RobinHoodenergy

Will Fletcher
Competition and Markets Authority
Victoria House
Southampton Row
London WC1B 4AD

Dear Will,

Energy market investigation – Response to 'Second supplemental notice of possible remedies'

Robin Hood Energy is a not-for-profit gas and electricity supplier. We have been set up by Nottingham City Council with the aim of tackling fuel poverty. In September 2015 we started offering variable and fixed tariffs to UK customers. In November 2015 we introduced a competitive offering for prepayment customers in the UK.

We have read with interest the CMA publications 'Revised AEC relating to the prepayment segment' and 'Second supplemental notice of possible remedies'. In the paragraphs that follow we provide our views on the analysis and possible remedies. In the Appendix we give our answers to each of the questions in the 'Second supplemental notice of possible remedies'.

Tariff choices in the prepayment segment

We think that for the CMA analysis to be complete, it should have included our prepayment tariff. We launched prepayment with the cheapest prepayment tariff for an average dual fuel customer in 13 out of 14 regions in the UK.[1] At the time of writing, we remain in the same top position.

We disagree with the CMA's view that 'no competitively priced acquisition tariffs are offered by suppliers to customers on PPM'. We think we offer a competitively priced prepayment tariff and we invite the CMA to consider more recent pricing data. We note that its Figure 1 presents data only up until Q2 2014. For that period, we agree with the CMA's views. In other words, we think we broke the trend that the CMA identified. There now seem to be signs of other suppliers responding to our market leading approach.[2]

The cost to serve in the prepayment segment

We suggest that the CMA does an extensive analysis of the cost to serve prepayment customers. The CMA has formed its view on the cost to serve prepayment customers based on Ofgem's analysis of

[1] Comparison based on Ofgem's Typical Domestic Consumption Values. Regions defined as GSP areas. We are the cheapest on all regions except SWEB.
[2] We also offer prepayment for E7 customers. When we launched we were the cheapest in all of the UK for a dual fuel E7 customer. At the time of writing we are the cheapest for those customers in 9 regions, and second cheapest in the other 5 regions.

price differentials. Ofgem found an average price differential of £80 a year between direct debit and prepayment variable tariffs. Ofgem did not publish, as far as we are aware, cost figures. However, the CMA seems to have turned this £80 a year price figure into its difference in the cost to serve figure. We think that this cost to serve figure might not be representative for all suppliers. In particular, small suppliers might incur meter rental costs above this figure.

We also suggest that the CMA considers how Ofgem should approach the SLC 27.2A requirement that differences in prices across payment methods are cost reflective.[3] We think that the price differences between prepayment tariffs and the cheapest tariff available from the Big 6 suppliers is not compliant with the spirit of SLC 27.2A.[4] This is possibly because of Ofgem's narrow approach to compliance with this condition. Ofgem has previously compared the prices of direct debit and prepayment variable tariffs. This suggests they are also comparing the costs to serve of these two variable tariffs. That allows suppliers to offer competitive direct debit tariffs without having to offer competitive prepayment tariffs, so long as the direct debit tariff is a fixed tariff and the prepayment tariff is a variable tariff. An uncompetitive direct debit variable tariff then ensures compliance with SLC 27.2A. In essence, the requirement loses its effectiveness.[5]

Technical constraints in the prepayment structure

We agree with the CMA that there are technical constraints in the prepayment market. For the gas market in particular, we also agree with the CMA that the infrastructure allows for considerably more choice than is currently on offer.

We are surprised that the CMA has not proposed a remedy to improve the mechanism for allocating tariff codes. Unused tariff pages are being held up by the Big 6 suppliers, as the CMA knows from its analysis. Siemens is indeed willing to sell tariff pages, but this is subject to availability. There is no requirement for the Big 6 suppliers to release their unused pages so at a small cost they are able to significantly restrict the offer of their competitors. We had to wait for several months until a supplier released a tariff page that we could then buy from Siemens. It is not Siemens that is at fault, but those suppliers that hold up unused pages.

We also agree with the CMA in that smart metering offers a technical solution to the technical constraints in the prepayment structure. We think the CMA has made the right choice by deciding not to consider a remedy that mandates the installation of smart meters to prepayment customers. We consider that suppliers with a focus on prepayment customers have a sufficient incentive to install smart meters.

[3] We think this requirement comes from EU legislation, so there is no scope to discuss whether the requirement itself should be reconsidered in the short term.

[4] We refer to the Big 6 here simply because we are able to observe their pricing data from the CMA analysis (Figure 2). We expect the point we make to apply to a number of medium and small suppliers too.

[5] We can see a reason for Ofgem's approach to SLC 27.2A, which was pointed out by Ofgem staff at a meeting: fixed direct debit tariffs might be cheaper than variable prepayment tariffs because of the lower costs that can come from energy hedging, and that is difficult to quantify, hence the comparison with variable direct debit tariffs. We acknowledge energy hedging as a possible source of lower costs for fixed tariffs, but we are of the view that this cannot justify the significant price differences that the CMA analysis illustrates.

