

Kiera Bower
Social Issues Manager
Ofgem
9 Millbank
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SW1P 3GE

22nd June 2006

Dear Kiera,

Consultation on Prepayment Meter Regulations in accordance with paragraph

6A(4) of Schedule 2B of the Gas Act 1986 (as amended) and paragraph 12 of Schedule 7 of the Electricity Act 1989 (as amended).

energywatch is grateful for the opportunity to comment formally on these proposals again. We also recognise the considerable improvements that have been made since this process was initiated and are grateful for Ofgem's endeavours in that regard. However, whilst our concerns on option 1 – transfer of PPM debt between premises – have largely been addressed and given that option 3 - energy efficiency packages – has now been shelved, this submission reiterates our ongoing reservations on option 2: to allow the use of one PPM to recover debts for two fuels, so the customer could have one PPM and one credit meter for the two fuels.

Consumer consent / agreement

The introduction of any new scheme will have an impact on consumers. Consumers must therefore have a clear understanding of what it is they are agreeing to, so that they can make an informed evaluation of how it will affect them. Therefore a clear need exists for the provision of objective information that sets out both the pros and cons of accepting an option 2 agreement (or an option 1 agreement for that matter). As Ofgem is aware, energywatch's preference would have been for an "opt in" process, where consumers would sign an agreement.

Whilst we appreciate that Ofgem has attempted to address our concerns in this regard by insisting that a conversation between supplier and consumer precedes a verbal agreement (with a seven day window for the consumer to opt out) energywatch remains to be convinced that this is a satisfactory safeguard. There is nothing, however, to prevent the conversation being a subjective sales pitch that focuses on the advantages for the consumer.

That said, energywatch does accept that a further safeguard exists in the form of the 30 day cancellation period but we will watch with interest to see whether consumers encounter resistance when attempting to action this safeguard. As we have stated previously, in its own complaint data energywatch has case studies of consumers who have cancelled other contracts only to find the cancellation has not been properly processed. Behaviour of this type in the case of vulnerable consumers on low incomes could result in serious detriment.

Savings for consumers agreeing to option 2

energywatch recognises that one of the primary benefits and key attractions of the option 2 proposals could be reduced costs to consumers. However, as things stand, there is no guarantee that these savings will be passed on to consumers. energywatch would welcome assurances from suppliers proposing to utilise these proposals that they will result in a tangible fiscal benefit for the consumer.

Increased risk of self disconnection

Irrespective of whether any savings are passed on or not, energywatch cannot see how this proposal is in the best interests of those consumers who have had either one or both PPMs imposed to pay off a debt. Allowing suppliers to collect up to 4 payments from a single electricity PPM could make a bad situation worse, rather than alleviate problems. As energywatch has stated consistently, for consumers paying off arrears, this proposal could result in an increase in self-disconnection and energy rationing – something we should all be looking to prevent rather than risk exacerbating. The soaring energy prices witnessed since 2003 will only serve to increase the potential for this. The original consultation document stated that "*the possibility of disconnection would also be limited to one fuel.*" While this may technically be the case, if multiple payments through the electricity PPM lead to the self disconnection of electricity this would also hinder the safe use of gas, especially given that most central heating systems are dependent on electricity supply.

Implications of replacing a gas PPM with a standard gas meter

Switching gas PPMs for standard gas meters and loading payments onto electricity PPMs could have two undesirable side effects that would cancel out the benefits discussed above. Any supplier taking advantage of the proposals should look to safeguard against these.

First,, many gas PPM consumers will have had frequent interaction with their meter, resulting in regular monitoring and a greater awareness of gas usage, which in turn will have promoted energy efficient behaviour. While the savings of moving the payments onto the gas PPM are preferable, there is a risk that these will be cancelled out if the 'freedom' of having a standard means the energy efficient behaviour is diminished.

Second, there is a risk that where the gas PPM had assisted the consumer in budgeting, the installation of a standard gas meter could remove that discipline, which again offsets the fiscal advantage and worse, could leave the consumer in debt – a scenario which many PPM consumers in choosing this payment method are seeking to avoid.

