

## **energywatch submission**

# **Reply to Ofgem open letter on Prepayment Meter Switching of 30 May 2008**

**11 July 2008**

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## **1. Issues affecting the Prepayment Meter market**

1. The prepayment meter (PPM) market is clearly segmented with varied types of consumers choosing to use or being forced to use a PPM. Although a basic regulatory framework is needed to protect all PPM consumers a one size fits all approach is unlikely to address the range of problems that PPM users experience and the personal circumstances that underpin these. We set out our arguments about market segmentation below and why PPM users are a special case requiring additional measures to make the market more competitive. The following points all need to be considered when developing a new package of regulation and information to prevent mis-selling of PPM tariffs to consumers.

### **1.1. Are all consumers making well informed decisions?**

2. Ofgem correctly identifies that some consumers find identifying the cheapest deal difficult, if not impossible. We agree. Each day people are asked to make judgements and decisions which test their financial capability. Consumers often make poor or ill-informed choices on financial products and services, paying for add-ons they do not need, not knowing about or ignoring their entitlements, overpaying on credit, telephone, energy or other services. Switching suppliers may not be an option for some vulnerable people and research by MORI in 2003 for the Basic Skills Agency showed links between poor basic skills, financial exclusion and social disadvantage.<sup>1</sup> This leaves the most vulnerable people open to exploitation, paying more or making poorer choices.

3. In its survey, 6% (of 2089 adults) could not identify the numbers “seven – eight – three – nine” (when read to them), written out in words, whilst 12% could not work out which was the better deal, ten pounds off or 10% off a £300 TV. In all, the social characteristics of the responses revealed that as a percentage those people facing greatest social disadvantage answered more questions incorrectly. Of those who got fewest questions correct:

- 55% were in social groups D and E;
- 73% were not working;
- 62% were in rented accommodation;
- 60% had no formal qualifications; and
- 26% earned less than £9600 per year.

4. Research<sup>2</sup> shows that these social and income groupings have a high propensity to the use of a PPM and any regulatory response must take account of the consumers’ ability to take advantage of their rights.

5. energy is an industry where the suppliers enjoy an asymmetric information and power relationship with low income and vulnerable consumers. Therefore, it is an insufficient regulatory response to assume that all consumers can competently use additional information to take advantage of the market or that rational behaviour is a generic response that will conform with predicted behaviours.

6. Where information is provided to consumers it must be in a form which they can use with confidence to identify the most advantageous deal and inform switching decisions.

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<sup>1</sup> MORI, *Basic Skills and Financial Exclusion*, Basic Skills Agency, (2003)

<sup>2</sup> For example: Ofgem Accent market research (May 2005) tables 10,11, 13 and 14 (p31-32)  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13823\\_2406b.pdf?wtfrom=/ofgem/work/index.jsp&secti on=/areasofwork/retailcompetition](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/13823_2406b.pdf?wtfrom=/ofgem/work/index.jsp&secti on=/areasofwork/retailcompetition)

This information must be free of charge, impartial, clear, accurate and easy to access for all consumers. It should include information on supplier service performance.

7. Ofgem should undertake further research into the numbers of people who find it difficult to identify the best deal and the most effective forms and routes of information provision for every consumer.

8. The use of price comparison sites represent the most heavily promoted and most common route to energy market information and to securing a better deal. However, the navigation of such sites is dependent on regular and secure access to the internet and the consumer having the skills to use this resource effectively. The Office of National Statistics (ONS) 2007 Family Spending survey shows that only 21% of households in the lowest income decile have an internet connection, rising to 24% in the second lowest. ORB research undertaken for energywatch<sup>3</sup> found that only 11% of Socio Economic Group DE consumers use the internet as a source of switching related information, a number that decreases to just 9% for PPM users. This lack of use of the internet narrows access to “impartial” information for PPM and low income consumers and increases reliance on partial information contained in door stop sales pitches.

9. A combination of personal circumstances and barriers erected by providers in the market (suppliers and/or switching sites) can impede PPM consumer attempts to successfully identify and secure a more advantageous deal. This can result in PPM consumers incurring additional search costs, which then dissuade the consumer from continuing to seek out and secure a better deal. PPM consumers need access to quick, easy to find and comprehensive and comprehensible information which can be trusted and easily acted upon.

## **1.2. Switching of supplier by consumers varies by region**

10. Another indication of a segmented market is the widely varying rates of switching across the country. Figure 1 below clearly shows how switching rates by PPM consumers vary across GB.

11. The huge variation in switching shows that no national average can be representative and clearly different drivers are having different effects in different parts of the country. npower appear to be the biggest loser of consumers in their home areas which correlates well with the fact that they are currently the most expensive electricity PPM supplier in 13 of the 14 regions of GB<sup>4</sup>. However, relative price is not always linked to loss or retention of market share e.g. Scottish and Southern Electric are the most expensive electricity PPM supplier<sup>4</sup> in the Southern region yet have retained over 70% of their market share.

12. It can also be seen that between mid 2002 and mid 2006 rates of movement away from legacy suppliers in many areas stalled or reversed, with legacy suppliers regaining market share. More recently there has been a wider trend of PPM users switching to different suppliers, but from a low base in many regions. It should be noted that in no area of the country is the legacy electricity supplier the cheapest, either for both fuels or electricity / gas as a single fuel<sup>5</sup>.

