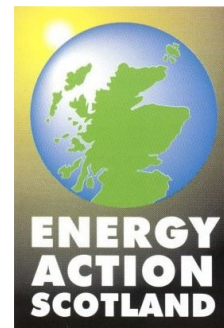


## Response to Ofgem's Open Letter on PPM Customer Switching



Suite 4a  
Ingram House  
227 Ingram Street  
Glasgow G1 1DA  
Tel: 0141-226 3064  
Fax: 0141-221 2788  
Email: [eas@eas.org.uk](mailto:eas@eas.org.uk)  
[www.eas.org.uk](http://www.eas.org.uk)

### Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes.

EAS welcomes the opportunity to respond to Ofgem's Open Letter on PPM Customer

Switching. EAS has previously submitted written evidence to the Business, Enterprise & Regulatory Reform (BERR) Committee "Inquiry into possible anti-competitive behaviour in the UK's energy market" and has also responded to Ofgem's consultation "Energy Supply Markets Probe – Call for Evidence".

### Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 738,000 (35%) in 1996 to 286,000 (13%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improved energy efficiency of housing<sup>1</sup>. The most recent figures from the Scottish House Condition Survey Key Findings 2005/06 Report show that there were 543,000 households living in fuel poverty in Scotland in 2005/06, representing an increase to 23% of the total.

According to figures produced by Communities Scotland<sup>2</sup> early in 2008, for every 1% rise in fuel prices an estimated 8,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently in excess of 700,000 households, almost one in three, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic energy prices and EAS believes that the additional price rises introduced recently will result in a further increase in fuel poverty.

EAS believes that the Scottish Government's target on the eradication of fuel poverty can be met but only if significant additional resources are directed into fuel poverty initiatives and therefore EAS is calling on the UK and Scottish Governments and the energy companies to invest more in programmes aimed at ending fuel poverty.

### General comments on Ofgem's role in relation to fuel poverty

EAS understands that Ofgem's primary duty is to protect the interests of consumers by promoting competition and that its secondary duty is to pay particular attention to the needs of vulnerable consumers. In response to the inquiry into possible anti-competitive behaviour in the energy market, EAS asked the BERR committee to consider whether the current duties of Ofgem should be changed to ensure that there is a stronger focus on the needs of vulnerable, low income and

<sup>1</sup> Fuel Poverty in Scotland: Further Analysis of the Scottish House Condition Survey 2002

<sup>2</sup> Estimate of Fuel Poverty Households in Scotland: Scottish House Condition Survey March 2008

fuel poor consumers, until such time as fuel poverty targets have been met. Indeed EAS has suggested that this should become Ofgem's primary duty.

The National Audit Office (NAO) Review stated that there is a lack of easily accessible, trustworthy, relevant, understandable and comparable information for customers wanting to switch suppliers. Tim Burr, head of NAO said *"Ofcom, Ofgem and Postcom need to be vigilant, and be prepared to use their powers when necessary, to ensure genuine competition is present and that it is working to serve consumers"*.

EAS believes that PPM tariffs should not be set at a higher level than other tariffs as this penalises fuel poor, vulnerable and low income households, many of whom do not have access to direct debit and online tariffs which are usually cheaper. It is disappointing that Ofgem has not acted more swiftly to address the issue of the unfair price differentials between PPM and direct debit tariffs particularly after the Chancellor's Budget Statement which called for action on this issue.

### **Response to specific questions in the open letter**

**We would welcome comments on the analysis presented above and the extent to which it suggests there is a problem which needs to be addressed to ensure PPM customers in particular are getting the best deal?**

In his Budget Statement the Chancellor said that the Government believes that the time is now right to tackle the issue of PPM differentials and that it is looking to Ofgem and the energy suppliers to bring forward proposals for treating prepayment customers more fairly. The Chancellor's Statement also said that if sufficient progress is not made by next winter, the Secretary of State for Business, Enterprise and Regulatory Reform is prepared to use his statutory powers with a view to reducing the differential between prepayment and other forms of payment. EAS welcomed this statement and hopes that Ofgem and the suppliers will respond positively on this issue.

