



*Promoting choice and value for
all gas and electricity customers*

Holders of Gas and Electricity
 Supply Licences, consumers and
 their representatives, consumer
 bodies and other interested
 parties

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Dear Colleagues,

Interim guidance – remote disconnection and remote switching to prepayment

The purpose of this letter is to provide guidance to suppliers on the application of the standard licence conditions for the supply of gas and electricity relating to disconnection and prepayment meters where a supplier has installed a smart meter and has the capability to remotely disconnect the premises or switch the customer to prepayment terms.

Ofgem is in the process of reviewing the current licence requirements, including in relation to disconnection and PPMs, in light of the rollout of smart metering and will introduce a package of measures in spring 2011 to provide for the continued safeguarding of consumers' interests. We have begun this process by publishing a consultation on these issues as part of the smart metering prospectus published in July¹. However, we are aware that suppliers have already begun installing smart meters. Therefore, in the interim, this letter aims to provide clarification on the current licence conditions in the context of remote disconnection for unpaid charges and remote switching to prepayment terms.

It is essential that, where remote disconnection and remote switching to prepayment terms are technically possible, suppliers continue to comply with the licence requirements concerning disconnection and prepayment meters (PPMs) for customers in payment difficulty². This includes continuing to offer a range of repayment methods and setting repayment amounts at a rate the customer can afford prior to remote disconnection for unpaid charges as well as not remotely disconnecting certain categories of customer during the winter. In relation to prepayment, it includes only switching the customer to prepayment terms where it is safe and practicable to do so. It also includes giving appropriate notice of any intention to remotely disconnect or switch a customer to prepayment terms.

In addition, we expect that self regulation will continue to play a role. For example, we expect members of the Energy Retail Association (ERA) to follow their voluntary code of practice known as the "Safety Net" in circumstances of remote disconnection. Suppliers should be applying the same disciplines which apply to physical disconnection when disconnecting remotely - namely multiple attempts to contact customers about their energy

¹ The following is a link to the smart metering implementation programme prospectus and associated documents: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=40&refer=e-serve/sm/Documentation> The following is a link to the smart metering implementation programme consumer protection document: <http://www.ofgem.gov.uk/e-serve/sm/Documentation/Documents1/Smart%20metering%20-%20Consumer%20Protection.pdf>

² Details of the existing protections are provided in appendix 1 to this letter.

debt, including contact by personal visit to the property if other approaches have failed, over a period of time before firmer debt follow-up measures are pursued. This not only gives the customer a further opportunity to enter into a repayment plan that they can afford but also helps identify vulnerable customers that would be at risk if disconnected and minimise the risk of disconnection in error.

Background

Ofgem's principal objective is to protect the interests of existing and future gas and electricity consumers in relation to gas conveyed through pipes and electricity conveyed by distribution systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gas and in the security of the supply of gas and electricity to them. In carrying out our functions we must have regard to, amongst other things, the interests of vulnerable consumers, including those who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.

The Department of Energy and Climate Change's (DECC's) December 2009 response to its smart metering consultation confirmed that by 2020 around 47 million smart meters will be installed in Britain's 26 million homes. The coalition Government has confirmed its commitment to this objective, but wishes to accelerate the roll-out. To prepare the way for this mass roll out, last month DECC and Ofgem E-Serve published jointly a Prospectus containing proposals for the delivery of electricity and gas smart metering in Great Britain.

With the roll out of smart meters, Ofgem will be putting particular emphasis on ensuring that consumer protection keeps pace with the additional functionality offered by smart meters. This will include ensuring that progress on preventing disconnection, particularly of vulnerable customers, is not undermined by the new technology and that smart meter functionality addresses the needs of vulnerable and disabled customers.

One of the issues raised in relation to remote disconnection is that currently when suppliers disconnect a customer they typically have to physically access the premises to disconnect. This enables suppliers to identify any signs of vulnerability at the premises and, where appropriate, halt the disconnection procedure pending further investigation by suppliers' priority service teams. Similarly, when moving a customer to prepayment terms, suppliers have to access the premises to install a PPM and therefore have an opportunity to identify whether it is safe and practicable for the customer to use the PPM.