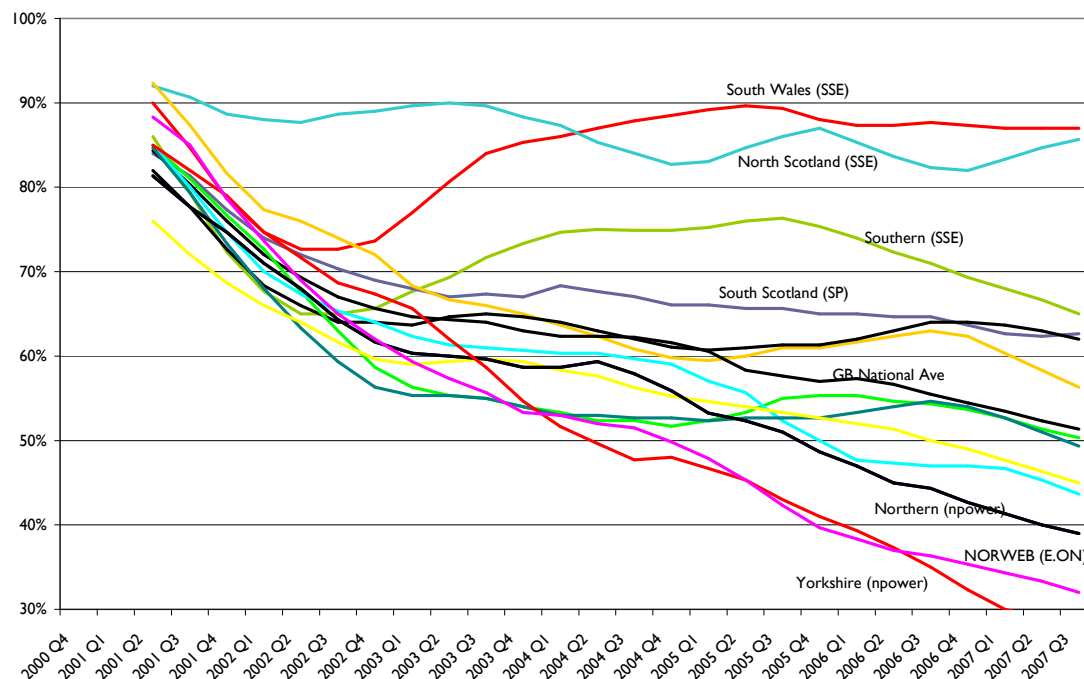
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<sup>3</sup> 2007 Energy Consumers Survey, ORB,  
[http://www.energywatch.org.uk/uploads/2007\\_Energy\\_Consumers\\_Survey\\_16\\_May\\_2008.pdf](http://www.energywatch.org.uk/uploads/2007_Energy_Consumers_Survey_16_May_2008.pdf)

<sup>4</sup> For a medium user consuming 3,300 kWh of electricity per annum, prices correct at 4<sup>th</sup> June 2008.

<sup>5</sup> Based on medium user average gas consumption of 20,500 kWh per annum and average electricity consumption of 3,300 kWh per annum, prices correct at 4<sup>th</sup> June 2008.

**Figure 1 - Percentage of PPM electricity customers still with their original home area suppliers - 3 Quarter Rolling Averages<sup>6</sup>**



### 1.3. Switching between payment methods

13. Many people do indeed choose to use a PPM but energywatch research<sup>3</sup> shows that 28% of respondents reported to using a PPM without choosing to - either because their landlord insisted that they have one, or because the property had one when they moved in. This represents about 1.7m PPMs and equates to tens of millions of pounds a year which consumers are paying for their energy when they could potentially benefit from lower cost payment methods. The situation could actually be even worse as more recent research by the National Housing Federation suggests that 55% of PPM users inherited a PPM when they moved into their home.<sup>7</sup>

14. The ORB research also shows that in the age range 25 to 44 about 37% of people use a PPM without choosing to and there is also an unexpected segment of more affluent consumers using PPMs who inherited them - 29% of the group with an income between £25,000 and £40,000 inherited a PPM when they moved into their current home.

15. The government and Ofgem should explore ways to impress on landlords that PPMs carry large additional costs for their tenants and find ways to make landlords comfortable with their tenants using a credit meter.

16. Our outreach and complaint handling often encounters consumers who have struggled to have a PPM changed for a credit meter or have had their request denied. Consumers are often told by suppliers' call centre staff that it isn't possible to have the meter exchanged, that there will be a charge they cannot afford, or are frustrated by delays

<sup>6</sup> Data from BERR publication Quarterly Energy Prices, March 2008, Table 2.4.1 Percentage of domestic electricity customers by region by supplier type.

<sup>7</sup> "Pre-Payment Meter Utilities Customers", report for National Housing Federation by Accent - not published.

and abandon their request.

17. Many consumers who use or inherit a PPM have never had a debt or have now successfully cleared their debt. The latest Ofgem figures<sup>8</sup> show that only 17% of electricity PPM users and 15% of gas PPM users have an outstanding balance on their account.

18. Recent research into consumer perceptions of PPMs exposed the following unsolicited comments from different members of a focus group. These comments clearly show some of the problems people are facing when trying to exchange a PPM for a standard credit meter:

*“I was with X Supplier but I couldn’t change that meter. I couldn’t get changed over with that, they refused it, but I didn’t owe them no money so I don’t know what they done that for.”*

*“I’ve been asking them to come and change my meter, but it’s falling on deaf ears.”*

*“I had to move to a two bed roomed house and there were prepayment meters there. Now I asked them to move them out and they said I can’t do that. They were new houses. I was there two years and then I moved into a bungalow ... and I asked them to move the meters out, but they wouldn’t move them out because it’s a new house, new bungalow. Now I’ve asked them again if they’ll move me out of [my current home] and they said, no, they don’t do that because they’re new houses.”*

*“I asked them to change the blooming things, but they, said, no, we can’t do that”*

*“Y Supplier said they wanted £200 to change the meter. You’re saving nothing if you do that.”*

*“You should just be able to have the choice of how you pay your bills, not to be told that you’ve got to pay £200 extra to have it took out.”*

19. In terms of consumer rights to information energywatch believes that Supply Licence conditions are inadequate because:

- the information they require suppliers to provide to consumers is not finding its way to all consumers in a way they know how to use and act upon, and
- the information they require suppliers to provide is insufficient.

