



PARLIAMENTARY WARM HOMES GROUP

Monday 1st December 2008

Energy Supply Probe – Initial Findings Report - Consultation

Dear Kersti Berge and Claire Tyler

On the whole the Parliamentary Warm Homes Group (PWGH) welcomes the initial findings of Ofgem's Energy Supply Probe, in particular the formal recognition that not all consumers are benefiting from the competitive market and that vulnerable and low-income consumers are being disproportionately affected.

The PWHG was established to raise awareness of the problem of fuel poverty and the policies that can eradicate it. There are 108 MP/Peer Members of the Group. Over the last few years, the PWHG and our partner organisations have consistently raised concerns surrounding the overcharging of prepayment meter and standard credit customers; of debt blocking; the limitations of switching; overcharging of in-area consumers; and the problems faced by many rural consumers when trying to access competitive deals. Now that Ofgem has conducted its own investigation, we hope that it will finally take prompt and robust action to remedy these problems.

Estimates adjusted for this year's rise in energy prices indicate that there are currently a staggering 5.4 million households in the UK in fuel poverty. Figures released last week from the Office for National Statistics showed a surprise 7% increase in excess winter deaths from 23,740 in 2006/7 to 25,300 in 2006/7 despite it being a mild winter - strong reminders of the very real and growing hardships faced by many people trying to keep their homes warm in winter. We cannot afford to wait yet another year before these failings are addressed and we would urge Ofgem to outline a clear timetable for action and provide energy companies with a transparent and consistent steer on requirements as soon as possible.

Lastly, we would like to stress that energy is an essential and not a discretionary item, and that comparisons with markets such as mobile phones, are not and should not be seen as appropriate. The report also states "many consumers are not yet benefiting fully from the competitive market". The PWHG has some concerns over the misplaced faith of Ofgem in the ability of a liberalised market to deliver benefits to all sections of society when there is no commercial incentive for them to do so. No matter how much the regulator seeks to empower consumers, there will always be certain vulnerable people within our community who will need Ofgem to regulate

effectively on their behalf to ensure they are able to access relatively affordable energy and a decent service.

Yours sincerely

A handwritten signature in black ink that reads "Alan Simpson". The signature is written in a cursive, slightly slanted style.

Alan Simpson MP

Chair of the Parliamentary Warm Homes Group (PWHG)

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Action 1. Promoting more active customer engagement

- 1.1 The PWHG supports proposals to require suppliers to provide: clearer information about the relative costs of different tariffs on customer bills; an annual statement to make it easier to compare current arrangements and alternative offers; and an annual prompt to customers on how to switch supplier. There should be agreed common formats for these which are tested with vulnerable consumers to ensure they are effective and meet their needs. As the report states, many consumers have problems understanding financial information and following simple instructions. 5.2 million people of working age (16%) of the population have literacy levels below the expected age for an 11 year old, whilst 15 million people (46%) have numeracy levels below the expected age for an 11 year old. It is crucial that any change has a net benefit to low income consumers especially if they are effectively going to bear the cost.
- 1.2 The PWHG is a little sceptical of the proposal for “a programme to promote confidence in price comparison and switching sites and to extend their scope, in particular ...among low income and vulnerable groups who do not have internet access” – you have to question the merits of using the internet to promote the benefits of switching to households without internet access. That said we believe it is a valuable exercise to extend the scope of switching websites to include prepayment meters and other tariffs.
- 1.3 We fully welcome Ofgem’s commitment to look again at debt blocking with the aim of re-visiting the automatic right to block switching by customers who are in debt. Prepayment meter customers (PPM) in particular are affected by this. Ofgem previously reported that not one consumer had benefited from The Debt Assignment Protocol, which was designed to enable prepayment meter consumers with a debt of £100 or less to switch. It is crucial that those in debt, who are often

some of the poorest customers, are not trapped in fuel poverty because of their inability to switch from expensive payment types.

