Sustainability first

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To: CDConsultations@ofgem.gov.uk

Dear Maureen Paul

Prepayment rules and protections: a call for evidence

Sustainability First is a charity and think-tank focussed on promoting fair and sustainable energy and water sectors. We have significant experience working on energy retail issues including supporting and empowering customers in vulnerable situations.

We agree with Ofgem that prepayment is a preferred payment method for many consumers given the budgeting control it offers. We recognise that any move to ban prepayment will likely result in an increase in bad debt which if costs are smeared can negatively impact affordability for customers using other payment types including many in fuel poverty and vulnerable situations. It is also likely to result in an increase in suppliers disconnecting customers unless this practice is prohibited. We are therefore not in favour of a ban on prepayment provided suppliers are behaving responsibly, provide good service, are treating customers fairly and complying with their licence obligations.

We share Ofgem's desire to have a market where no consumer is put onto prepayment where it is not safe for them. While the current regulatory framework – and in particular the "safe and reasonably practicable" requirement - should provide strong protection for customers (provided these are effectively monitored and enforced) there are ways in which we believe the licence obligations and protections framework should be strengthened which we outline.

We are pleased that Ofgem has raised the question of load limiting / trickle flow. The potential for smart prepay to offer better forms of debt management and a lifeline of energy as an alternative to total disconnection was identified at the start of the smart meter rollout as one of the potential benefits. Now would seem a good time to revisit this opportunity.

Importantly we can see no reason why suppliers are still installing non-smart prepayment meters and would expect any smart prepay installation to include a PPMID (prepay interface device). Smart pay as you go has the potential to deliver competitively priced tariffs with excellent customer service. Ofgem should do everything possible to ensure compliance with smart metering supply licence conditions (SLCs) and remove any barriers to competition in the pay as you go market.

We expand on each of these points below. Given our limited resources we have not been able to go into all Ofgem's question areas in depth but would be happy to discuss any points further with you if that would be helpful.

Consumer protections – 'Safe and reasonably practicable' and debt recovery (Q3 / Q5)

- We believe that "financial vulnerability" should be considered in assessing whether a prepayment meter is "safe and reasonably practicable". It would seem obvious that it cannot be "safe" to force a customer onto prepay if as a result the customer will be forced to regularly self-disconnect or self-ration to an unhealthy level because of their financial circumstances. The reality is millions of households are at risk of not being able to afford to adequately top-up their meter and therefore going without power and heat if forced onto prepayment. This is not safe, even if there is no household member with a long-term illness, disability or mental health condition, and puts them into a vulnerable situation. We support Ofgem being explicit that under the 'safe and reasonably practicable' licence conditions it is only 'safe' to force someone onto prepay if they can reasonably be expected to be able to afford to sufficiently top up their meter. As Ofgem notes, suppliers already have an obligation to take account of ability to pay in setting debt repayment levels and hence should have an understanding of financial vulnerability.
- Ofgem should require suppliers to improve monitoring of self-disconnection. We understand there is good practice in operation which is facilitated by smart metering – it is important that good practice is consistently applied and Ofgem has sufficient oversight to ensure it happens.
- Ensure that suppliers are providing a tailored package of support to help those that are in or are at risk of being in debt or self-disconnecting/self-rationing.
- Make clearer the link between the "safe and reasonably practicable" obligation and the setting of debt repayment levels at affordable levels based on customers' ability to pay. At a time when many customers are struggling to afford even a basic level of heat and power, many will likely find it challenging to repay outstanding debts on top of this. For prepayment customers the debt is recouped on a daily basis along with the standing charge. By the time they have paid this there can be little left for fuel. And if they self-disconnect for a few days they have to pay off those costs for the days they have missed before they can get their supply back. Some suppliers have said they will not recover past debt through prepayment meters over the winter period and this is the sort of action that we would expect suppliers to take in the current crisis if they wish to continue to install prepayment meters (and hence avoid further debt build-up).
- Standing charges are also a particular problem for prepayment customers. Some advisers report issues with clients accruing debt on standing charges because they were unaware that prepayment meters had a daily charge. We are aware that Utilita has Ofgem's agreement to use a different approach to recover of the standing charge and this has been very positively received by customers. This could be considered for wider adoption.
- CAS research suggests that many clients do not receive clear communications on how to use prepayment when switched, in a way that was easy to understand[1]
- Ofgem should consider introducing a new overarching customer satisfaction standard. Within that require suppliers to monitor satisfaction of customers on different payment methods including prepayment and on the Priority Services Register.

We encourage Ofgem to also consider and mitigate any knock-on impacts of the strengthening of prepay protections. In particular, suppliers will likely respond by further cherry picking able to pay customers and actively seeking to avoid high-debt risk customers where they can. This risks knock on negative service and price impacts for those struggling to afford their bills. Advisors and

[1] ppm_report_13.02.23.pdf (cas.org.uk)

caseworkers working with customers in vulnerable situations have expressed concerns that the financial pressures on suppliers also mean they are less willing to offer support to those in need.