20. energywatch believes that PPM top up receipts provide an excellent opportunity for a “health warning” about the PPM premium and to communicate information to consumers about where to find out about their rights as a PPM user and how to change their payment method. This has the advantage of regularly and conveniently providing simple information to consumers. We discuss the use of top up receipts and information on statements in more detail in Paragraphs 56 to 57.

21. As Ofgem is aware when energywatch asked suppliers about their policy on exchanging PPMs we received the following answers shown in Table I below. It is clear that supplier actions can be at odds with their assurances and Ofgem must act to ensure that all consumers who want a meter exchange and meet acceptable criteria are granted a quick and free meter exchange in a way that is convenient to them.

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<sup>8</sup> Ofgem report “Monitoring company performance – quarterly reporting” Q3 2007

**Table 1 - Policies of the Big 6 suppliers on exchanging a PPM for a Credit Meter**

British Gas	EDF Energy	npower	E.ON	Scottish Power	SSE
Currently no charge for exchange if debt has been cleared and consumer passes a credit check. This is under review.	No charge for consumers who have used a PPM for more than 12 months or at change of tenancy or shortly after change of supply. Find PPM users like them and don't want to change.	No charge for changing PPM if customer has no debt, and satisfies certain credit checks or has a 12 month payment history with supplier. No charge to people who inherit a PPM and change to this supplier. No charge for "vulnerable" consumers. Others consumers may be charged £70 for gas and £50 for electricity exchange.	Won't exchange PPM if it still has a debt. No charge for people who inherit a PPM provided they pass a credit check. Supplier may charge others up to £50. Will charge the full cost if have to reinstall a PPM.	No charge if no debt on the meter, but supplier may charge a security deposit for people with a poor payment history.	No charge provided a suitable payment arrangement which minimises chances of building up a debt is secured.

#### **1.4. Price inequality**

22. energywatch takes a different view to Ofgem of the premium prepayment meter consumers pay in relation to other payment methods and believe them to be very much more expensive than reported by Ofgem figures. Standard direct debit prices are no longer competitive in the market place nor are they (with the exception of EDF Energy) the lowest price offers available from a supplier. Therefore the comparison Ofgem makes is not representative of the best prices available in the market and the PPM price should be compared with the cheapest available from a supplier which is online direct debit. On average online products are £84 a year<sup>9</sup> cheaper than standard direct debit deals. Table 2 below gives the details of current GB average prices and shows an average PPM differential of £208 or 24%.

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<sup>9</sup> Average prices are for the 5 large suppliers who offer online products and correct at 4<sup>th</sup> June 2008. For dual fuel medium user average online price £881 and average standard Direct Debit price is £964.

**Table 2 - GB Average Prices by Payment Method for Dual Fuel Medium User<sup>10</sup>**

<b><u>AVERAGES ACROSS GB - Prices</u></b> <b><u>Correct at 4th June 2008</u></b>	<b>British Gas</b>	<b>EDF Energy</b>	<b>Npower</b>	<b>E.ON</b>	<b>Scottish Power</b>	<b>Scottish &amp; Southern Electric</b>	<b>GB AVERAGE</b>	<b>Max Annual Bill £</b>	<b>Min Annual Bill £</b>	<b>Tariff range</b>
Average Online Direct Debit	£845	N/A	£862	£891	£909	£897	£881	£909	£845	8%
Average Direct Debit	£968	£965	£972	£967	£959	£956	£965	£972	£956	2%
Average Standard Credit	£1,055	£1,007	£1,056	£1,063	£1,100	£1,006	£1,048	£1,100	£1,006	9%
Average Prepayment Meter	£1,144	£1,037	£1,127	£1,097	£1,062	£1,068	£1,089	£1,144	£1,037	10%
Prepayment Differential										
To Online Direct Debit	£298	N/A	£265	£206	£153	£171	£208	£298	£153	
% Differential	35%	N/A	31%	23%	17%	19%	24%			
To Offline Direct Debit	£176	£72	£155	£130	£103	£111	£124	£176	£72	
To Standard Credit	£89	£30	£71	£34	-£37	£61	£41	£89	-£37	

NB: EDF Energy do not offer an online direct debit tariff priced below their standard direct debit tariff hence the lowest price EDF Energy offer is included in the Offline Direct Debit category.

Source: energywatch price comparison fact sheets

<sup>10</sup> Based on an average gas consumption of 20,500kWh and electricity consumption of 3,300kWh per annum. Prices include VAT.



23. The detail of PPM pricing in the regions also shows a picture not captured by the Ofgem analysis. Consumers who stay with the legacy suppliers generally pay the highest price for their loyalty as can be seen by Table 3 below. The worst case is Yorkshire where a typical consumer with a gas PPM supplied by British Gas and an electricity PPM supplied by npower is paying £361 or 43% a year more than someone using the same amount of energy on the cheapest available deal.