Prepayment customers in debt

We support the objective of the Debt Assignment Protocol (DAP): by switching supplier, an indebted prepayment customer might be able to save money on their energy and hence manage to repay its debt more quickly. We are however concerned about the cost of capital associated with taking a large number of customers under the DAP. The transfer of debt via DAP requires the payment of 90% of the debt within 28 days. Ofgem's Social Obligations Report 2014 shows that on average it takes 112 weeks to recover debt from a prepayment customer.

We are aware of the low volume of customers that until recently have used the DAP to switch supplier. We however consider that this volume may not be representative of the situation that we might face for two reasons: 1) we offer a more competitive prepayment tariff, which might encourage more switching of customers in debt 2) last year Ofgem changed the debt threshold in the DAP from £200 to £500. At present we are monitoring the switching of prepayment customers in debt, to make sure it is at a volume we can sustain.

We think that the CMA has not fully understood how the DAP works and as a result it does have a correct estimate of the staff costs associated with it. There are a number of manual steps that the acquiring supplier must take: obtaining customer's consent to obtain debt information from the current supplier, requesting this information via a manual data flow, confirming that it wishes to take on the customer via another manual data flow, retriggering the registration of the customer, setting the meter with an initial debt estimate and (once the value of the debt is confirmed) setting the meter with a final debt estimate and reviewing the invoice from the losing supplier.

We would have liked to see the CMA proposing a remedy to simplify the DAP. The key aspect to consider seems to be the customer consent to the sharing of debt information. This lengthens the process, which results in the initial objection from the losing supplier becoming effective and the acquiring supplier having to retrigger the registration.[6] The CMA should consider, in consultation with the Information Commissioner Office, whether it would be sufficient from a data protection point of view for suppliers to explain this data sharing in their Terms and Conditions.

Summary of views on remedies

We welcome those CMA remedies that can increase the engagement of prepayment customers in the energy market, so long as the cost of the remedy is proportionate to its impact. We offer our detailed comments to all remedies in the Appendix. Below we comment on three remedies in particular.

We are positive about Remedy 19, facilitating the sharing of data relating to prepayment meter customers. We think this will allow us to better target our marketing to prepayment customers. However, we would ask the CMA to make sure that the cost to suppliers of creating, contributing to and maintaining the database does not go out of control. The CMA should consider whether an

[6] The losing supplier has a right to raise an objection to a switch if a customer is in debt. The DAP is only started after the losing supplier objects, writes to the customer and the customer approaches the acquiring supplier to say they wish the DAP to be used. The objection has a resolution window, after which the registration attempt by the acquiring supplier is considered unsuccessful.

amendment of existing industry databases would be more cost efficient than building a new database.

We are concerned about Remedy 20b, prohibiting an upfront charge on the cost of replacing a prepayment meter with a credit meter. If this remedy is implemented, it will generate operational costs from recovering the installation cost in instalments. This will either be added to the installation costs or spread across the wider customer base. The former seems inefficient, the latter seems unfair. The CMA should remember that prepayment customers, like all other customers, will not be charged when a smart meter is installed.

We would not expect to be affected by Remedy 22, a transitional price cap for prepayment tariffs. This is because we think that our prepayment pricing policy is both competitive and fair. Regardless of this, we do not support the price cap, it seems unnecessarily interventionist. The only recommendation that we can make (if it is implemented) is that it has consideration of both fixed and variable tariffs, to ensure that suppliers cannot bypass it like they currently do with SLC 27.2A.

If you wish to discuss the contents of this letter, please do not hesitate to contact me.

Kind regards,

Ruben Pastor-Vicedo
Regulation and Compliance Manager

Appendix to the response to 'Second supplemental notice of possible remedies'

Remedy 19 – facilitating sharing of data relating to prepayment meter customers

(a) Would this remedy be effective and proportionate in increasing competition for non-smart prepayment meter customers?

It would be effective as it would allow suppliers to target their marketing to prepayment customers. Whether it is proportionate will depend on its cost to suppliers.

(b) Are there additional legal considerations that are relevant to this remedy (eg under the Data Protection Act 1998 or the Privacy and Electronic Communications (EC Directive) Regulations 2003)?

Not that we are aware of.

(c) Is Ofgem the right party to have oversight of this process?

The starting point should be whether a new database is needed or the current databases can be amended to provide this service (ECOES for electricity, DES for gas). The current databases provide the supply address and meter point, but no other relevant information. The key piece of information is the annual consumption, as this provides the input for calculating Personal Projections. The customer name, telephone and billing address are useful but might be subject to change.

Whether amending a new database or creating a new one, suppliers should have flexibility to extract data in bulk to then perform their analysis. A search by property database would be of very limited use.

The database should have some legal backing. This could take the form of a requirement in industry codes, which are overseen by Ofgem.

(d) What limitations would need to be imposed to ensure that the data was disclosed and used appropriately?

Access only by suppliers, with each supplier appointing a master administrator, like with ECOES and DES.

(e) When should the continued need for this remedy be reviewed?

We do not have a firm view on this.

(f) What might be a suitable frequency with which to share customer data?

This depends on its content. If it is just consumption data, then this should align with existing industry requirements. Personal data is subject to change and hence, if included, should be reviewed frequently.

(g) Should this remedy apply to prepayment meter customers with smart meters?

Having a smart meter is no guarantee that a prepayment customer is engaged. Hence there is an argument to include these prepayment customers.

Remedy 20a – prohibit the charging of a security deposit in circumstances when a customer is not in debt and has not incurred any fines, charges or interest for late payment in the last six months

(a) Would this remedy be effective and proportionate in removing the barrier to switching that security deposits can pose?

We do not currently charge security deposits. We consider that prohibiting them removes a barrier to switching, but we acknowledge that they might be appropriate in some circumstances.

(b) Are these the right criteria to apply in determining circumstances in which suppliers can charge a security deposit?

The criteria seem reasonable.

(c) What are the potential unintended consequences of being explicit about when customers can be charged a security deposit?

Every prescriptive rule has the risks of having loopholes, creating the wrong incentives and becoming obsolete. Having said that, we cannot see any issue with being prescriptive on security deposits.

(d) Is there a preferable alternative way of mitigating detriment arising from the impediments to switching posed by the potential need to pay a security deposit?

We are not aware of any.

(e) Should the CMA implement this remedy itself, or should the CMA make a recommendation to Ofgem to do so?

Ofgem will be responsible for ensuring compliance, so we suggest the CMA recommendation to Ofgem for implementation.

Remedy 20b – Suppliers are prohibited from charging customers upfront for the cost of a new meter when switching away from prepayment

(a) What length of time is reasonable and appropriate to allow the recovery of the cost of the meter and installation?

We disagree with this remedy as we think it is fair that the customer covers upfront the cost of the service that is has received. If this remedy is implemented, any length of time will generate an operational cost from recovering the installation cost in instalments. This will either be added to the installation cost or spread across the wider customer base. The former seems inefficient, the latter seems unfair.

The CMA should remember that prepayment customers, like all other customers, will not be charged when a smart meter is installed. The CMA should take into account that by the time it decides on this remedy, some suppliers might be nearly ready to start installing smart meters to prepayment customers. It would be very unfortunate if this remedy resulted in the installation of short-lived credit meters that were replaced with smart meters.

(b) Is this a proportionate remedy given the number of cases in which suppliers charge for removal of a prepayment meter?

It is not proportionate regardless of current practice. It is clearly disproportionate given the free smart meter.

(c) Is there an equally or more effective alternative way to reduce the costs of prepayment meter removal and replacement?

Suppliers with a focus on prepayment customers already have an incentive to offer smart meters. This incentive seems sufficient to us to ensure that in the short term prepayment customers get free access to a meter that can operate in credit mode.

(d) Should the CMA implement this remedy itself, or should the CMA make a recommendation to Ofgem to do so?

The remedy should not be implemented. The CMA and Ofgem should both be aware that it is not proportionate.

Remedy 20c – Require suppliers to provide annual notifications to prepayment meter customers setting out their right to switch and highlighting any potential restrictions or charges that may be payable

(a) Would this be an effective means of facilitating switches away from prepayment meters?

The CMA should be aware that there is a current licence obligation that is very similar to this remedy: SLC 31E.4 requires suppliers to include in their Cheapest Tariff Message (CTM) a statement for prepayment customers setting out their right to switch supplier in accordance with the DAP. The CTM appears in page 1 of every prepayment statement and annual statement. Ofgem is best placed to comment on the effectiveness of this messaging. Our view is that the CMA should first assess this messaging before introducing a very similar requirement.

(b) What would be the most effective means of communicating this information to customers?

We cannot think of a more effective way than the requirement in SLC 31E.4.

(c) What is a suitable frequency with which to contact customers? Would this messaging be more appropriately included alongside other messages or be triggered by particular events (such as outstanding debt being paid off)?

The frequency of the requirement in SLC 31E.4 seems appropriate.

(d) Should a prompting remedy such as this be introduced directly by the CMA or should this be an area that Ofgem considers running randomised controlled trials to assess its effectiveness?

The CMA should not introduce this remedy until it has reached a view on the SLC 31E.4 requirement.

