Prepayment meters and Energy Act 2004
Response by FPAG

The Consultation paper seems to us to be clear and well written. Our key points are:

Paragraph 3.6. There appears to be a very strong case for allowing those customers who want it to opt for recovering of debt through a single prepayment meter. This should only be done if the customer agrees. But, with this proviso, there seems to be no case for denying customers the option of saving money by securing one of their fuels on a cheaper non prepayment tariff.

We agree that processes for handling a change of supplier would be needed, but it should not be beyond our collective capability to work this out. We accept that the customer may, in some circumstances, need to choose between recovering both debts on one meter (which requires the same supplier for both fuels) and switching suppliers for one fuel.

We agree with the recommendation in 3.5 (move to new premises) provided that there are safeguards to ensure that customers understand and agree.

On 3.7 (energy services), we can see some arguments in favour of payment for energy packages, via the prepayment meter. But take-up would be low, given the availability of free measures. There would also be the need to avoid the risks that low income customers might be persuaded to pay for measures that they can get free of charge. On balance therefore it may not be worth setting up the processes given the probable low take-up and the potential risks.

On metering price controls (4.9). We would be most concerned if the transfer of gas metering assets resulted in an increase in the prepayment meter charges. As you know, FPAG does not believe that enough priority was given to the interests of low income and other customers in decisions about the sale of NGT's distribution assets. We believe it essential that, on this occasion, full account is taken of the interests of prepayment customers.

There are 2 points here. Firstly, any transfer arrangements should be regulated in such a way that the transfer does not result in a material increase in prepayment charges. Secondly, it is essential any arrangements would not prevent the Government from using its Energy Act powers to cross subsidise prepayment customers if it chose to do so. Specific changes were inserted into the Act to enable the Government to do this and it would be a matter of great concern if these powers were effectively removed or undermined by a change in asset ownership.

Finally, the discussion of technology issues (4.2-4.6) and barriers to innovation (4.11-4.20) did not seem to be adequate. Given all the advances in communication and similar technology, there is clearly potential for radically different kinds of metering but the discussion at 4.2-4.6 does not touch on this. The outline of the discussions with suppliers in 4.11-4.20 and the outline of earlier discussions with suppliers in the Social Action Plan Annual Review, March 2004, suggest that a number of barriers to innovation remain. In particular, this latest paper does not suggest that there has been any significant move forward from the key points raised in the March 2004 paper. In that paper suppliers expressed considerable reluctance to invest in new pre-payment meters on their own and suggested the need for “new technology to be supported by a number of suppliers … (to) include the provision of suitable infrastructure to support new meters, which could be independent of the company that supplies the customer.” (SAP Review, March 2004, p.9).

Paragraph 4.13 of this latest paper reiterates the point that “some suppliers were unwilling to own meters themselves… (and) would rather lease the meters from an asset owner. However, suppliers said that investors may be reluctant to fund the purchase of meters given the current technological and market uncertainties.” (p.11). These and other concerns raised in the 2004 and current papers, do not suggest that any real progress is being made or is likely to be made in the future.

Although paragraph 4.13 also states “As the market became more stable with an established leading technology it was expected that investment would become more attractive.” The question that arises is how will such a technology (or technologies) become established given the apparent reluctance of anyone to invest in them? We are therefore concerned at the complacency expressed by Ofgem in the conclusion at paragraph 4.20. We would like to see a more concerted effort by Ofgem to look at ways of overcoming the barriers to innovation that clearly still exist.

In summary, on the issues in 3.5-3.7, we broadly support Ofgem’s approach and are in favour of a single PPM for 2 debts. On the issue of innovation the paper is inadequate in that it proposes no new action to tackle the barriers that still exist. We also have serious concerns about the possible effects of the transfer of metering assets.