**Table 3 - Regional price differentials for PPM consumers who are still with British Gas for gas their legacy electricity supplier, based on dual fuel medium user<sup>11</sup> consumption patterns**

Region, Prices Correct at 4th June 2008	Legacy Electricity Supplier	Difference Between the combined price of the PPM deals from the Legacy Electricity Supplier for Electricity and British Gas for Gas and the cheapest two fuel deal	Percentage of Cheapest Two Fuel Deal
Eastern	E.ON	£308	37%
East Midlands	E.ON	£310	37%
London	EDF	£281	34%
Manweb	Scottish Power	£322	39%
Midlands	Npower	£341	40%
Northern	Npower	£357	42%
Norweb	E.ON	£332	41%
Scottish Hydro	SSE	£294	35%
Scottish Power	Scottish Power	£322	38%
Seaboard	EDF	<b>£268</b>	32%
Southern	SSE	£288	34%
Swalec	SSE	£311	37%
SWEB	EDF	£285	33%
Yorkshire	Npower	<b>£361</b>	43%
Average		£313	

### **1.5. Knowledge of energy prices and the costs of PPMs**

24. Research undertaken for energywatch by ORB<sup>12</sup> shows that doorstep selling remains the most effective way to persuade consumers to change supplier:

*“Of those who switched suppliers, consumers were almost twice as likely to find out information about their new supplier from ‘door to door’ sales agents (36%) than the internet (19%), and this difference is clearly shown among PPM consumers, where 46 per cent found information via ‘door to door’ agents compared with 9 per cent via the internet. The figures are similar for those in the most deprived quartile (43% and 16%*

<sup>11</sup> Based on an average gas consumption of 20,500kWh and electricity consumption of 3,300kWh per annum. Prices include VAT. Source: energywatch

<sup>12</sup> 2007 Energy Consumers Survey, ORB, [http://www.energywatch.org.uk/uploads/2007\\_Energy\\_Consumers\\_Survey\\_16\\_May\\_2008.pdf](http://www.energywatch.org.uk/uploads/2007_Energy_Consumers_Survey_16_May_2008.pdf)

respectively).”p 13

25. The ORB survey also explored consumers’ understanding of the costs of different ways of paying for energy. Low income groups and PPM users are often not aware that they are paying premium prices for their gas and electricity:

*“Fifty eight per cent do not believe that [paying through a] PPM is more expensive than direct debit ... One in six (16%) actually thought PPM was cheaper. PPM consumers in socio-economic groups C2DE were the least aware of differences in cost by payment method and were less likely to think that PPM is a more expensive method than either direct debit or quarterly cash. ... In other words, our data shows that 36 per cent of pre payment consumers were not aware that they were paying more for their energy ...”*

26. Ofgem found similarly low awareness that PPM was the most expensive way to pay in their 2007 Prepayment Meter Customer Workshop (pages 20 to 22 of the final report).

27. Other research from the University of East Anglia Centre for Competition Policy<sup>13</sup> shows that just 7% of consumers who switched supplier changed to the best deal available for them.

### **1.6. Promoting switching amongst PPM users in Castle Vale, Birmingham**

28. energywatch are currently working with a housing association in Birmingham to promote switching amongst PPM users and have encountered very real difficulties encouraging switching amongst PPM users. This is typically because of; fear of the process, a lack of trust, cynicism and ignorance of how the market works. All similar findings to those Ofgem identified in the 2007 Prepayment Meter Customer Workshop. It is requiring significant resources and credibility to engage with people.

29. Preliminary analysis shows that 13% of the consumers energywatch helped switch to the cheapest supplier have, within 2 months, switched back to very much more expensive deals with British Gas.

30. The outreach identified many PPM users who had problems with their supplier, indeed more people came to the project for advice with account problems than asked for information on how to save money by switching supplier.

31. When the results of our pilot project become available they will be published along with any recommendations.

## **2. energywatch response to specific questions raised by Ofgem**

### **2.1. Mis-selling of prepayment meter tariffs**

32. energywatch agrees with Ofgem that PPM consumers, along with other types of consumer, are switching to more expensive deals. Based on our own experience we believe that there are various causes for this behaviour, some are related to mis-selling by suppliers and their agents and some are related to the inability of consumers to identify the best deal, while others are related to consumers having insufficient or inappropriate information with which to make an economically rational choice.

33. energywatch believes that an interrogation of the scripts as used by sales agents and

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<sup>13</sup> Do Consumers Switch to the Best Supplier? University of East Anglia Centre for Competition Policy, July 2007 - <http://www.ccp.uea.ac.uk/publicfiles/workingpapers/CCP07-6.pdf>

the tactics employed by suppliers is integral to fully investigating the possibility of a link between consumers switching to the most expensive suppliers and mis-selling by suppliers.

34. Research for the National Housing Federation<sup>14</sup> appears to confirm Ofgem’s analysis that people are indeed switching to more expensive suppliers. The research suggests that around 55% of PPM users buy their gas and electricity from the same supplier. The main beneficiaries of this switch to single fuel supplier appear to be British Gas in acquiring electricity PPM customers and npower as well as E.ON in acquiring gas PPM customers. Using GB averages British Gas are the second most expensive supplier of electricity to the PPM market behind npower; and npower and E.ON are the second and third most expensive gas supplier to the PPM market behind British Gas, see Table 4 below. Hence in switching to have a single supplier PPM users are moving to the most expensive suppliers for the fuel they switch and also the most expensive combined fuel deal suppliers.

**Table 4 - GB Average of Big 6 Suppliers Medium User<sup>15</sup> PPM Prices, 4th June 2008**

	<b>British Gas</b>	<b>EDF Energy</b>	<b>npower</b>	<b>E.ON</b>	<b>Scottish Power</b>	<b>Scottish and Southern Energy</b>
Gas as a Single Fuel	£712	£660	£673	£676	£643	£661
Electricity as a Single Fuel	£432	£385	£453	£421	£419	£407
Both Fuels from One Supplier	£1,144	£1,037	£1,127	£1,097	£1,062	£1,068

## 2.2. Some consumer views on mis-selling

35. energywatch recently commissioned research on the attitude of PPM users to changing supplier. In one of these focus groups the 10 participants talked spontaneously about mis-selling and how they react to door to door sales techniques:

*“What they done they just looked in the cupboard, looked at the, I don't know, whatever they look at, the rates or whatever and just said, they're charging you £5 a week for the cost of your meter, but with X Supplier, because I'm with Y Supplier at the minute, but with X Supplier it's 50p odd a week. So, well, I thought, oh, yeah, it's cheaper. I'll sign on.”*

*“I opened the door and he says he's from X supplier, ... and I said I'm not interested. I said I'm happy with who I am. And he just turned round. He says, you don't want to save any money? I said, no. And I went, I don't want to know. And I went to shut the door and he put his foot him. I said move it or I'll break it off.”*

*“You see it's like when you get them others who knock on your door and they say, you can save such and such on your phone bill as well. And you go, can you? And you get X Telephone Company and then you get your bill and you've got the little ... all written down the side with all the things that you're getting free off of Y Telephone Company. You've*

<sup>14</sup> “Pre-Payment Meter Utilities Customers”, report for National Housing Federation by Accent - not published.

