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Dear Maxine

## **Prepayment Meter Open Letter**

We welcome Ofgem's research into barriers to vulnerable customers' switching and your open letter of 30 May on the issues for prepayment meter customers. Open discussion of issues is essential to ensure that any shortcomings in the effectiveness of the market are identified and tackled.

First, it is essential to be clear on what we expect from the market, for customers. A better deal and the best deal are quite different objectives.

- A better deal depends on the sales agent. Customers are entitled to accurate information. Energy is a low interest market and, having engaged with a sales agent, customers should not be expected to put effort in to interpret what they have been told.
- The best deal depends on the customer. Barriers should be reduced, but ultimately if the customer does not view some research as worth their time then they cannot expect to get the best deal (although it is extremely easy, through brokers' websites, and these are in competition to offer 'best deal' services).

Customers may also not switch due to psychological barriers. Ofgem's research has shown that fear of making the wrong decision is a barrier. It would probably help customers if stakeholders avoided setting "the best deal" as the objective.

### **Ofgem's analysis**

We welcome Ofgem's willingness to initiate a debate without full information, though caution against overly simple analysis as prices vary by region and no supplier is always the cheapest, or the most expensive. We offer savings for the majority of customers – who have either not switched or are with the two most expensive suppliers (who themselves offer a saving to customers who have not switched).

We seek to ensure that our sales information is accurate. Our field agents are equipped with pen-tablets (laptops) which ensure an accurate

estimate of the savings is calculated and displayed. The calculation will show if we are more expensive, but a sales agent may still be successful, notably if a customer has received poor service.

Our own analysis is not able to identify whether losses to more expensive suppliers are entirely robust (service is particularly an issue for prepayment meter customers due to the added complication of providing a new payment card), or potentially due to misleading information, for instance confusion over the benefits of no standing charge. Price seems to be less significant than for other payment methods, which is consistent with over 50% of customer losses being to suppliers who are mostly more expensive than us. We attach data for Q1 2008 in a confidential annex.

We recommend Ofgem resolve the uncertainty over the scale of this issue through market research of customers who have recently switched from lower to higher priced suppliers.

We do not believe there is an issue of PPM customers being disadvantaged in getting the best deal. The same methods are available as for other customers - switching sites and telephone calls – and energy supply compares favourably with most other sectors in the ease of finding potential savings (consider search costs in food retail for instance).

### **Compliance with existing legislation**

If Ofgem's research shows that customers are not aware that they would pay a higher price, or even if there are savings but these are not as high as they expect, then there is a problem of misselling:

- The Unfair Commercial Trading Regulations 2008 define a practice as unfair if it contravenes the requirements of professional diligence and materially distorts the economic behaviour of the average consumer with regard to the product<sup>1</sup>.
- The AES Code of Practice<sup>2</sup> requires sales agents to avoid the consumer misunderstanding any information given or making false assumptions, in particular over potential savings.

If Ofgem conclude there is a problem, the AES must investigate, but we should also be realistic – the nature of the issue is such that there may be no obvious flaw in supplier training and monitoring procedures. It may be due to individual agents' actions. Strengthened enforcement may therefore require disproportionate effort to tackle the issue and an alternative solution may be more appropriate. This might be through a voluntary agreement within the Code of Practice or a new licence obligation.

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<sup>1</sup> Regulation 3.3b

<sup>2</sup> Code of Practice for the Face to Face Marketing of Energy Supply. Para 7.8.2

## Options for possible new obligations

There is some urgency over the need to investigate further regulation. Ofgem should not require it unless there is firm evidence that it is needed, but equally should anticipate that any solution would take some time to develop. Moreover, if there is agreement on best practice, it may be introduced voluntarily anyway. This would both demonstrate that the industry works to the highest standards and also help reduce the psychological barrier to switching of lacking confidence in savings forecasts which Ofgem's vulnerable customer research has identified.

We believe that best practice is to calculate the saving from (or cost of) switching and show this to the customer. This can be achieved by a number of methods:

- A. Portable savings calculator (e.g laptop) for field sales agents
- B. Savings calculation by telesales agents (either direct to the customer or in support of field sales agents)
- C. Written statement within the cancellation period using information captured by field sales agents

We recommend that Ofgem consider the issues around requiring suppliers to use one of these methods, but leave suppliers with the choice of method. Although it would be relatively simple to add a written confirmation statement to A or B, it would be unnecessary and potentially confusing without a more complete statement which captures other product features and this may be more complex to implement.

We do not believe the other options are sufficient:

Requirement	Disadvantages
Pricing fact sheet	Only accurate if customers' usage matches the fact sheet assumptions. Can easily become out of date. Unworkable as product variety increases.
Alert customers to check	Customers shouldn't have to do this to be sure that the better deal is what they expect.
Highlight more expensive	Customers should also be protected against exaggeration of savings. Hard to enforce.
Alert expensive in follow-up	It is only a small step from gathering the information needed to do this, to providing an accurate cost comparison (Option C above). Better process to allow customers to be alerted at time of sale (Option A or B).

We would prefer any change to be taken forward on a self-regulatory basis, through the AES Code. This would also be more flexible in allowing for inclusion of other payment methods, although consideration needs to

be given whether this may be more complex, given the greater product variety.

Please do not hesitate to contact me on 02476 181 358 if you need further information.

Yours sincerely

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Retail Regulation Manager