Many vulnerable consumers are either unable or unwilling to take advantage of the benefits of competition; therefore it is essential for Ofgem to continue to use regulation in order to safeguard the interests of these consumers. Over 10% of Scots do not have a bank account and this figure rises to 18% of those on low incomes<sup>3</sup>, therefore these customers are denied access to the cheapest methods of payment which are generally only available to people with current accounts.

In its analysis of the differentials between PPM and direct debit tariffs Ofgem found that this has increased from around £80 in 2005 to around £125. The Ofgem analysis also states that the additional cost of serving PPM customers compared to direct debit customers is £85. EAS is pleased to note that Ofgem will be investigating this issue further as part of the market probe. It is essential that this investigation is carried out independently as the previous analysis appears to have been based on "discussions with suppliers". In the meantime EAS urges Ofgem to insist that PPM tariff differentials are reduced immediately to £85 and that all PPM tariffs are equalised with standard credit tariffs by the end of 2008.

The analysis carried out by Ofgem into the demographics of those who pay by PPM and standard credit states that the relationship between PPM and fuel poverty is imperfect. EAS suggests that this analysis does not take into consideration customers' fear of getting into debt or the percentage of PPMs originally installed in order to recover debt or to avoid disconnection. Other issues affecting PPM customers, which are not referred to in the Ofgem analysis, include the additional

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<sup>3</sup> "Closing the Opportunities Gap – approach to tackling poverty", Scottish Government, January 2005

transaction charges and travel costs associated with PPMs and the danger of self disconnection. All of these issues add significantly to the inconvenience and expense associated with PPMs. Another important issue affecting PPM customers, not referred to in the Ofgem analysis, is the fact that many customers inherit a PPM when they move into a property and may not be aware they are paying a higher tariff or that the meter can be changed<sup>4</sup>. Other issues not addressed in the Ofgem analysis, but raised in a briefing document published jointly by energywatch and Citizens Advice Bureaux, include problems such as back charging and delays in getting faulty PPMs repaired.

There are significant barriers affecting PPM customers wishing to switch to another supplier. For example, the uSwitch website, which is one of the sites accredited by energywatch, states that *"You can switch to a new prepayment supplier, but you are currently unable to do this on uSwitch. If you want to switch from a prepayment meter, then you need to contact your current supplier and ask them to install a standard meter. You may be charged for this. Once you have a standard meter installed, you can return to our site and switch to a cheaper supplier"*. This suggests that it is much more difficult and more expensive for a PPM customer to switch supplier than a standard customer and EAS recommends that Ofgem should investigate switching gateways to ensure that they do not act as a filter for suppliers to cherry pick more affluent customers.

**We would welcome any views on how far the problems identified by Ofgem's analysis might be caused by actual mis-selling and hence could be tackled by robust enforcement of existing regulations - or whether the problem is more one of inadequate or incomplete information.**

EAS strongly recommends more robust enforcement of existing regulations and suggests that the industry's self regulatory code is not working effectively. EAS is concerned about the availability of independent information about the various different offerings from suppliers, especially after energywatch ceases to exist in October 2008. In particular customers who do not have access to the internet are seriously disadvantaged as they have to rely on door step and phone sales agents, many of whom are operating on a commission basis and there have been serious concerns about mis-selling by some company representatives.

Research<sup>5</sup> carried out by the Scottish Consumer Council (SCC) into how markets are working in Scotland found that disabled people are more than twice more likely to be on electricity PPMs than other consumers. The SCC research also showed a clear double detriment in relation to digital exclusion and that the switching process was cumbersome and complicated and deemed to be not worth the effort by customers. The SCC Report explains this issue by saying that *"having access to the Internet has now become fundamental to saving time and money and to putting the power to choose in the hands of consumers, but too many people are still on the wrong side of the divide"*. The SCC Report also recommends that energy companies should be more socially responsible towards their existing customers and that Ofgem should put an end to debt-blocking and PPM tariff differentials.