<sup>15</sup> Based on an average gas consumption of 20,500kWh per annum and average electricity consumption of 3,300 kWh per annum, Prices include VAT.

saved nothing.”

*“Facilitator: So on the other side, what’s convincing about these guys? What makes you think they’re OK?”*

*Response 1: They’re not. I’m just a drip. I’m just one of them people that’s, oh, yeah, all right then. ...*

*Response 2: Can’t say no. I’d shut the door ... they’re on your doorstep. ... They just pressure you as well because you say, oh, I haven’t really got time and then they’re like, oh, it’ll only take two minutes. And then they was there for 20 minutes in the end.”*

*“I’ll just listen to what they’ve got to say and obviously if they’re going to charge me cheaper electric or gas I’ll take it, whichever company it is. ...*

*Facilitator: How do you know which is cheaper?”*

*Response 1: Well I go by what they say at the door. And if X Supplier are going to come and put me, and change me to them and give me £10 gas or electric, well it was electric, and they come and do the meter obviously I’m going to take the £10”*

*“X Supplier came round and said, right we can give you a discount on this and a discount on that, and I went, yeah, OK right I’ll have both. Well X Supplier told me they don’t do one [fuel as a single supply], they do both, they don’t do just electric or do gas, but I went with them. But I think I’m going to change now to Z Supplier. ... They do, do one [gas or electric as a single fuel supply] but they conned me [by] saying that they don’t do one they [only] do two, so I had to take it.”*

36. energywatch believes that the above helps to illustrate the nature and scale of the problem of mis-selling and the need for action from Ofgem.

### **2.3. Dual fuel deals**

37. We also agree with Ofgem’s conclusion that the dual fuel explanation offered by suppliers is not convincing and the basis on which dual fuel is being offered as an attractive proposition to PPM users should be investigated. None of the Big 6 suppliers offer a dual fuel PPM deal anywhere in GB which is cheaper than the combination of the cheapest single fuel deals in the same area from any of the Big 6<sup>16</sup>. We agree with Ofgem’s exhortation that PPM consumers should pick and mix the cheapest deals<sup>17</sup>.

### **2.4. Complaint to Ofgem about npower sales tactics**

38. We hope that this investigation will take into account the evidence provided by energywatch on the sales practice of npower which provoked Ofgem to launch an investigation into npower selling activities in April this year.

39. Importantly for this consultation Ofgem should establish whether there is a link

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<sup>16</sup> Based on the consumption patterns of a Medium User, 20,500 kWh of gas and 3,300 kWh of electricity p.a. and fuel prices which were correct on 4<sup>th</sup> June 2008.

<sup>17</sup> Ofgem press release R28 Prepayment Meter Customers Missing Out On Savings Worth £250 Million, 28 November 2007.

between mis-selling by npower and its acquisition of PPM users.

## 2.5. Analysis of complaint figures for PPM users

40. energywatch complaint data suggests that PPM users have a much lower propensity to complain, lower awareness of energywatch and lower awareness of their consumer rights. The scale of hidden complaints about PPMs was shown by our recent 2 month PPM outreach in Castle Vale where, because we were easily available and publicised people's rights, approximately 40 times the number of consumers complained about mis-selling and other issues than would be typical from an area that size in a 3 month period.

41. Overall energywatch has received 2,828 complaints about direct selling between June 2007 and May 2008, Table 5 below gives a breakdown of the cases by supplier. It is not possible to establish what proportion of these cases is from PPM users.

