which will largely remove the extra costs of prepay meters.

The 2003 EU Energy Directives

Throughout Ofgem's consultation Directive 2003/54/EC and Directive 2003/55/EC are footnoted and mentioned. Ofgem states 'Licence Condition A is designed to reflect Annex A(d) of the EC Directives' However, the Gas Directive and the Electricity Directive had to be fully implemented by the member states by 1 July 2004.

We are concerned that the requirement on Ofgem to ensure that 'any difference in terms and conditions shall reflect the costs to the supplier of the different payment systems³' was not properly implemented as required by 1 July 2004. This fact is highlighted by Ofgem's acknowledgment that 'licence condition A is to better reflect the requirements of EC Directives 2003/54 and 2003/55 and to address the detriment caused to consumers as a result of non-cost reflective differentials in payment methods applied by gas and electricity suppliers'.

The Federation would like Ofgem to investigate this concern and to consider whether there is any liability for the millions of prepayment meter customers who paid unjustified price differentials after 1 July 2004.

Further information

If Ofgem would like any further information regarding the comments above, please contact John Pierce, Campaigns Officer, on 020 7067 1027 or johnp@housing.org.uk

Yours sincerely,

² Early Day Motion 918, Parliamentary Session 08/09.

³ Annex A(d) of Directive 2003/54/EC and Directive 2003/55/EC

John Pierce
Campaign Officer

National Housing Federation