The level of forced installations and current high levels of self-disconnection and self-rationing of energy raises is much more fundamental question around affordability and the current energy crisis. If a customer simply cannot afford energy what is supposed to happen? While there has been significant financial help provided by government it still isn't enough for many customers and ultimately under the current framework and the competitive market they will either be going without or suppliers will be extending credit (that may never be repaid) and wider support. Neither of these is necessarily 'right' or 'fair' and nor will this problem be solved with a mandatory social tariff. It may be that some customers would be better off being outside of the competitive market or have access to a minimum energy allowance funded via central taxation. Ofgem has an important role in highlighting the risks and limitations of competition to government and providing thought leadership to safeguard consumers.

Smart prepay (Q8 / Q12 / Q14)

Although not referenced in the Call for Evidence, the fact that installing a Prepayment meter is defined in SLC1 as also including switching remotely to prepayment should mean that generally the protections for legacy and smart prepay are aligned. The specific difference highlighted relates to the use of warrants, where it seems reasonable that additional specific protections are in place. Companies should ensure appropriate checks for vulnerability including when switching remotely to smart prepay. For example, a home visit to check for vulnerability if no contact has been made with the customer. Ofgem needs to consider how it can gain assurance that those force fitting prepayment meters/smart meters in prepay mode are appropriately trained and consistently seek to identify if members of the household are in vulnerable situations. Also, that companies comply with the Smart Metering Installation Schedule (SMIS)[2] linked to Condition 41 of the Standard Electricity Supply Licence and Condition 35 of the Standard Gas Supply Licence.

There are three main causes of self-disconnection: a) Insufficient money available to top up – the main and growing cause[3] b) Not realising the meter is low on credit c) Forgetting or not being able to get out to top up the meter. Prepayment customers are one of the groups with potentially the most to gain from the smart meter rollout with much more convenient routes to topping up and greater visibility of remaining credit etc[4]. This was highlighted during the Covid crisis when the ability to top-up remotely was a huge benefit. And in the current crisis with concerns around the numbers of Energy Bills Support Scheme vouchers not being cashed, the benefits of smart prepay are again clear. And while there are concerns about the ability to remotely switch smart meters into prepayment mode, the ability to readily switch them back gives them an advantage over legacy prepayment.

Given these benefits and the "new and replacement" obligation it is not clear why suppliers are still installing legacy PPMs. Ofgem should challenge suppliers on this and also ensure that there are no perverse incentives caused by other aspects of the regulatory framework (eg allowing suppliers to

[2] P. Schedule 16 - Smart Meter Installation.pdf

[3] Citizens Advice in 2022 saw more people that couldn't top up their prepayment meter than the ten years combined. They found 3.2m people in Great Britain self-disconnected last year as they couldn't afford to top up. Millions left in the cold and dark as someone on a prepayment meter cut off every 10 seconds, reveals Citizens Advice - Citizens Advice

[4] Smart Metering Prepayment in Great Britain: Making prepaid energy work in a smart world. making prepaid energy work in a smart world accenture consumer focus - Google Search

recoup the costs of prepay meters installed on warrant). Smart meter installations are more complex and may therefore be harder to do in a confrontational situation – but this should be addressable.

Related to this it is not clear why the PPMID is not viewed as a standard part of a smart prepay installation. Considerable effort was put into the design and specification and it is key to many of the additional benefits that customers get from prepay (compared to having to interact with a prepay meter that may be outside the property). It is also vital in enabling meter top-ups if the communication fails. It is also not clear whether the marginal cost compared to a standard IHD is actually that great. While clearly Ofgem would need to gather more evidence, including on customer experience of PPMIDs, our instinctive view is that there should be a high bar for suppliers in deciding that a PPMID is not needed as part of the "safe and reasonably practicable" obligation.

Load limiting / trickle disconnect (Q11)

As Ofgem notes the potential for load limiting / trickle disconnect was explored in some depth at the start of the smart meter rollout. The potential for smart meter technology to offer new and more user-friendly ways of managing debt and to provide a lifeline as an alternative to complete disconnection seemed an important potential upside. However, at that time – before any SMETS smart meters had actually been rolled out – this was not a priority for suppliers and there were legitimate consumer protection concerns that would still need to be worked through. As such the decision was taken to protect consumers in the short-term by making load limiting subject to the same restriction as disconnection but with a clear expectation that this should be revisited once the rollout was further advanced. As such it would seem timely for Ofgem to now look again at this question and whether the technology offers any better solutions for dealing with non-payment and financial vulnerability than disconnection / conventional prepayment /self-disconnection.

We assume from the reference to the 2012 review that Ofgem has access to all the materials from that initial work which will provide a helpful starting point in terms of the range of issues that need to be considered. In particular we would flag the customer research that Ofgem commissioned in 2011 to test consumer attitudes to different approaches – and which was reflected in its "Spring Package" of smart meter Consumer Protections.

