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Dear Claire,

ERA response to Ofgem open letter on prepayment meter customer switching

The Energy Retail Association (ERA), formed in 2003, represents electricity and gas suppliers in the domestic market in Great Britain. All the main energy suppliers operating in the residential market in Great Britain are members of the association - British Gas, EDF Energy, npower, E.ON, ScottishPower, and Scottish and Southern Energy.

The ERA is pleased to offer comments on Ofgem's proposals as set out in the open letter on prepayment meter customer switching. As a general observation all of the options proposed by Ofgem assume that there is a problem for prepayment users and that this requires this customer group to receive special treatment beyond that offered to customers who pay in other ways. We believe that any resulting action must be proportionate and not create. We support the spirit of Ofgem's approach to avoid new licence conditions as far as possible and not to place additional burdens on suppliers in terms of excessive administration or cost, particularly where there is no clear need or evidence for regulatory intervention. We would also suggest that it may be more appropriate to consider any necessary action as part of the development of the EnergySure code, rather than as a new licence condition.

We have applied this spirit in the specific comments to the consultation proposals.

1. Despite extensive publicity about the rising cost of energy some social groups have traditionally been less active in the market for switching energy supplier. According to the Ipsos Mori survey commissioned by Ofgem, the reason for this ranges from misconceptions about complexity and the 'hassle factor' to consumer apathy and lack of confidence in the market. However, the recent level of switching by low income households indicates that energy prices have now reached a threshold that has triggered increased switching activity in these groups of consumers. This indicates that rather than a lack of knowledge, as has been suggested in the past, low income consumers may choose not to switch until they judge it is necessary. As a principle the ERA does not agree that prepayment customers should be given preferential treatment over other customers. If prepayment consumers are automatically assumed to be fuel poor, which is against all the evidence, and are given special treatment that incurs additional cost those households in fuel poverty who choose to pay by other methods will be hit the hardest.
2. It is important that suppliers retain the freedom to conduct marketing campaigns to win customers. It is equally important that suppliers compete to retain their existing customer base. The proposal that suppliers should take responsibility for advising that

their competitor(s) offer a better deal is impractical and a disincentive to seek new business. It amounts to interference in a competitive market. Under this principle the prepayment market would erode until the only player was the one that sustains the lowest price. Moreover, it assumes that the lowest price is the best deal for all customers. This limits suppliers' ability to compete on other factors that are currently a feature of the competitive domestic energy market, for example customer service standards, affinity deals with high street retailers, proximity of payment agencies and other multi product or bundled incentive schemes. Ofgem appears to be seeking to apply regulation that is specific to a certain customer segment and provides additional levels of service to one type of customer over another. Ofgem must provide firm evidence that this a proportionate and justifiable response.

The ERA agrees with Ofgem that all consumers, regardless of payment method must have access to accurate information where this is practical. However, the onus should not be on energy suppliers to provide details of competitors' offers. In some respects a requirement on suppliers to share this with rivals would be anti-competitive. We accept that SLC 22.7 requires suppliers to provide details of suppliers' tariffs on request. Further obligations would be onerous and an unreasonable burden on suppliers' business operations.

3. There should not be a penalty for suppliers who market their products extensively but may not offer the best deal based on price comparisons. This is a feature of any market. The proposal to provide price comparisons at point of sale is not practical and does not reflect the workings of a competitive market. Clearly, suppliers do not know about their rivals intentions before they are announced, therefore the advice offered may not be the best advice. Moreover, it would mean that a supplier could invest in an expensive marketing campaign that may result in enquiries from many potential customers. However, the supplier would in effect need to recommend that the consumer does not take up its offer and should instead switch to a rival with a current lower rate, assuming that this is first identified as the 'best' deal. This supplier would not need to advertise to because as the supplier with the lowest offer it would be able to rely on its competitors to drive consumers to its business. This would perpetuate policy based on price signals and ignore customers who choose to switch for other reasons. We believe that this is misleading for consumers who use other payment methods and would lead for calls for this practice to be applied universally, which is not appropriate in a competitive market.
4. Energy suppliers have a need for an ongoing relationship with their customers. In addition they are obligated under licence conditions and other legislation to provide a wealth of information about energy efficiency, priority service register, carbon monoxide poisoning, fuel mix, carbon emitted etc. The ERA questions whether energy suppliers should be expected to provide additional information about competitors' tariffs. This is a role that switching sites have provided to various degrees of success and this needs to be progressed as a follow up to April's fuel poverty summit. We note that the review of the energywatch Confidence Code was not progressed pending the launch of the new national consumer councils and suggest that this is an area for further investigation as a solution to the perceived lack of detailed information about switching options for prepayment meter users.

5. We also believe that the responsibility for educating consumers about how to make buying decisions rests with the regulator and consumer groups. In any other sector consumers are required to exercise judgement. In some cases this may be influenced by marketing campaigns and personal preference. It is not appropriate for suppliers to take away the right for consumers to exercise their choice.
6. As part of this responsibility to provide information, we also suggest that there is more that can be done to educate consumers about the structure of the competitive market. Our experience is that some consumers are still unaware or at least confused that they have choice of suppliers other than the legacy energy provider. Again this may be a role for Ofgem and consumer organisations that are currently working in partnership with energy suppliers.
7. Suppliers are currently required under their licence conditions to provide a statement that advises prepayment meter users, of the advantages and disadvantages of prepayment, which 'is likely to include' information about the different charges payable across different payment methods, and suppliers must notify customers once a year that this statement exists. It is intended as advice not a barrier to certain services, but consumers must exercise judgement.
8. An example of this type of communication could be at the point of sale. The EnergySure Code reduces the opportunity for rogue agents gaining employment and monitors and enforces standards of face to face selling. It is proven to be an effective self-regulatory tool as evidenced by the very small number of complaints made to energywatch. However, the Code can only address systemic failure not individuals acting independently regardless of the quality of training. The ERA believes that consumers are currently provided with the information required by licence conditions, selling regulations or EnergySure Code standards. However, we accept that this may not be all of the information available. For example, suppliers could recommend consumers to check other sources. In this way consumers are given the choice of whether to seek additional advice before signing a contract. If after due consideration further action is deemed to be necessary, we believe the EnergySure Code may be the best route, as this is proportional and already fully employed by suppliers.
9. Ofgem expresses a view, supported by suppliers' experience, that prepayment meter users often change tariffs but stay with the same supplier. It is important to note that there many reasons a customer shows loyalty to a supplier e.g. customer service, redress procedure, regular information, strength of brand and how well served they are by local payment outlets. This should not be interpreted as evidence that consumers are being treated unfairly. Guidance on the information suppliers provide consumers should be proportionate to the perceived problem and the amount of information cannot be prescribed in a competitive market.
10. We welcome Ofgem's intention to conduct more research into the differences of prepayment compared to other markets and specifically consumers' engagement in this market. We would be pleased to assist in this exercise.

11. With reference to the numbered options that Ofgem has advanced we offer the following comments:

1) A requirement on suppliers to provide a written statement of the savings that will be available to the customer from switching provider;

This restricts the opportunity for consumers switch quickly and consequently take advantage of time limited offers. The obligation to provide a written statement will extend the time taken for a consumer to switch supplier and add an increased burden on suppliers. It would also be dependent on the consumer responding within a given time period. The ERA would oppose this option on the grounds of practicality and because it may be misleading if this obligation singles out prepayment customers for additional treatment not afforded to other consumers.

2) A requirement on suppliers to provide the customer with pricing factsheets (for example, those prepared by energywatch) at the point of sale which show each supplier's offerings based on average consumption;

Calculations based on average consumption are merely a guide, and may not be applicable to prepayment customers. To require suppliers to provide details of all tariff offers in real time would take away any competitive advantage. It would also be impractical to manage for sales agents in the field. A compromise would be to advise consumers that there may be other offers available from other suppliers.

3) A requirement on suppliers to alert customers to the importance of checking that the product is the best for them and to provide details of where to obtain price comparison advice;

At present this is not a practical option as the requirement has the effect of creating doubt over the information provided by the sales agent, potentially putting the sale at risk. It should also be noted that many price comparison sites are commercial organisations and suppliers may not have an agreement to put their PPM tariffs on each or any of these sites. Additionally, energywatch's own switching site does not currently provide information on prepayment meter tariffs.

However, with further development this may be the most acceptable option, as it would fit most appropriately with suppliers' existing sales practices without involving significant additional investment and administration burdens. However, before such a decision is made, Ofgem should ensure that it is satisfied after a full analysis and impact assessment that action is necessary to address actual detriment to consumers. In this event the most appropriate solution may be through industry self-regulation, such as the EnergySure sales code.

4) A requirement on suppliers to alert customers at the point of sale where they are switching to a more expensive supplier;

The same restrictions would apply as option 2.

5) A requirement on suppliers to alert customers as part of the follow-up contact (under SLC25) where they are switching to a more expensive supplier.

It is not practical for an incoming supplier to be required to access details of the former supplier's offer in order to deter them from switching. For the reasons explained above suppliers do not have access to this level of detail or other extenuating circumstances that may have led to the consumer's choice of supplier.

Russell Hamblin-Boone
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