**Table 5 - Number of direct selling cases handled by energywatch June 2007 to May 2008**

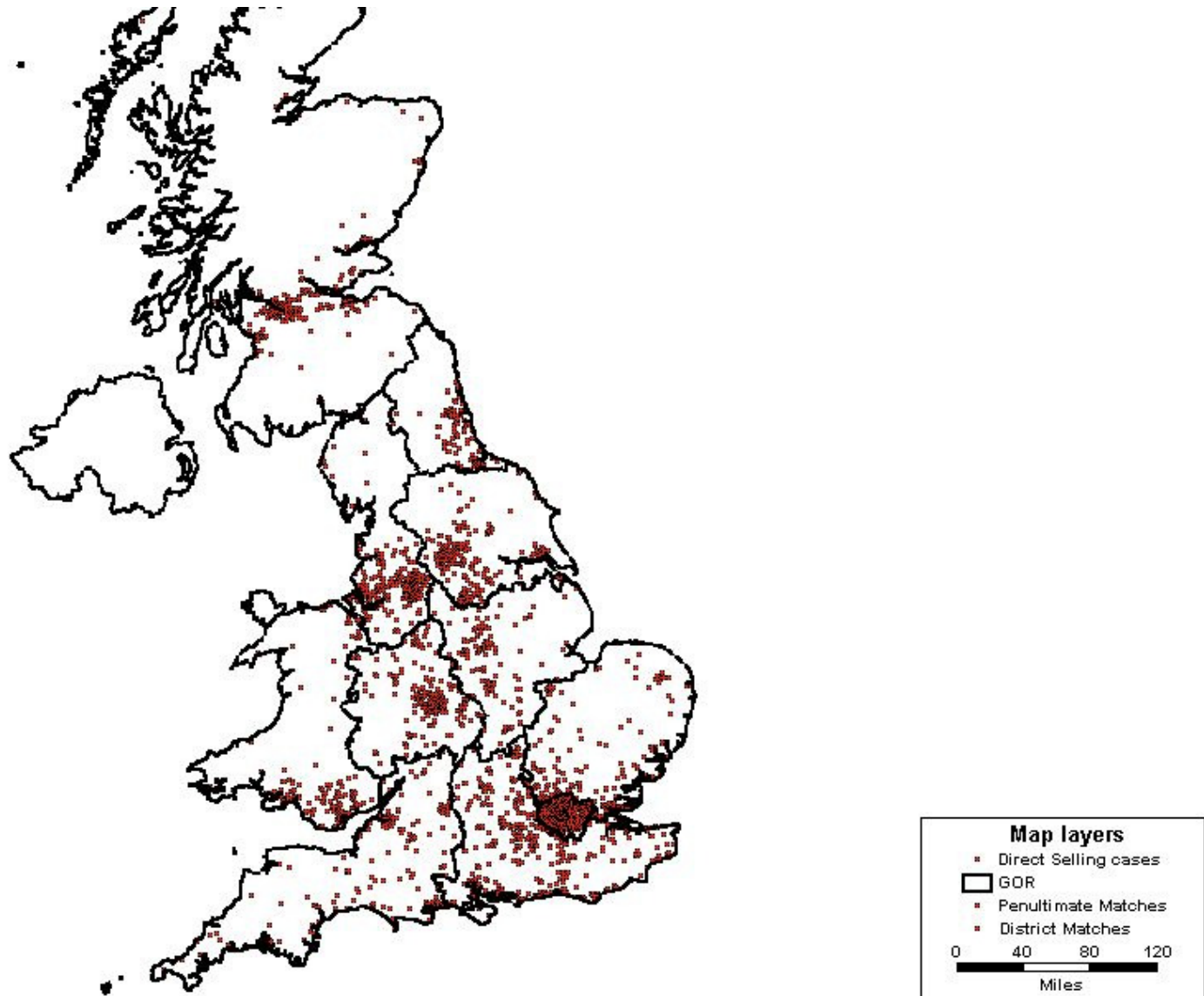
Supplier	Number of Cases
British Gas	640
E.ON	188
EDF Supplier Group	260
npower	954
Scottish Power	235
SSE	551
Total	2,828

42. A random analysis of complaints to energywatch by PPM users about mis-selling identified the following as the kind of mis-selling problems PPM users face:

- PPM users being sold products which are priced for Standard Credit or Direct Debit and explicitly exclude PPM users. This means consumers switch thinking they are going to save money, but are actually defaulted to the much higher PPM tariff which they didn't sign up to.
- PPM users being sold fixed price products which appear to be good deals, only for the consumer to find out later that they also specifically exclude PPM users meaning consumers do not get the benefits they were promised.
- PPM users being given wrong, and in some cases we have seen misleading, pricing information as an incentive to transfer.
- PPM users switching supplier to a more expensive deal on the promise of a meter exchange and cheaper energy in the near future only to find out later that it is very difficult to get the PPM removed meaning, again, they don't get the cheaper energy that they signed up for.

43. The geographical spread of these complaints is shown in Figure 2 below. It can be seen that they are nationwide and so unlikely to be limited to individual rogue agents.

Figure 2- Distribution of direct selling cases handled by energywatch June 2007 to May 2008



## **2.6. Register of agents**

44. When the Energysure code of practice was launched in 2003 energywatch warned that “companies must demonstrate that the code has teeth and self-regulation can work<sup>18</sup>” yet we still see the same problems occurring. There are serious practical problems with a register of agents that seriously limit its effectiveness as a protection for consumers. For the register to be more effective Ofgem must look into how effectively suppliers investigate complaints and the relationship between complaints being upheld and agents being properly disciplined.

## **2.7. Consumers require accurate consumption data**

45. In order to identify the best deal consumers need to understand their consumption patterns. PPM users may know how much on average they spend each week but this can lead to them making incorrect estimations of their energy consumption pattern. PPM users have no right to a statement of their quarterly nor annual energy use and so are left without a vital piece of information when considering switching to a better deal.

46. This is even more crucial for Economy 7 PPM consumers where knowledge of their average expenditure will not help them identify their day and night consumption levels, which is vital if they are to make an educated choice of which is the cheapest deal available to them. They also need this information to help them load shift.

47. Consumers must have a right to current and historical information on their consumption levels and this information must be supplied in a regular and timely fashion.

## **2.8. Information on its own cannot work**

48. energywatch regularly deals with complaints from consumers about supplier behaviour which is in breach of licence conditions or voluntary agreements. We regularly deal with cases where a supplier’s call centre staff deny to both the consumer and, in some cases ourselves, that a licence condition is being breached with resolution requiring escalation to a senior level of management. This behaviour cannot be explained by a lack of training or a single rogue agent. Consumers will not be protected by existing regulation nor through rights to more information if suppliers deny consumers the legitimate rights that regulation affords to them. Ofgem needs to take a far more robust investigation and enforcement approach.

## **3. Comments on Ofgem suggestions for possible options of changes in regulation**

49. Ofgem identified 5 possible options on which it invited comments. These suggestions all relate to making direct selling more effective at the point of sale and are to be welcomed. However, energywatch believes that they could be even more effective if combined with new rights and regulations that enabled PPM consumers to be less reliant on direct selling techniques and more likely to be informed about the market. This should encourage consumers to act on their own initiative and so make the market more competitive. We have made comments on each of the Ofgem suggestions below.

