

## **Ofgem Consultation on Metering Price Control Review – FPAG Response**

FPAG's overall view is:

It is essential at present to keep prices for prepayment customers as low as possible because:

- Energy prices are high and this is causing great hardship to many low income customers. It is important not to aggravate this position.
- Prepayment customers already pay markedly more than those on direct debit - £50-£96 more for those with prepayment meters for both fuels in March 2006 [Ofgem Domestic Retail Market Report, July 2006]
- Prepayment customers have much lower incomes than average and have a high incidence of fuel poverty. As many as 25% of the fuel poor in England were prepayment customers in 2004 compared with just under 6% of all households. In addition, according to the 2004/5 Expenditure and Food Survey, almost 40% of prepayment customers are in the 2 lowest income deciles [i.e compared with 20% of all households] and only 5.6% are in the top 2 deciles. While these are not perfect correlations they are very strong. Increases in prepayment charges would bear very heavily on low income and fuel poor customers and would be highly regressive. This is very relevant, given the Authority's obligation to have regard to the interests of those with low incomes, in performing its duty.
- There is unrealised potential for lower cost prepayment meters such as the Keypad meters in Northern Ireland [i.e meters where the combined capital and running costs are lower]. It would increase rather than reduce distortions if a regime were introduced which reflected current costs rather than the lower potential future costs. The case for cost reflectivity is very weak as long as the barriers to the introduction of low cost prepayment meters have not been removed and as long as the appropriate framework is not in place. This is work in progress as the Ofgem paper on Smart Metering makes clear.

Specifically, FPAG:

- Agrees with the recommendation that the price controls on gas meters should be retained until the conclusion of the Competition Act investigation.
- Does not believe that it is necessary to reset the level of the cap on gas prepayment meters prior to the conclusion of the investigation and would be strongly opposed to any such resetting.
- Does not agree that the electricity meter price caps should fall away on 31 March 2007 unless there is a high probability that this will not lead to

increases in charges for prepayment customers. The Consultation paper contains no assessment of this – a glaring omission [discussed further below]

- Agrees that the price controls on legacy meters should be maintained at least until 2010.
- Would not support any measures or relaxation which would permit or lead to increases in charges for gas prepayment customers, e.g after the Competition Act investigation, until much more progress has been made in eradicating fuel poverty. We appreciate that it is difficult to predict the course of events after the Competition Act investigation but we would expect Ofgem to ensure that there are no material relative price increases for prepayment customers.

We set out below observations on a few points in the Consultation paper.

We appreciate that Ofgem does carefully consider some of the effects of relaxing the electricity price controls and this is helpful. However it is extremely surprising that there is no impact assessment of the effects on prepayment prices of the proposals. We raised the importance of such an assessment in the last round of discussions on metering and had expected to see such an assessment this time. It may not be possible to measure the precise impact. But this does not seem to us to be an excuse for making no attempt to estimate the effect. It is certainly feasible to assess whether the current charges by the distribution companies for prepayment meters reflect past and future costs, and to make some judgements about likely responses in the market to any changes in distribution company charges. We believe that this work has to be an essential component of any consultation or decision on metering.

In 3.1 Ofgem sets out its objectives in relation to metering controls. It is noticeable that there is no reference to Ofgem's duties in relation to those with low incomes and other vulnerable customers.

3.8 says: "However Ofgem's view was that it is better for the caps to be cost reflective and provide suppliers with an incentive to install more efficient technology." As noted above Ofgem in its Smart Metering work has acknowledged that there may be barriers to the introduction of more efficient technology. Until these barriers have been removed further moves towards prices which reflect today's costs rather than potential future costs will be economically inefficient.

Finally Ofgem asks questions in its Consultations but we would in replying like to pose a couple of questions formally which we have previously raised informally! We would be grateful for an answer to these questions:

In Northern Ireland there are electricity prepayment meters which have low combined capital and operating costs such that cost reflective prepayment tariffs are only 2 1/2 % higher than direct debit? These meters are also very popular with customers.

Does Ofgem agree with this or is this not Ofgem's view of the position?

If these meters can be introduced in Northern Ireland why cannot they or similar meters be introduced here to the benefit of prepayment customers?

We think it is reasonable to have answers to these questions or at least interim answers in October 2006.