**Possible options that Ofgem has identified and on which it would welcome comments:**

**1) A requirement on suppliers to provide a written statement of the savings that will be available to the customer from switching provider;**

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<sup>4</sup> "Self Disconnection Survey Report": EAS October 2004

<sup>5</sup> Making markets work for Consumers in Scotland – everyone benefits: Scottish Consumer Council/May 2008

EAS agrees with this proposal and also recommends that suppliers should be obliged to provide this information in a simple and straightforward manner that is easily understood and EAS suggests that Ofgem should set out guidelines for this.

**2) A requirement on suppliers to provide the customer with pricing factsheets (for example those prepared by energywatch) at the point of sale which show each supplier's offerings based on average consumption;**

As stated earlier EAS recommends that pricing factsheets should be provided but these should be produced independently of the suppliers and it is unclear who will provide this information after energywatch ceases to exist in October 2008. In addition to this, provision must be made for this information to be available in a suitable format for people who do not have access to the internet.

**3) A requirement on suppliers to alert customers to the importance of checking that the product is the best for them and to provide details of where to obtain price comparison advice;**

EAS agrees with this proposal and recommends that Ofgem should include this in the licence code that relates to marketing.

**4) A requirement on suppliers to alert customers at the point of sale where they are switching to a more expensive supplier;**

EAS agrees with this proposal but EAS recommends that switching sites should also alert customers to this and provision must also be made available for alerting customers who do not have access to the internet.

**5) A requirement on suppliers to alert customers as part of the follow-up contact (under SLC25) where they are switching to a more expensive supplier.**

EAS agrees with this proposal and suggests that the contract should also explain customers' rights in relation to this and recommends that these customers should be allowed to switch back without experiencing any detriment. This is particularly important when switching was as a result of misleading information from phone or door step sales.

**As indicated above we would welcome views on the range of options identified, whether the focus of any remedy should be only for PPM and the potential role of self-regulation.**

EAS does not accept the assumption made in the Ofgem open letter which suggests that customers may be to blame as they do not take enough time to research all the various options. Anecdotal evidence from EAS members suggests that the information currently available on the switching websites is confusing and contradictory making it extremely difficult to make reasonable comparisons between the different offerings available.

EAS urges Ofgem to carry out an urgent review of the quality of the information that is currently available in order to establish whether it is satisfactory. Ofgem should set out guidelines on how the information should be presented so that comparisons can be made on a like for like basis.

The open letter from Ofgem accepts that PPMs are not a perfect proxy for fuel poverty and therefore EAS recommends that any options should also be made available for all customers, irrespective of their method of payment. It seems clear to EAS from the problems with mis-selling

that have been highlighted in the press that self regulation is not working and therefore EAS does not support the use of self regulation in this area.

## **Conclusions**

Ofgem has a key responsibility in relation to ensuring that energy prices are no higher than necessary and therefore EAS urges Ofgem to use all its powers under the Competition Act in order to restore confidence in the energy market and to drive down energy prices.

All the emphasis from Government, Ofgem and energy suppliers appears to be on saving cash by switching, but EAS suggests that suppliers should consider introducing initiatives to reward customer loyalty. This would ensure that existing customers are not unfairly subsidising new customers as appears to be the case. In any case, EAS believes that switching is a very blunt instrument for determining the effectiveness of the energy market and EAS suggests that what customers really need is good service and fair prices and Ofgem should therefore exercise its powers proactively to intervene when the market is not operating fairly for all customers.

The issue of digital exclusion must also be addressed if all customers, irrespective of whether they have access to the Internet, are to benefit from competition and the poverty premium of higher tariffs on PPMs must be removed as soon as possible and certainly before the beginning of winter 2008.