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<sup>18</sup> energywatch press release 2 June 2003

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

50. energywatch welcome increased consumer information, but this option appears to be limited to providing comparative information about the existing supplier and the prospective new supplier. The market would be more competitive if consumers had access to a comparison between their existing offer, the prospective supplier and the cheapest supplier in the area. Such a comparison should not be limited to the offers provided by the Big 6 suppliers as this could give a partial comparison that excludes the cheapest supplier.

51. Any claims of the savings a consumer can expect to make if they switch supplier must be backed up by an enforceable guarantee from that supplier that they will honour any pledges made in their name.

52. Because gas and electricity tariffs are complicated, the written guarantee should be based on actual consumption data for the consumer as providing a generic statement based on typical or medium user consumption figures risks misleading the consumer. This is important because in some cases consumption levels can make a significant difference to which supplier is cheapest and how much could be saved by switching.

53. During our outreach in Castle Vale energywatch found that consumers wanted simple statements, based on their own energy use, telling them which was the cheapest supplier and which supplier had good customer service. They much preferred to be told this than to be given detailed comparison sheets and asked to make the comparison themselves. Consumers need information which is sufficiently comprehensive to match their circumstances, giving an accurate overview of the offers available but they also need clear simple statements to help their decision making.

54. energywatch recognises the apparent tension between requiring information to be comprehensive and yet simple. However, further research into how people use information can identify the optimal way of presenting information.

55. energywatch agrees that additional written information on the savings a consumer could make from switching supplier would be a useful consumer protection. However, we believe that this would be more effective if consumers had reliable comparison information to hand prior to any encounter with a direct sales agent. We discuss this further in Paragraphs 56 to 57. This is in line with the recommendations of the Better Regulation Executive / National Consumer Council guidelines on regulated consumer information and is more likely to promote switching on consumers own initiative rather than reacting to direct selling techniques.

56. To ensure this information is provided Ofgem should reinstate a licence condition to oblige suppliers to provide PPM users with a statement of their account (as former SLC40 required) and historic energy use. energywatch notes the recent decision of the European Parliament on the electricity directive which (as currently drafted) would require quarterly statements for all energy consumers. This reintroduced licence condition should also oblige suppliers to draw the following to the attention of PPM users on this statement:

- The actual annual £ total, based on the previous years consumption data, that the prepayment customer of the supplier in question would pay if they were to pay by standard credit, direct debit or online direct debit (enabling the consumer to see the differentials)



- A clear indication of the differential between PPM and the lowest cost payment option the supplier in question offers, including a breakdown of the component costs of this figure.
- Offer a telephone number for the customer to use should they wish to change to one of the payment methods detailed and set out caveats on switching from PPM.
- State that other energy suppliers offer prepayment terms and indicate where comparisons can be obtained.
- It may be that the most effective way to prompt optimal switching amongst PPM consumers would be if the communication included the actual annual £ total, based on the previous years consumption data, that the prepayment customer would pay if they were signed up to the current cheapest supplier in their region and the actual annual £ total the consumer would pay if they stay with their current supplier.

57. Suppliers should also be obliged to print a ‘health warning’ message on top up receipts every time PPM credit is purchased, stating that PPM is a more expensive way of paying for energy (unless the supplier can demonstrate that this is not the case for them) and offering a number to call for further information. Providers of payment facilities have indicated to energywatch that this is possible.

58. Suppliers are currently required to set out the advantages and disadvantages of using a PPM to consumers before one is fitted. This requirement should be strengthened to explicitly require suppliers to state that PPM is a more expensive way of paying for energy. It should also set out the information in Paragraph 56 and clearly state how to get a PPM exchanged for a normal credit meter and the costs of doing so. Suppliers also need to ensure that all front line staff are aware of the policy of their company on the exchange of PPMs for credit meters.

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

59. We discuss above the importance of information which is consumer specific and of consumers’ desire to be given simple comparisons. energywatch is concerned that without simple explanations on how to use this information to make a comparison which is based on a consumers own personal circumstances this option will be less effective than it could be.

60. energywatch currently provides telephone support for anyone wanting explanations of our detailed fact sheets, which assists consumers to use them effectively. Following the establishment of Consumer Focus this service will be much reduced.

61. energywatch would hope that if this suggestion were to be adopted an equivalent service to explain the fact sheets to consumers would be available. A telephone price comparison service might be able to address this and we understand some of the internet price comparison services are considering setting up such a service. We would also hope that they would be made available in additional languages.

62. For historical reasons connected to “The energywatch Confidence Code”<sup>19</sup> the energywatch pricing fact sheets and internet price comparison service only include information from the Big 6 suppliers for PPM, Standard Credit and Direct Debit as a payment method. The review of the code has addressed this issue and any expansion in

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<sup>19</sup> [http://www.energywatch.org.uk/uploads/confidence\\_code.pdf](http://www.energywatch.org.uk/uploads/confidence_code.pdf)

their use should ensure that lower cost PPM suppliers are included in a new design of sheet.

63. As with Option 1 this option could be made more effective by the regular provision of such information, accompanied by explanatory notes, to consumers possibly with the statements recommended in Paragraph 56.

***Option 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;***

64. We agree that consumers should always have the responsibility to satisfy themselves that they are getting a good deal and that raising awareness of the ways consumers can identify the best deal is essential for a functioning market. However, for the reasons explained above not all consumers are in a position or have the means to access the mechanisms which allow them to access impartial information services.

65. This proposal also raises the question of how consumers are to access this information in the middle of a door to door sales transaction. The Better Regulation Executive / National Consumer Council guidelines on regulated consumer information suggest that information should be provided before sale where “the environment at point of sale is likely to be crowded or rushed”. energywatch believes that dealings with an experienced sales agents on the doorstep are likely to be pressurised and rushed and so meets these criteria. This is even more the case for carers or parents of young children.

66. We are also concerned that this option could free agents to make any price claim they see fit as it puts the onus on to consumers to verify the information which has been provided to them.