Remedy 21 – reform the protocol for assignment of debt on prepayment meters

(a) Would a remedy recommending Ofgem to address the above-mentioned issues be effective in ensuring that adequate changes to the DAP are implemented promptly? Or should the CMA instead use its order-making power to support Ofgem's ongoing work?

We have discussed our views on the DAP in the main body of the letter, where we have set out that the key aspect to consider seems to be the customer consent to the sharing of debt information. We have explained how this lengthens the process to the point that the acquiring supplier has to retrigger registration. If this is what the CMA means by 'Issues relating to multiple registrations' then we agree that this needs reform.

Beyond this, we agree with the CMA that the objection letter sent by the losing supplier needs to be clear. There does not seem to be a need for reform in that point, just a matter of Ofgem ensuring compliance with licence conditions. The CMA has not provided details on its views on the 'complex debt aspect of the DAP, just a vague statement on reducing the instances where it is invoked. We are unable to comment on that basis.

Once the correct issues are identified, the implementation should take the fastest possible route for the benefit of prepayment customers in debt.

(b) What is the most efficient way for Ofgem and the industry to improve the DAP process in relation to the above-mentioned areas identified by Ofgem in order to increase the switching rates of indebted PPM customers?

The DAP appears on industry codes, Ofgem should require its revision via this this route, asking industry to commit to a timescale.

(c) How would this remedy interact with the other remedies to address the Domestic AEC and/or detriment?

We do not have a view on this question at this stage.

(d) Are there other impediments to switching for indebted PPM customers – other than those identified by Ofgem – that need to be addressed? If so, what are these and how should Ofgem or the industry address them?

No other impediments that we are aware of.

Remedy 22 – A transitional 'safeguard price cap' for domestic prepayment customers

(a) If the transitional safeguard price cap for PPM customers were set relative to other prices in the domestic retail energy markets, how should we identify an appropriate level of prices and how can we ensure the level of the cap remains appropriate for the duration of the period it is in effect?

We would not expect to be affected by this remedy. This is because we think that our prepayment pricing policy is both competitive and fair. Regardless of this, we do not support the price cap, it

seems unnecessarily interventionist. The only recommendation that we can make (if it is implemented) is that it has consideration of both fixed and variable tariffs, to ensure that suppliers cannot bypass it like they currently do with SLC 27.2A.

(b) Could the imposition of a transitional safeguard price cap for PPM customers result in energy suppliers reducing the quality of service offered to customers on these tariffs? Is this risk reduced by prepayment customers' ability to choose alternative, unregulated tariffs or changing to a smart prepayment meter?

This is clearly a risk. However, there is a safeguard in the Standards of Conduct, which require suppliers to treat customers fairly. If the quality of service fell below an acceptable level, Ofgem could enforce the Standards of Conduct to against a supplier.

We cannot see how switching to smart prepayment reduces the quality issue, unless smart prepayment results in lower costs and hence higher margin to provide quality of service.

(c) How should the headroom be calculated to provide the right level of customer protection while not unnecessarily reducing healthy competition?

We do not have a view on this question at this stage.

(d) What regulatory information would be required to set the transitional safeguard price cap?

We consider that tariff prices for credit meters are the key information. Cost figures are likely to make the pricing model complex to the point of unworkable. It is not a price control on a monopoly, it is an industry with a varied cost base.

(e) How long should the transitional safeguard price cap be kept in place? Is it appropriate to include a specific sunset provision, or should there be a commitment to review the need for and level of the safeguard price cap after a certain period of time?

A specific sunset provision seems appropriate for such a strong intervention in the market. We do not have a view on the suitable length of time at this stage.

(f) Should the termination date of a transitional safeguard price cap remedy be linked to the roll-out of smart meters? If so then should this be done explicitly, in aggregate or on a customer-by-customer basis?

Having a smart meter is no guarantee that a prepayment customer is engaged. Hence there is no strong argument for this link.

(g) How frequently – if at all – would the level of the cap need to be reassessed?

If it is linked to the prices of other tariffs, it might not need reassessment.

(h) Which prepayment customers should this remedy apply to?

None. Please see our answer to (a).

(i) Which energy suppliers should be subject to the transitional safeguard price cap, and why? Should it be restricted to the Six Large Energy Firms, or should all retail energy suppliers be covered?

None. Please see our answer to (a).

(j) How should the transition from the current arrangements be managed? Should there be a period over which the transitional safeguard price cap is phased in? If so, how long should this period be and how should the transition work?

A transitional period would just add complexity for those suppliers affected.

(k) Would energy suppliers have the ability to circumvent the remedy, for example, by encouraging domestic prepayment customers to switch on to less favourable, unregulated tariffs, and how could such risks be mitigated?

Please see our answer to (a) and our discussion in the main body of the letter.

(l) Should the CMA set the level of the transitional safeguard price caps itself, or should the CMA make a recommendation to Ofgem to do so?

It should not be set. Please see our answer to (a).