Action 2- Helping consumers make well-informed choices

- 2.1 The PWHG agrees that it is important for people to be able to compare prices quickly and easily in order to make informed decisions about their energy supplier and payment method. However, it is difficult to see how some form of price matrix along the lines of the annual equivalent rate (AER) used for comparing the cost of credit in financial services could provide meaningful, accurate, and easy to understand information. This is because unlike financial products the cost of energy is dependent on usage – generally the more used, the cheaper the energy.
- 2.2 We fully support the proposal to strengthen rules governing suppliers' sales and marketing activities and an obligation to provide consumers with a written quotation with like-for-like comparisons with the customer's current price. This is particularly important given the high proportion of low income consumers who switch to a worse deal following an approach from a salesperson. It is important that the implementation of any change is properly monitored and clear sanctions put in place should companies not behave appropriately.
- 2.3 The PWHG recognises the proven benefits of smart metering technology but is aware that without appropriate implementation that they will not help low income and vulnerable customers to access more affordable energy tariffs. In the words of an impact assessment on smart meters conducted for the Department of Business Enterprise and Regulatory Reform (BERR) in April 2007: *"Assumptions for main benefits [of smart meters] for consumers (energy saving, shifting peak load etc) are unlikely to hold for the fuel poor. We would not expect fuel poor or vulnerable households (low income single parent, incapacitated, or elderly households) to be able to reduce their energy consumption as a result of direct or indirect feedback, at least, not as much as non fuel poor households."*
- 2.4 The roll out of smart meters must be conducted in such a way that the fuel poor do not bare the cost, particularly when it is unclear if they will reap the same benefits. It should be accompanied by an education campaign and support services. Ofgem should be prepared to ensure that the technology used is not simply the lowest common denominator but is selected with the fuel poor in mind. It should include: user friendly displays which show real-time energy use in money terms which meets vulnerable consumers' needs; the ability to switch between debit and credit for both gas and electricity customers and the ability to have time of use tariffs.

- 2.5 While the PWHG recognises the financial benefits to many prepayment meter and standard credit customers of switching to cheaper online and direct debit payment methods we would also stress the limitations of this approach. As the report points out only a third of elderly people have access to the internet and 71% of those over 65 have never used the internet –yet this group are one of the most likely to be overcharged. Around 1.4 million households (around 5%) containing 2.1 million people do not have access to a bank account. Taking into account all bank accounts without a direct debit facility this figure rises to up to 1 in 12.
- 2.6 For customers on low incomes who are unable to switch to cheaper online and direct debit deals it is therefore imperative that all energy suppliers provide a social tariff that is the lowest price they offer. This should be available to their poorest and most vulnerable consumers regardless of how they pay for their bill or whether they have dual fuel, so that rural consumers off the gas network can also benefit. Ofgem should press for minimum eligibility criteria to ensure that no fuel poor household is excluded from applying for help especially on the basis of age. Contrary to the assertion in the report, suppliers are not “obliged” to offer social tariffs but the PWHG believes that Ofgem should work to ensure that this is the case.

Action 3 – reducing barriers to entry and expansion

- 3.1 The PWHG welcomes the proposed consultation on whether Ofgem needs new or additional powers to guard against potential market abuses, notably in the wholesale energy markets. This is an area that the Group is currently looking into and believe that additional social and environmental duties will be needed to meet the Government’s stated aims of eradicating fuel poverty. We also support a programme of work which seeks to achieve a significant increase in market liquidity.
- 3.2 We also agree with proposals to review the regulatory obligations that could be acting as an undue deterrent to new entry or an obstacle to small supplier growth. Ensuring that pricing for all payment types is cost reflective will help to achieve this as larger energy suppliers will be less able to use standard credit, in-area consumers and prepayment meter tariffs to subsidise arguably loss leading online direct debit deals.
- 3.3 The PWHG particularly backs the proposal that the Big 6 suppliers should publish separate regulatory accounts for their supply and generation business in order to improve transparency. The current financial information provided by the parent companies of the major suppliers every six months is very varied and inconsistently presented. Ofgem should develop, in consultation with the relevant authorities, a standard template for the companies to report against, highlighting the key line items, a minimum of turnover, internal (operating) costs, external (e.g. fuel, consumer taxes and obligations) costs and profit before tax as appropriate

for their upstream and downstream businesses. The information provided in this way should be collated by Ofgem into a standard report which is made publicly available.