Tariff differentials (Q13)

Clearly one of the objections that is often raised against prepayment is the higher costs compared to direct debit. As such we would support Ofgem looking at this. However, with the move to smart meters the costs of the meter are the same and the expectation was always that given the benefits of payment in advance that the price differential would disappear and prepay could become one of the cheapest payments.

While the focus tends to be on the direct debt – prepay differential we have had a long-standing concern about the differential for standard credit (customers paying by cash or cheque) – who are often older, many on low incomes and may be vulnerable). In the most recent Ofgem price cap the SC-DD differential was £202 as against the £45 for PPM-DD[5]. This feels excessive but does mean that, in the current context, moving a customer from SC to PPM will result in them saving money.

[5] Default Tariff Cap update (ofgem.gov.uk)

One of the reasons for the differentials between payment methods is the different rates of bad debt for different categories of customer. However, there is a real question about what is a fair way to recover bad debt costs. Should Mrs Smith who is a regular payer, pay more for standard credit because more customers on that payment method default? Bad debt is by definition a cost that generally cannot be levied on the customers who have actually incurred it and arguably these are fixed costs that should be recovered from the generality of customers[6].

Equalising payment differentials will of course result in winners and losers including with many low income households becoming worse off. It would be useful for Ofgem update the analysis it did in 2014 to understand the distribution and levels of fuel poverty, financial and non-financial vulnerability across different payment methods[7]. There will also be geographical distributional impacts given the different use of prepayment and other payment methods across England, Scotland and Wales for example.

We'd encourage Ofgem to undertake deliberative engagement with the public and stakeholder groups to understand views on what is deemed fair. This would need to involve clearly explaining the distributional impacts and the pros and cons to be meaningful. There is a lack of awareness around the true consequences of such a decision. Engagement could provide greater legitimacy, buy-in and understanding for any decision made. We would be happy to help with this engagement.

Economy 7

Finally, we have recently been in discussion with Ofgem about our concerns around the handling of Economy 7 in the price cap as part of wider concerns that this is a regulatory blind-spot, despite around 3 million customers being on Economy 7 tariffs. We would ask Ofgem to reflect on any particular challenges for Economy 7 customers being moved to prepay eg ensuring that electric heating is still working for Economy 7 customers after the forced installation of a prepay meter (noting that wiring arrangements are more complex). The Grid Edge Policy report[8] "It's a Lottery – How Ofgem's Price Cap Fails Economy 7 Customers" highlights the fact that there can be significant differences in the balance of day and night rates across payment methods which could result in customers facing much higher overall costs on being moved to prepay – not simply down to the payment differentials discussed above.

For example, across all regions, EDF's PAYG rate for Economy 7 consistently has a higher day rate and a lower night rate than with direct debit. As such a customer with night storage heating and high night time usage will likely be better off on PAYG. However around half of Economy 7 customers no longer have storage heating and will be disadvantaged by the higher day rate. We have argued that in line with their duty to treat customers fairly suppliers should be proactively ensuring that Economy 7 is suitable for the customer's needs. This is an important check that they should make when moving a customer to prepayment. Indeed, CAS research indicates that high costs of electric heating is creating significant affordability pressures for clients on prepayment meters[9].

[6] This argument was made by Ofcom when looking at non DD charges in 2008 - here (para 3.108)
[7] Ofgem Roundtable Report - Payment Differentials | Ofgem
[8] Sponsored by Glen Dimplex Heating and Ventilation
[9] Frontline perspectives: clients' journeys with prepayment meters - ppm_report_13.02.23.pdf (cas.org.uk)

Identifying vulnerability

As noted, companies should already be undertaking appropriate checks for vulnerability including when switching remotely to smart prepay. There should be a home visit if no contact has been made to check for vulnerability.

Re appropriateness of prepayment and safety – it is well documented that a range of physical or mental health needs and learning difficulties may make it more difficult to manage a prepayment meter or mean a person is more at risk of harm if self-rationing or self-disconnecting their energy use. For example, people with mental health problems are more likely to self-disconnect from a traditional prepayment meter. This is for a number of reasons: mental health conditions like social phobia, social anxiety or agoraphobia can make it difficult for people to leave the house to top up their PPM.

The Priority Services Register is used to identify *non-financial* vulnerabilities. But there is potential for a financial vulnerability needs code for the PSR for those at risk of non-payment or struggling financially. This could also be used to target fuel poverty and debt assistance including energy efficiency support, measures and advice.

Ofgem should set a hard deadline for progress on two-way data sharing between energy and water companies. Progress to date has been very slow and processes are not yet consistently smooth or timely. This can't be allowed to slip any more. This will help improve the quality and level of companies PSR data which can provide insight on the appropriateness – how safe and practicable it will be for that customer.

As mentioned above, we would be happy to discuss any aspect of this response further if that would be helpful.

Yours sincerely

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