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Dear Neil

### **Ofgem Consultation: Addressing unfair price differentials**

Navetas Energy Management Ltd welcomes the opportunity to comment on the Ofgem consultation paper - Addressing unfair price differentials. The focus of Navetas is on bringing innovation to the energy supply industry. Its value lies in its deep understanding of the energy supply market, its unique experience – especially in the field of smart metering and its independence.

Prior to going into detail on some of the points raised in the consultation paper, we would like first to put on record our view that we very much support Ofgem's probe into unfair pricing and also Ofgem's principal objective to protect the interests of consumers by promoting effective competition. We at Navetas believe this should always be the primary objective of an independent regulator.

We would also in general terms like to set out what we believe to be some underlying principles that would help resolve some of the issues around unfair pricing and improve competition in the energy supply market.

**First** - Navetas believes that consumers require much more access to display information to enable them to make informed choices when it comes to choosing an energy supplier and a suitable tariff for their homes.

**Second** – The importance of new metering technology cannot be overstated. New technology providing greater information will help to increase innovation and competition and help to bring prices down.

**Third** – There should be no price differential between prepayment and standard tariffs

**Four** – there should be no penalties for installing pre-payment meters. Charges levied by energy suppliers for installation of pre-payment meters are unacceptable.

**Five** – The environmental benefits of new metering technology are well documented with most independent observers believing that smart meters can help to reduce energy consumption between five and 15 percent.

In terms of the detail in the consultation paper Navetas would like to make the following points;

1. In Chapter two, Ofgem sets out its proposed approach to unfair price differentials. Navetas's view is that though the approach proposed is sensible, it starts from a viewpoint that real competition exists in the energy supply market. This is simply not the case.
2. In paragraph 2.7 Ofgem invites views on appropriate issues to consider in relation to objective justification for price differentials. Our view is that it would be difficult for consumers to understand any justification for unfair pricing unless it was explained fully to the consumer with a clear timetable of how they would get back to normal standard tariffs. Other than to claw back monies owed for energy already used Navetas can see no other justification for unfair pricing.
3. In paragraph 2.13 Ofgem proposes a multi stage process for resolving apparent unfair price differentials. Navetas agrees that a multi stage process is the best way forward and will help to reduce the regulatory risk to suppliers. Ofgem should also set out a clear timeframe for the multi stage process.
4. In paragraph 2.16 Ofgem invites views on whether licence conditions set out in the document should apply to all suppliers active in the market for domestic consumers – or only to the big 6. We believe that as the big six have around 99% of the market for domestic consumers then the licence conditions only need to apply to them.
5. In paragraph 2.18 Ofgem invites views on the time period with which the proposed licence conditions would become inactive. We agree that five years is about the right amount of time to ensure that any reforms identified have been fully effective. However, before licence conditions become inactive Navetas would like to see a market investigation into retail market competition is carried out by Ofgem to ensure that the licence conditions have been successful.

In answer to the consultation questions in Appendix 3, Navetas provides the following answers;

### Chapter 2:

#### Questions:

1. Navetas support these objectives and would especially highlight promoting competition and innovation as crucial. However, Navetas would like to see regular market investigations carried out prior to any removal of licence requirements to ensure continued protection of the consumer.
2. Navetas would only seek to ensure that where additional costs are attributed to a particular product, those additional costs are carefully and fairly calculated, and that any additional cost benefits accruing to suppliers through the customer take up of that product are equally discounted from the overall cost to the consumer.
3. This is not Navetas' area of expertise, and therefore we prefer not to provide a comment.
4. Navetas' view is that if materiality thresholds were indicated then these may become de-facto standard costs applied to certain types of product.

5. This is not Navetas' area of expertise, and therefore we prefer not to provide a comment.
6. As stated earlier, we believe that the dominance of the big 6 suppliers means it is sufficient to apply requirements only on them. Applying additional requirements to smaller players would serve to further reduce competition and innovation.
7. Navetas' view is that regulation should be kept to a minimum where possible, so would support a 5 year sunset clause.

### Chapter 3:

#### Questions

1. In general Navetas believe that suppliers should be encouraged to reduce cost differentials between payment methods. Any proposals made should have this objective in mind. Therefore Ofgem should be looking at this from the viewpoint as to what regulations can be introduced that will help bring costs down for consumers. Allowing cost differentials to be passed on, even at cost, does not encourage costs to be reduced.
2. Navetas' preferred position would be that this proposal is not applied in the form as currently worded. We believe that suppliers should be encouraged to reduce and eliminate price differentials thereby eliminating the need for this proposal.
3. We believe that this proposal could be adapted to enhance innovation and competition by ensuring that price differentials are kept to a low or negligible level. Consumers should be allowed access to the best deals despite their circumstances. There should be no cross subsidy.
4. Access to payment methods is an important consideration. This occurs most notably among those consumers that do not have access to a bank account and those on prepayment. For example, some PPM consumers today have to make significant journeys at their own expense in order to purchase their electricity or gas. This means that they are not only discriminated against in terms of the price they are paying for the energy but also in the cost of them accessing the service.
5. Navetas would support a specific prohibition.
6. Navetas believe that suppliers should be made to offer more choice in payment types and cost differentials should not be passed onto consumers thereby forcing suppliers to work to bring these costs down. This will not be achieved by this proposal as it is currently drafted.
7. See answer to Q6
8. See answer to Q6
9. See answer to Q6

10. See answer to Q6

11. See answer to Q6

12. See answer to Q6

13. Navetas fully support proposal D and believe it will achieve the stated goal. We believe the energy market should be mature enough for cross subsidies not be required by suppliers as a way to entice customers.

14. Rely on the principle of materiality

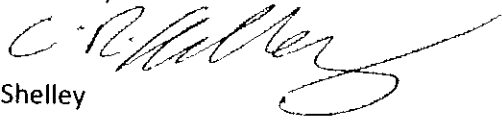
15. Navetas believe that this would be a sensible and balanced approach which is less likely to lead to future unforeseen market distortions.

**Appendix 2:**

**Questions:**

1. As the impacts are on energy suppliers, Navetas are not in a position to estimate the impacts of these proposals and therefore will not comment in detail on this question. However, our view is should the proposed not be carried out properly it could create further market distortion.
2. Consumers will be disadvantaged if the proposals allow suppliers to continue apply pricing differentials to their products, rather than encouraging suppliers to work to reduce pricing differentials.
3. Navetas are concerned that the existing competitive regulatory framework for the suppliers has done little to reduce price differentials; this is not an area that suppliers appear to compete on. With this in mind, Ofgem should ensure that the new proposals put pressure on the suppliers to compete in this area.
4. Navetas would be concerned that allowing suppliers to pass on the costs of different payment methods, particularly prepayment, does not encourage them to innovate in this area and hence does not encourage the adoption of new methods. The potential of Smart Metering in the future to deliver much innovation in this field must be permitted and encouraged.
5. This is not Navetas' area of expertise and so we shall not comment.
6. Navetas feel the biggest risk is that these proposals allow differential pricing to continue and in fact serve as an endorsement and justification for the suppliers to continue discriminatory pricing.

Yours sincerely



Chris Shelley

Chief Operating Officer

Navetas Energy Management Ltd