Action 4 - Helping Small Business Consumers

This does not fall within the remit of the PWHG.

Action 5 – addressing concerns over unfair price differentials

- 5.1. The PWHG welcomes Ofgem's work into suppliers' pricing practices and its recognition that there are unfair price differentials in the energy market which disproportionately affect low income and vulnerable groups. We would urge Ofgem to explore taking certain groups out of the competitive market and putting them on a fixed, lowest rate social tariff to ensure they access the cheapest deals.
- 5.2 Based on standard consumption levels, Ofgem estimates that the net benefit to suppliers from the prices paid by consumers paying by prepayment meter and standard credit is £550 million. The report points out that 'suppliers compete vigorously in the online market with heavily discounted offers, the cheapest of which may be, initially at least, below cost'. Since direct debit is used as the baseline for price comparison this highlights an obvious injustice of an energy market as vulnerable and low income consumers, who are disproportionately likely to use these payment methods, are effectively subsidising wealthier consumers' cheaper online deals.
- 5.3 We agree with Ofgem that the tariffs paid by standard credit customers are not justified and that as at least 50% of users are fuel poor that this should be a priority for the regulator. However we have concerns over the conclusion that prepayment meter (PPM) charges 'now, on average, reflect cost differences' and the suggestion that this is consequently less of a priority as only 20% of PPM users are fuel poor. The average income of prepayment meter users is just £16,000 a year according to the National Housing Federation. Given that National Energy Action's updated estimates of the level of households in fuel shows that 20% of households are in fuel poverty, Ofgem's assertion that only 20% of prepayment meter customers are fuel poor is clearly an underestimate. In addition Ofgem's own reporting shows that on average around 1,000 consumers are pushed on to prepayment meters every day because of debt, affectively barring them from accessing cheaper deals. We would urge Ofgem to keep a close eye on pricing for prepayment meter customers and support efforts to encourage effective competition in this sector.
- 5.4 Households living in rural villages, hamlets and remote area are twice as likely

to be in fuel poverty than those living in urban areas or countryside towns. Many of these households are without mains gas and unable to access cheaper dual fuel tariffs. A higher proportion of low income households also rely on electricity to heat their homes. Ofgem's work highlighting the higher margins on electricity supply than on gas and the challenges faced by many rural residents are therefore particularly welcome. We would urge the regulator to carry out further work into this area and to consider encouraging a competitively priced electricity-only tariff.

- 5.5.1 We welcome the decision to monitor price changes over the coming months to ensure that changes in the price of wholesale gas and electricity are passed through to consumers by the Big 6 suppliers.
- 5.5.2 The PWHG fully supports some kind of relative price control to ensure that energy prices are cost reflective. We recognise that removal of the price differentials will be achieved through a rebalancing of prices rather than a decrease in prices for the most impacted consumers. We believe that such a move while not reducing average prices paid by consumers would help to provide fairer overall pricing and a readjustment in favour of low income and vulnerable groups.
- 5.5.3 In 1.42 Ofgem states that following consultation "we will seek agreement with suppliers on the proposed reforms" and that "if agreement is not forthcoming, we will consider making a market investigation reference to the Competition Commission." The PWHG believes that the energy suppliers have had ample time to get their own house in order and that Ofgem should press immediately for meaningful and robust changes. The UK's fuel poor cannot afford to wait for the outcome of yet more negotiations with the supply industry, this time over new licence requirements, and the inevitable months it will take to get a decision from the Competition Commission. Ofgem must outline a clear and transparent timetable for action and seek to compel industry to eliminate discriminatory pricing, abusive and manipulative selling behaviour, poor customer service and inaccurate billing. We must not be in the same position as we are now in 6 months time.

Ends