67. If combined with our proposals on the regular provision of advance information by suppliers this proposal could be beneficial, but on its own it would be an insufficient response to the problems highlighted by Ofgem.

68. energywatch hopes Ofgem look at increasing the role of independent direct selling agents, following the example of independent financial advisers. Agents would provide impartial advice explaining the cheapest way to pay and which deal is the cheapest and have a duty to act in the best interests of consumers. Potentially this model would address many of the concerns which prompted this consultation.

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

69. Many of our concerns about Option 3 are applicable to this option, particularly those relating to a pressurised sales transaction. Regular provision of information to PPM users as suggested in our comments in Option 1 would also help to make consumers aware of the relative prices of different suppliers and make them more prepared for a call by a direct sales agent.

70. energywatch believes that Option 5, with the caveats we have set out below, would be more effective than Option 4.

71. The introduction of social tariffs and increasingly complex tariffs raises the question about the ability of door to door sales agents to know at the point of sale if a consumer was indeed changing to a more expensive deal. For example, a consumer may be signed up to a social tariff and not alert the sales agent; or a consumer may not be aware that their personal circumstances make them eligible for a more beneficial social tariff from their current supplier which switching would deny them.

**Option 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.**

72. For this option to be sufficiently effective consideration needs to be given to the most appropriate medium for this dialogue with the consumer.

73. Any follow up requirement would have to be much greater than the obligation on the supplier to simply write to the consumer or leave a message with the onus put onto the consumer to contact them. As a minimum consumers must have sufficient time to reconsider any switch and as part of the follow up suppliers must actually discuss the switch with the consumer and get a positive and auditable response from the consumer that they understand they are switching to a more expensive supplier and how much more it will cost them before the transfer is completed.

#### **4. Other points which need consideration**

##### **4.1. Ethical suppliers and affinity deals**

74. At the market's periphery are ethical suppliers and affinity deals which potentially offer PPM consumers a way to secure a better deal and reduce their exposure to the price "leapfrogging" between the mainstream suppliers.

75. EBICo products appear to offer significant savings to gas and electricity PPM and Standard Credit customers because of the unique way it has set up its pricing structure. Ofgem should look at all aspects of the market structure to enable companies such as EBICo to both enter and flourish in the market.

76. Affinity deals see organisations (typically led by social housing providers) strike more advantageous deals on behalf of their members and so offer the opportunity for PPM users to act in an aggregated manner and secure more affordable energy without individually having to navigate their way through the pitfalls of the market. They also address some of the asymmetrical power and information relationships between suppliers and consumers and allow skilled negotiators to secure better deals for people who struggle to make the best of the market themselves, so increasing competition in the marketplace. Possibly the most well known of these organisations is Energy Extra<sup>20</sup>. Ofgem needs to engage with these organisations and ensure that any barriers that stand in the way of the growth of this approach are addressed, including fair access to the wholesale energy market.

##### **4.2. Consumer Protection from Unfair Trading Practices Regulations 2008**

77. energywatch has received a legal opinion on how the Consumer Protection from Unfair Trading Practices Regulations 2008 may impact with respect to the issues raised by Ofgem.

78. The opinion states that there is nothing in the Consumer Protection from Unfair Trading Practices Regulations 2008 (CPUTPR) which deals with the kind of generic problem identified by Ofgem. It goes on to say that there would be no duplication with the CPUTPR if Ofgem were to introduce further regulation to counteract the problem and recommends that Ofgem do introduce such regulation to provide the necessary consumer protection to address the issues raised.

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<sup>20</sup> <http://www.energyextra.co.uk/>

### **4.3. New consumer representation arrangements**

79. Although it is expected that Consumer Focus will continue to attach a high priority to work on PPMs the new arrangements could leave gaps. Ofgem must be prepared to step in and ensure that consumers remain protected; and that consumers and advice agencies are kept informed of changes following the outcome of this investigation and the wider probe into the market.

80. Following the closure of energywatch there will be a much reduced capacity to provide examples of consumer detriment, mis-selling and breaches of licence conditions. Ofgem must increase its regulatory role and launch more sophisticated and detailed in house investigations.

## **5. Conclusions**

81. Ofgem has identified important issues with the PPM and wider market and put forward useful suggestions on increased consumer protection. energywatch believes that the available evidence suggests a link between consumers switching to the most expensive suppliers and mis-selling. Addressing this requires the regular provision of information that consumers will use on their own initiative, thus making PPM users less reliant on direct selling techniques. However, we also realise that direct selling will continue for the foreseeable future and that the options put forward by Ofgem, when combined with our additional suggestions, would ensure sufficient protection and at the same time drive competition in the PPM market.

82. The provision of information to consumers will not in isolation increase consumers' knowledge and awareness, or prompt consumers to search out a more advantageous deal. To maximise the chances of the additional information being used and acted upon research into what are the most effective forms and routes of information provision for different consumer groups is needed.

83. In addition, if Ofgem does require further information provision to enable consumers to better compare suppliers prices it must reintroduce the obligation on suppliers to provide regular statements of energy consumption otherwise consumers will be making comparisons without a vital part of the information they require.

84. Information on prices must be accompanied by short simple instructions on how to use it and must be sufficiently comprehensive yet simple enough to allow consumers to reach conclusions easily and quickly. Information should be provided sufficiently regularly to ensure it is to hand when consumers want to use it. Plus it must also include simple instructions on how to change supplier and who to complain to should any problems arise.

85. Consumers will not be protected by existing regulation nor through rights to more information, if suppliers deny consumers the legitimate rights that such regulation affords to them. Ofgem needs to adopt a far more sophisticated and robust investigation and enforcement regime which investigates practices on the ground as experienced by consumers.

86. energywatch believe that similar problems affect consumers who use other payment methods and it is essential that regulatory protection and information rights, particularly in relation to mis-selling is afforded to all consumers.