RobinHoodenergy
A not for profit company

David Fowlis
Energy Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London WC1B 4AD

11 November 2016

Dear David,

Energy Market Investigation – Representations on 'Prepayment Charge Restriction Order 2016'

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.

In January 2016 we wrote to the CMA, in response to its 'Second supplemental notice of possible remedies'. We encouraged the CMA to revise its 2015 analysis to include our prepayment tariff. We discussed our view that the prepayment market was becoming more competitive, in part due to our entry into the market. We also expressed our support to any CMA remedies that sought to increase the engagement of prepayment customers in the energy market. At the time, we did not support the prepayment price cap on the basis that it appeared to us unnecessarily interventionist.

The CMA decided in June 2016 to proceed with the prepayment price cap. We think that this will deliver a short term financial benefit to disengaged prepayment customers, something we do welcome given our social motive of alleviating fuel poverty. However, we expect that this focus on price will come at the expense of imposing constraints on suppliers' offering, both in terms of pricing structure and wider product characteristics. For this reason, we remain unsupportive of the prepayment price cap in its current form.

Focusing on pricing structures, we consider that the prepayment price cap makes it unfeasible to offer zero or low standing charge tariffs. Those tariffs need a higher unit rate to be financially viable and that will be incompatible with the price cap at high consumption levels. The CMA has proposed a mechanism by which suppliers can, if granted a derogation, offer those tariffs and then refund to their customers any charges above the price cap. We consider that the administration costs of that arrangement make it unfeasible in practice.[1] The result is that low users with a prepayment meter are deprived from an option that might be in their best interest.

Turning to product characteristics, the CMA appears to disregard the fact that some consumers have wider considerations than price when deciding on their energy supply. Quality of service and the social causes that a supplier supports are valuable product characteristics for some customers. Unfortunately the price cap means that those characteristics have to be compromised, again to the

[1] A two tier tariff is not technically possible for traditional prepayment meters. Suppliers would need to either adapt their billing systems to automatically calculate refunds or spend a significant amount of time manually calculating them. Once that stage is covered, there would then be costs of issuing the refunds, which are not negligible with the current prepayment infrastructure.

detriment of consumers. The derogation mechanism does not appear to offer any relief, as it is entirely focused on price. There does not seem to be any scope for any tariffs to have any space outside the price cap.

In summary, the prepayment price cap needs refining to ensure that the financial benefit that it offers to disengaged prepayment customers is not to the detriment of some other prepayment customers. The most logical solution seems to be broadening the scope of the derogation mechanism.

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
Robin Hood Energy