Is this the right option for all consumers?

Related to the second concern above is an additional concern that for certain vulnerable consumers, while the fiscal benefit would be welcome, this would be far outweighed by the detriment that could ensue if vulnerable consumers were to fall into debt, because the required control over their gas usage had been removed. In its response to Ofgem's consultation on the Supply Licence Review and vulnerable consumers, energywatch promoted the concept of suppliers getting behind the account number to better understand the circumstances of the vulnerable consumers with which they are dealing. That approach would be vital in instances like this.

Distinguishing between different payments on the one PPM

energywatch also remains to be convinced that four collections on one meter are technically possible in a satisfactory manner. Whilst it may be possible to calibrate meters in a way that can distinguish between 4 payments, it is not clear whether this can be done in a way that would be satisfactorily intelligible to the consumer. Clarity of information for consumers on precisely which of the possible 4 items their expenditure is being directed towards, and, in the case of debts, in monitoring how each of those values are decreasing is essential. Consumers must be able to understand how their payments are being allocated and monitor their consumption if they are to receive any benefit from this proposal.

Additionally, energywatch remains concerned as to the limitations of charging keys and cards for electricity PPMs when it comes to distinguishing between gas payments and electricity payments – both at the point of charging and at the point of discharge. If, as it seems, no distinction can be made, there are serious implications for a consumer's budgeting flexibility. It is not acceptable that a consumer can be expected to make payments and have little idea what those payments are being made against.

Implications for switching

It also remains unclear if there was a gas debt of less than £100 whether the consumer would be blocked from switching because the debt has technically arisen from gas consumed through a standard credit meter. Or would the consumer be eligible for the PPM debt blocking protocol as they have paid for their gas consumption through the PPM? Clarity is still required here.

Supplier trials

As the above indicates, throughout energywatch has been concerned that unforeseen consequences could arise from the enactment of this proposal. The controlled trial as originally envisaged would have enabled these to come to the fore and provide an environment in which they could be properly evaluated and addressed. Unfortunately, limitations on its statutory powers have prevented Ofgem from undertaking such a trial.

However, we welcome the indication from EDFE that it does intend to undertake a trial to better understand how these proposals will translate into operational realities, as well as to identify, monitor and respond to unforeseen consequences. Our initial dialogue with EDFE on this has provided reassurance to energywatch that the supplier shares our concerns and that the trial will be undertaken in a responsible manner.

EDFE's trial should serve as the point of reference for the industry going forward on this and Ofgem should monitor the trial carefully to ensure that practice is quickly understood and disseminated.

The benefit for IGT consumers

Beyond potential savings, if energywatch's concerns were addressed, option 2 would be of great advantage to those consumers on IGT networks who have expressed a desire to pay by PPM, or are at risk of disconnection because of the barriers that discourage the installation of PPMs by suppliers on IGT networks.

Ofgem monitoring

energywatch welcomes Ofgem's intention to undertake a comprehensive review of how the new arrangements are working within two years of their commencement. However, we would also expect Ofgem to assess the situation at regular intervals throughout the two year period, rather than waiting for two years to pass before undertaking any monitoring. Beyond the collection and analysis of supplier provided data, qualitative consumer feedback must form an integral part of this review.

Concluding remarks

energywatch has a number of ongoing concerns in relation to option 2, which we realise are unlikely to be addressed prior to the regulations being enacted. Whilst we accept that Ofgem has made considerable efforts to take our concerns on board, the regulations as drafted fall short of energywatch's optimal scenario.

energywatch will now focus on working with both Ofgem and interested suppliers to ensure that the benefits for consumers that are undoubtedly inherent in options 1&2 are realised, that the potential problems are guarded against, and that unforeseen circumstances are addressed swiftly as they arise.

We would also welcome the opportunity to work with Ofgem to develop a meaningful monitoring and evaluation scheme.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs