

Response to OFGEM's Energy Supply Probe - Initial Findings Report

The National Housing Federation represents 1300 independent, not-for-profit housing associations in England and is the voice of affordable housing. Our members provide two million affordable homes for five million people.

The Federation and our members believe that it is an unfortunate hallmark of our society that those on the lowest incomes end up paying the most for everyday goods and services which most people take for granted.

The National Housing Federation is campaigning for an end to the unfair premium that pre-payment energy customers pay. We believe that energy suppliers should charge these customers no more than those who pay by quarterly bill.

SUMMARY OF OUR RESPONSE

The Federation believes that Ofgem should go further than its initial proposals and require suppliers to absorb the extra costs of servicing and maintaining pre-payment meters. This measure is supported by 64% of the public and the six main electricity suppliers, who have all recently absorbed the costs.

The Federation also believes that pre-payment meter customers should be refunded for the excess they have been charged.

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CONTENTS

| | |
|---|---|
| Remedy for pre-payment meter differentials..... | 2 |
| Response to other remedies..... | 3 |

REMEDY FOR PRE-PAYMENT METER DIFFERENTIALS – ACTION 5

The National Housing Federation welcomes Ofgem's acknowledgment "that there has been a great deal of public and political interest in whether the higher prices paid by consumers using pre-payment meters can be justified by the additional costs of metering and providing service to these consumers".

As you are aware, many of the charities and campaigners involved in calling for an end to the unfair pre-payment meter premiums have done so because they firmly believe that the poorest in society should not have to pay the most for everyday goods and services.

Your interim findings show that high consumption pre-payment meter customers have been paying over the odds; whereas you say that the "price premiums at the lower end of the consumption range appear to us to have a sound cost justification".

With energy suppliers' poorest customers on pre-payment meters, we are concerned that this statement demonstrates Ofgem's predisposition to put the interests of the market before those of the poorest in society.

The public want suppliers to absorb costs

This approach is out of step with public opinion. A YouGov poll commissioned by the Federation shows that "64% believe that prepay customers should not be charged an extra fee, instead the energy suppliers should be made to absorb the cost of installing and maintaining the meters". This compares to just 5% who believe that the big energy firms should be free to charge pre-payment meter customers whatever they feel is appropriate. And only 18% believe that pre-pay customers should be charged an extra fee of around £80 per year to cover cost of installing and maintaining the meter.

With this overwhelming support, the Federation believes that Ofgem should go further than it has, so far, indicated it is willing to and require energy suppliers to equalise pre-payment meter tariffs to quarterly bills.

Suppliers are demonstrating that it is quite possible. British Gas has just announced that it will charge its pre-payment meter electricity customers the same as those who pay by cash or cheque. Each of the 'big six' electricity suppliers has now removed (for the time being) the true 'poverty premium'.

Ofgem's thinking reflects neither the actions of electricity suppliers nor the views of the general public.

Recommendation: We hope that all gas suppliers will take a leaf out of Scottish Power and E.ON's book and equalise for gas. However, swiftly changing prices across suppliers and regions make it very difficult for customers to keep up with changes. While voluntary equalisation is welcome, we believe that Ofgem should assist energy customers by ensuring that these voluntary price limits are made permanent, or are subject to time guarantees (see below).

Ofgem must go further

In the light of this, we believe that Ofgem should go further than its proposals to:

- Introduce a new licence requirement on suppliers that differences in charges for different payment types must be cost-reflective
- Consider placing a further new condition in the licences of the Big Six suppliers that would either impose a prohibition on undue price discrimination or introduce a form of relative price control.

Recommendation: Ofgem should force suppliers to absorb the costs of pre-payment meters, at least until the national roll-out of smart meters, at which time the policy should be reviewed.

Ofgem should shape regulation

Ofgem's chief executive Alistair Buchanan gave evidence to the BERR Select Committee on Tuesday 25 November 2008. When pressed on reducing tariffs for pre-payment meter customers, he was reported as saying that "it remained to be seen whether the Government would tackle this"¹.

The Government, in its turn, has made it clear that is likely to uphold Ofgem's interim findings and go no further.

Responsibility for defining the purpose and effect of regulation in today's difficult economic climate is being bounced between government and regulator.

Recommendation: Ofgem should take a more active interest in the principles and application of regulation. In particular, it should examine whether the primary purpose of regulation should be to create a system of domestic energy supply which is accessible and fair for all.

