

Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr Barnes

### **Consultation on addressing unfair price differentials**

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 prepayment energy customers pay. We believe that energy suppliers should charge these customers no more than those who pay by quarterly bill.

Lion Court  
25 Procter Street  
London WC1V 6NY

Tel: 020 7067 1010  
Fax: 020 7067 1011

Email: [info@housing.org.uk](mailto:info@housing.org.uk)  
Website: [www.housing.org.uk](http://www.housing.org.uk)

### **Prepayment premium must end**

**The National Housing Federation is concerned that the remedies Ofgem is proposing as part of its consultation on addressing unfair price differentials do not go far enough. Under all of Ofgem's proposed options for new licensing conditions to address the discrimination uncovered in your energy market probe, prepayment meter customers will still get an unfair deal.**

Ofgem has stated that it is minded to introduce a 'cost reflective pricing' between the payment methods. This would require energy suppliers to ensure that price differences can be justified. As prepayment meters cost more to maintain than energy suppliers can still charge these customers the most to heat and light their homes.

We understand that 'cost reflective pricing' will put an end to situations where prepayment meter customers and others are paying extortionate prices for their energy. However, the Federation is concerned that low income households who choose to use a prepayment meter to budget their incomes will continue to have to pay the most when they can afford it the least. And customers who are forced to use a prepayment meter to repay debt will pay a higher rate for all subsequent energy use.

All electricity suppliers and three of the 'big six' gas suppliers have now decided to charge prepayment meter customers the same as quarterly billed customers. This indicates that the market can afford to absorb these charges, and the new licensing conditions could undo this progress.

This approach has the public support. 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 prepayment meter customers whatever they feel is appropriate. And only 18% believe that prepay 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, we hope that you will now take a lead and introduce a licensing condition which will force all energy suppliers to equalise their prepayment prices to the best quarterly billed rates. Only this will ensure that prepayment meter customers get the fair deal that they deserve.

### **Foreseeable problems**

The Federation believes that Ofgem is mistaken in some of the assumptions outlined in consultation.

Ofgem assumes that its proposed remedies from its Initial Findings Report will erode unfair price differentials. The Federation does not believe that over time these measures will erode unfair price differentials as they will only help a certain number of consumers who are able to actively engage with the market to do so. Some low income and disadvantaged customers will always fall through the net and will end up losing out. This is why the Federation supports blanket measures like tariff equalisation to ensure no household is left out. The Federation also supports mandatory social tariffs which can be made available to all low income households (with the entitlement criteria being, for example, receipt of housing benefit) and, therefore, having a much wider entry criteria than current social tariffs have.

In light of this, the Federation believes that if a new licensing condition was introduced, such as option B, then this condition should be made permanent to prevent the market from regressing back to discriminating against certain customers. We are aware that this has happened before when Ofgem removed the last price controls back in 2001. At the time Ofgem was warned by Energywatch that prepayment meter customers would lose out and end up paying the most. As the findings from the Probe have shown they paid dearly for this, along with other customers.

The Federation is also concerned that some customers will continue to lose out in the energy market if its regulator puts market liberalisation before protecting vulnerable customers. As you are aware, Ofgem has a duty to protect vulnerable customers. We believe that in the case of prepayment meters that duty should be paramount. We hope that Ofgem would therefore move away from a position where Ofgem's Chair, Sir John Mogg, has simply argued "prepay meters cost more, retailers are entitled to charge a premium for their use".

Our understanding from Ofgem's Probe is that competition doesn't work for some vulnerable customers. There maybe a case for taking these customers out of the market, in the same way as social housing residents who are offered regulated, affordable rents because competition does not deliver universally affordable rents in an open market.

As the Probe has highlighted, many vulnerable households have paid dearly under Ofgem's watch. We believe they will continue to do so until new measures which actually put customers before competition are put in place. An example of this would be to introduce a cap on the amount energy suppliers can increase their bills by in a given year for low income households.

### **Ofgem's proposed remedies**

The Federation believes that Ofgem should go further than its proposed remedies as the only way of ensuring prepayment meter customers get a fair deal. In the light of this, below are the Federation's comments on each of Ofgem's proposals.

#### A: Cost-reflective pricing between payment methods

The Federation supports cost reflective pricing as a minimum measure across all pricing methods, but also advocates that prepayment meter customers should pay no more than standard quarterly billed customers. Ofgem has highlighted that this condition is consistent with the requirements on cost reflectivity set out in the EC Gas and Electricity Directives 2003. This leads us to question whether a condition like this should have been introduced a number of years ago. The Federation supports Ofgem's intention to keep this licence condition permanently.

#### B: Prohibition of undue discrimination

The Federation see this condition as more effective than condition A and so supports this option over option A. We understand that this condition will ensure that customers are not paying prices for a service above the cost of providing it and that this condition should prevent suppliers from charging customers unfairly because of their circumstances. We believe such a condition may also allow the Ofgem to put an end to any predatory pricing that may occur. Since this condition encompasses wider discrimination, it would allow more flexible and greater scope to address problems beyond payment type differentials. If this is introduced then all aspects of it should be retained indefinitely to ensure practices in the energy market do not regress.

#### C: Relative price controls

As both option B and C are mutually exclusive options, the Federation does not support this option. A number of supplier have now decided to voluntarily equalise their prepayment meter tariffs with quarterly billed rates and this condition could have a negative impact on this achievement by setting a ceiling for tariff prices. We believe that some suppliers may then decide to use this ceiling price as a benchmark for tariff pricing, to charge the maximum, and this would undo recent equalisations.

Ofgem also states that this condition would take longer to introduce and we are concerned that this condition may not be set at the right level due to the asymmetry of information between the regulator and the suppliers. This may favour the suppliers rather than consumers.

D: Prohibition of "cross subsidy" between gas and electricity supply

The Federation believes that most forms of cross subsidy should be removed but suppliers should be able to cross subsidise prepayment meter customers if necessary until the national roll out of smart meters. This is assuming that smart prepayment meters will not have the same infrastructures as current prepayment meters. This is to ensure that prepayment meter customers don't end up paying a premium for their energy. Ofgem has previously estimated that other customers could end up paying an extra £7 per year if energy suppliers equalised their prepayment meter tariffs to quarterly bills. Therefore the Federation proposes that Ofgem should look at a different way of ensuring that certain forms of cross subsidy don't happen.

**If you have any questions about this response, please contact John Pierce, Campaigns Executive, on 020 7067 1027 or email [johnp@housing.org.uk](mailto:johnp@housing.org.uk)**