



HOUSE OF COMMONS

LONDON SW1A 0AA

Alex Chisholm
Chief Executive
Competition and Markets Authority
Victoria House
37-63 Southampton Row
London, WC1B 4AD

24 February 2016

Dear Alex,

I am writing to make a submission to the Competition and Markets Authority's investigation into the energy market.

The Liverpool City Region Child Poverty and Life Chances Commission, which I chair, is much concerned about the disproportionately large costs incurred by families in Merseyside who use a prepayment meter to pay for their gas and electricity. We understand that prepayment meters are more heavily relied upon in Merseyside than in anywhere else in Great Britain, with 23% of electricity customers and 21% of gas customers reliant on this payment method.

Our concerns centre upon the feedback we have received from local food banks and other voluntary groups helping to feed hungry families. A common concern is that, once they have dug deep to cover rent and energy costs, all too many families are left without money to buy food. Even among some of those families who then receive much needed help from a food bank, it is reported that they cannot afford to top-up their meter with enough credit to cook the contents of their emergency food parcel. Over Christmas, some families even pleaded for candles so they would not be sat in the dark at home. A vast majority of families in these disturbing situations rely on prepayment meters.

The most recent official data on this score is deeply troubling, in that it suggests mainly more fortunate households who pay using Direct Debit are treated far more favourably than mainly poorer households who pay using a prepayment meter. They show that:

- standard electricity bills for Direct Debit customers increased in real terms by £57 between 1996 and 2015, compared with an increase of £70 for prepayment customers;
- standard gas bills for Direct Debit customers increased in real terms by £314 between 1996 and 2015, compared with an increase of £324 for prepayment customers;
- energy suppliers cut standard electricity bills for Direct Debit customers last year by an average of £10, while prepayment customers were offered an average cash reduction of £5;



- the average cash premium paid by prepayment customers, over and above the costs incurred by Direct Debit customers on a standard electricity bill thereby widened in 2014-15 from £53 to £58;
- energy suppliers cut standard gas bills for Direct Debit customers last year by an average of £39, while prepayment customers were offered an average cash reduction of £33; and
- the average cash premium paid by prepayment customers, over and above the costs incurred by Direct Debit customers on a standard gas bill thereby widened in 2014-15 from £72 to £78.

In an attempt to remedy this gross injustice in the energy market, I recently proposed a New Deal on Prepayment Meters. The proposal, which carries the support of 111 Members of Parliament,¹ seeks to build upon Ofgem's early moves as well as those outstanding initiatives that have been taken by some individual energy suppliers. The New Deal would require energy suppliers by 2020, to:

1. proceed as soon as possible with 'Smart Pay As You Go Meters' for their poorest customers, on the understanding that they eliminate the premium charged over and above the costs incurred by other customers;
2. publish the additional costs incurred on supplying and maintaining each prepayment meter, to enable a comparison with the premiums charged to households who rely on a prepayment meter;
3. abolish fees for the installation and termination of a prepayment meter;
4. provide two-week credit tokens to households relying on emergency food parcels and who cannot afford to top up their prepayment meter; and
5. offer rebates to prepayment customers caught out by the standing charge on their meter over the Summer months.

Taking each point in turn:

1. I note that the Department of Energy and Climate Change is encouraging each supplier to prioritise households on prepayment meters during the rollout of 'Smart Pay As You Go Meters'. A welcome next step would be a firm guarantee from energy suppliers that these households will not be charged more for their gas and electricity once they are transferred to a 'Smart Pay As You Go Meter'.
2. I am concerned that the additional costs incurred on supplying and maintaining each prepayment meter may not fully justify price differentials. Leaving aside the premiums of £58 and £78 on standard bills, I recently identified a large difference between the best available tariffs on offer to prepayment and Direct Debit customers. On 7 January 2016, the differentials stood at:²

- £42 with British Gas
- £184 with EDF Energy
- £189 with ScottishPower
- £165 with npower
- £95 with E.ON

¹ House of Commons Early Day Motion 236, available at <http://www.parliament.uk/edm/2015-16/236>

² Based on a search conducted on www.moneysupermarket.com for the best available deals on prepayment meters and Direct Debit arrangements for two adults living in a two bedroom terraced house.



- £105 with SSE

Based on this evidence, it would seem that only British Gas was offering a differential that most accurately reflected the additional costs associated with supplying and maintaining a prepayment meter.

3. Ofgem has largely succeeded in its attempts to help suppliers phase out fees for the termination and replacement of a prepayment meter. 96% of prepayment customers are now protected from these charges. A next and, hopefully, final step on this front, would be for Ofgem to set suppliers a deadline for protecting 100% of this customer group.
4. The Feeding Birkenhead campaign, which I helped set up to counter hunger in my constituency, secured one of the nation's first npower Fuel Banks at Wirral Food Bank, which is being operated by the Trussell Trust. Its impact has been immediate and overwhelmingly positive. The requirement for all energy suppliers to offer similar help could make a huge contribution towards relieving and preventing hunger in this country.
5. Ofgem again has led the way in granting British Gas a derogation to waive the Standing Charges that had accumulated on vulnerable households' prepayment meters during the summer months. We request that, as a next move, Ofgem should invite each of the other 'Big Six' suppliers to apply for a similar derogation and act as British Gas has done.

The immediate implementation of this proposal within the next year would, of course, present some difficulties. The Commission therefore believes that energy suppliers should be tasked with implementing each of the steps outlined in this proposal by the end of this Parliament in 2020. The outcome of such an undertaking, we believe, would be to level the playing field in the energy market and, in doing so, end the grotesque stacking of the odds against the poor.

I very much hope the information contained in this submission might be of some help to you and your officials who are running this investigation. I very much look forward to reading its findings.

Best wishes,