A refund

The National Housing Federation believes that the 5.9 million customers on pre-payment meters who have been charged over the odds for their gas and electricity should be refunded. Britain's energy suppliers should act now and pay back millions of pounds they owe to these low income households who, for many years, have funded huge discounts for more affluent customers and large dividend payouts.

At every step, Ofgem has failed these customers. It ignored warnings back in 2002 when it removed the last price controls for these customers. At the time, energywatch said, "Ofgem has taken a wholly unjustifiable leap of faith that the market, left to its own devices, will deliver for pre-payment meter users". Pre-payment meter customers have paid a heavy price for this mistake.

¹ Dehavilland monitoring report, 25 November 2008

The Chair of the All Party Parliamentary Group on Poverty said recently "For too long the poorest in our society have been paying the highest for their fuel. People on pre-payment meters are subsidising the rest of us".

Consumer Focus has recently stated that the excess that pre-payment meter customers pay could be up to £550 million.

Once Ofgem has decided which actions it is going to take forward from its interim findings, it should investigate whether pre-payment meter customers should be refunded for the excess that they have been charged above the cost of maintaining the meter and it should consult on a proposed backdating period for the refund.

RESPONSE TO OTHER REMEDIES

ACTION 1: promoting more active customer engagement

Ofgem proposal: A requirement for clearer information on customer bills (for example, detailing the customer's existing tariff and consumption level) to make it easier to compare current arrangements with alternative offers.

Federation response: We support this proposal.

Ofgem proposal: An annual statement to each customer showing, for example, the customer's current tariff, the size of any premium they are paying (for example, relative to an average tariff or other payment method), their annual consumption level and alternative price packages available from that supplier.

Federation response: Our research² shows that two in five pre-payment meter customers have not received an annual statement on their energy usage from their gas supplier (28%) and from their electricity supplier (27%). Ofgem must put pressure on supplier to ensure all pre-payment meter customers receive an annual statement.

Ofgem proposal: An annual prompt to all customers of how to switch supplier, the advantages and disadvantages of each payment method and the potential savings from changing payment method.

Federation response: Ofgem should consider direct communication with all energy market customers and provide them with impartial advice. Advice should be tailored to suit current payment type.

² Accent, Pre-Payment Meter Utilities Customers, commissioned by the National Housing Federation, June 2008

Ofgem proposal: A programme to promote confidence in price comparison and switching sites and to extend their scope, in particular to enable prepayment switching and switching among low income and vulnerable groups who do not have internet access.

Federation response: In light of developments in digital television, Ofgem should consider using the advantages of this medium to communicate to customers. Basic information on best deals could be easily displayed.

Ofgem proposals:

We will consider whether there is future scope to simplify the supplier switching process to identify any further possible simplifications to the customer switching experience.

We will look again at debt blocking with the aim of re-visiting the automatic right to block switching by customers who are in debt as it is currently being applied by suppliers.

A sustained customer awareness programme will be launched to explain the switching process, promote the benefits of switching and, in particular, give vulnerable customers targeted information on the options open to them.

Federation response: We support the three proposals above.

ACTION 2: helping consumers make well-informed choices

Ofgem proposal: To work with consumer groups and suppliers to explore the development of an easy-to-understand price metric to enable consumers to compare prices quickly and easily.

Federation response: The difficulty of comparison without expert assistance would be alleviated by an accessible metric of this sort, especially if it does not require an internet connection to access.

Ofgem proposal: To strengthen rules governing suppliers' sales and marketing activities, especially focussing on enabling consumers to make well-informed decisions in response to a direct sales approach, and to prevent any misleading marketing or sales activity.

Federation response: The Federation strongly supports this proposal as many pre-payment meter customers choose to switch to a new supplier based on the information provided by a doorstep sales person.

Ofgem proposal: To actively engage with government, suppliers and others in order to facilitate an efficient roll-out of smart meters.

Federation response: The national roll out of smart meter should be supported with an educational programme which advises residents on how to reduce their energy bills and carbon emissions.

ACTION 3: reducing barriers to entry and expansion

The National Housing Federation would welcome measures that would make it easier for suppliers with priorities other than profit maximisation to enter the market. Providers such as EbiCo charge all customers the same tariff regardless of payment type, and challenge the larger suppliers to compete in areas other than sales technique, cost and brand recognition.

If you have any questions about this response, please contact John Pierce, Campaigns Executive, on 020 7067 1027 or email johnp@housing.org.uk