

A RESPONSE FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS

OFGEM CONSULTATION ON ADDRESSING UNFAIR PRICE DIFFERENTIALS

FEBRUARY 2009

Introduction

1. As the representative body for the principal builders of new affordable housing for rent in Scotland, the Scottish Federation of Housing Associations (SFHA) welcomes the opportunity to comment upon Ofgem's consultation on Addressing Unfair Price Differentials, published in January 2009.
2. Housing associations in Scotland own and manage 40% of the country's affordable social housing stock. This represents 261,477 homes across Scotland.
3. The housing association sector has an asset value base of £7 billion in Scotland. This is concentrated in some of the poorest communities in our country.
4. In addition to their core function of building and managing sustainable and affordable rented housing, SFHA members are increasingly becoming involved in addressing issues around financial exclusion of their tenants.
5. This response has been developed following consultation with all of our members across Scotland.

General Comment

1. Having campaigned alongside partner organisations on the issue of Prepayment Meter (PPM) tariffs, the SFHA welcomes OFGEM's attention to the issue of unfair price differentials. This is an issue which concerns us greatly because statistically the tenants of our members are among the poorest in Scotland, by any measure of poverty and disadvantage. Therefore they are more likely to be affected by the unfair price differentials that exist between different tariffs, different areas and different payment methods.
2. Of particular interest to the SFHA are the Scottish Government's own statistics in relation to the Scottish Index of Multiple Deprivation (SIMD). The 15% most deprived SIMD areas contain 36% (257,041) of Scotland's income deprived population and 33% (134,347) of Scotland's employment deprived working age population. Without exception all of these areas contain an extremely high proportion of tenants of affordable housing; these are the people most likely to have prepayment meters and most likely to be affected by unfair price differentials.
3. The consultation paper outlines a number of detailed questions under each of the four different proposals put forward by Ofgem. We have focused our comments to outline our assessment of the merits of each proposal.
4. Our overriding concern is to urge Ofgem to focus its attentions primarily on removing any consumer detriment in the marketplace, whether that is by incentivisation or by enforcement.
5. However, our experience to date suggests that the market has failed to deliver fair pricing for the most vulnerable consumers and therefore reliance on incentives alone within the market is resolve this situation. The SFHA believes that Ofgem must intervene to protect the interests of the consumer and the most vulnerable within society.

Detailed Comment

1. We welcome the key findings of Ofgem's recently published Probe into GB retail energy markets¹, which recognised that a significant number of consumers are being disadvantaged by continuing unfair price differentials and that vulnerable consumers are disproportionately affected.
2. We are pleased that Ofgem's Initial Findings Report² identified a range of instances of differential pricing which have been causing concern for the SFHA, its members and their tenants for some time, including: price differentials between payment methods and regions that do not appear to have a full cost justification, which disadvantage customers who have never switched or pay by certain payment methods; and significantly higher margins on electricity supply than on gas, which disadvantages stand-alone electricity customers.
3. We concur with Ofgem's conclusion that competition in the retail energy markets must be made to work effectively for all consumers. Whilst we share Ofgem's hope that the remedies outlined in the consultation paper will act, over time, to erode unfair price differentials, we believe there is a valid and justifiable need for urgent proactive intervention measures in this marketplace. The SFHA believes that the best way to remove the consumer detriment within the current market is for Ofgem to impose appropriate compliance measures.
4. The SFHA feels that unless specific action is taken to address unfair price differentials, the most vulnerable consumers will continue to be harmed as a result of paying higher prices for their electricity and gas. This will have an ongoing negative impact upon housing associations, their tenants and the communities they serve. For us, the issue of PPM tariffs has far wider consequences than just the consumer detriment that unfair price differentials represents; it is about alleviating poverty and building sustainable communities.
5. Whilst we are pleased that Ofgem recognised the need to address unfair price differentials, we remain concerned that the impact of any new measures introduced to the market must be monitored regularly to ensure that the current unfair situation for PPM and other vulnerable consumers is actually improved, and not inadvertently made worse or prolonged.
6. The consultation paper outlines four different proposals on how to address unfair price differentials within the market. Our response to each is listed below:

A. Proposal A – Cost reflective pricing: The SFHA believes that this proposal would be ineffective as it is the same argument used to justify higher premiums for PPMs and "out of area" customers. We feel it would simply reinforce the current situation

¹ OFGEM "Energy Supply Probe – Initial Findings Report", October 2008 - <http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Energy%20Supply%20Probe%20-%20Initial%20Findings%20Report.pdf>

² OFGEM "Energy Supply Probe – Initial Findings Report", October 2008 - <http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Energy%20Supply%20Probe%20-%20Initial%20Findings%20Report.pdf>

B. Proposal B – Prohibition of undue price discrimination:

The SFHA strongly supports this proposal, as it would take into consideration customers who are locked into a particular payment method, or have no access to competition.

C. Proposal C – Relative price controls: The SFHA has reservations about how this would work in practice, as this mechanism would simply set limits on premiums rather than removing them altogether. We would prefer the premiums were prohibited altogether.

D. Proposal D – Prohibition of “cross subsidy” between gas and electricity:

The SFHA supports this proposal. We believe that it would benefit people with no access to gas and would lead to a significant reduction in prices for electricity only customers.

Conclusion

1. Generally, we welcome the proposals contained within Ofgem’s Consultation Paper on Addressing Unfair Price Differentials. It acknowledges that there is a need for action to remove unfairness and consumer detriment inherent in the current marketplace and outlines a range of viable and credible remedial.
2. Our overriding concern in responding to this consultation has been to urge Ofgem to focus its attentions primarily on removing any consumer detriment in the marketplace, whether that be by incentivisation or by enforcement, as is required. However, of the four options outlined, we would lend our support to that Proposals B and D but not Proposal A. We would have reservations about supporting Proposal C.

Scottish Federation of Housing Associations

19 February 2009