Where the supplier has the ability to remotely disconnect or remotely switch the customer to prepayment terms, there is no operational need to physically visit the premises. However, visiting the premises is often the only way vulnerability can be detected.

Guidance in relation to alternative forms of disconnection in a smart metering context

Where remote disconnection amounts to stopping a supply, suppliers must comply with the requirements concerning disconnection as well as their other licence obligations. Where suppliers become aware or have reason to believe that a customer is struggling, or may struggle, to pay their charges for the supply of gas or electricity, suppliers need to offer the opportunity to repay by alternative methods and set repayment rates the customer can afford. Suppliers must identify the status of customers and occupants prior to taking any action which results in the customer being without a supply of gas or electricity. The supplier must not take any action which disconnects, by stopping the supply, customers of pensionable age during the winter. In addition, the supplier must take all reasonable steps to avoid disconnecting, by stopping the supply of gas or electricity, during the winter premises where the occupants are of pensionable age, disabled or chronically sick.

There are alternatives to total disconnection which smart metering can make possible. This may include limited disconnection such as "load limiting" (where the supplier could restrict

the amount of energy available to the customer to enable them to use a limited number of appliances such as the lights and fridge-freezer) and disconnection at certain times of day. Ofgem considers these alternatives may still amount to a supplier "stopping a supply" and therefore expects suppliers, where this is the case, to continue to comply with their licence obligations relating to disconnection. The relevant protections also apply in cases where the remote functionality is used for other approaches to debt management such as the use of limited "credit" where the end result is that the customer can be left without supply if they do not take certain action. Over the coming months, we will review whether it is necessary to introduce explicit protections in relation to these alternative forms of disconnection in the licence conditions.

While we are not aware of any suppliers that are "load limiting" as part of their usual business practices, its potential introduction, which restricts consumption but allows a low level of energy to be used, might be used by suppliers to encourage customers to agree repayment arrangements without being completely disconnected. However, there may be cases where certain groups of vulnerable customer, such as those relying on equipment to treat medical problems, will not be suitable for "load limiting". We would also have concerns about load limiting if it was used during the winter in vulnerable households, particularly as some of these may be using electricity to heat their home. Therefore, because "load limiting" may amount to stopping of a supply of gas or electricity, suppliers should continue to identify the status of customers before undertaking forms of "load limiting". As part of our review of consumer protection, we are exploring any other issues that may arise with this type of disconnection.

We expect that self regulation will continue to play a role, with suppliers continuing to comply with the ERA Safety Net in circumstances of remote disconnection. Suppliers should continue to apply the same disciplines which apply to physical disconnection that they apply today when disconnecting remotely - namely multiple attempts to contact customers about their energy debt, including contact by personal visit to the property if contact cannot otherwise be made, over a period of time before firmer debt follow-up measures are pursued. This not only gives the customer a further opportunity to enter into a repayment plan that they can afford but also helps identify vulnerable customers that would be at risk if disconnected and minimises the risk of disconnection in error.

Guidance in relation to switching to prepayment terms in a smart metering context

There are two key consumer protection issues that emerge when a supplier remotely switches a customer to prepayment terms.

The first is that, as the supplier will no longer have to visit the customer's premises to install a PPM, the supplier will not be in a position to observe if it is safe and practicable to move that customer to prepayment terms. However, the requirement to offer a PPM only where it is 'safe and reasonably practicable' to do so remains. It is for suppliers to satisfy themselves that they are compliant with this licence obligation. Previous guidance issued by Ofgem has made clear that the question of whether it is safe and practicable needs also to be considered from the consumer's perspective and their ability to use the prepayment facility.

While there may be actions suppliers can take to improve their records around the accessibility of the meter and the circumstances of the customer, customers' circumstances change and therefore records cannot be relied upon entirely. Ofgem considers that, where the supplier does not have up-to-date and accurate information about the location of the meter or the customer's circumstances, it will need (as a minimum) to speak to the customer, prior to switching them to prepayment terms, to ensure it is safe and practical for them to use the meter in prepayment mode.

The second issue, which is closely related to the first, is that as the supplier no longer has to visit the customer's premises to install the PPM, it may not be obvious to the customer

that they have been switched to prepayment terms. Ofgem considers that the provisions of the Electricity Act 1989 and Gas Act 1986 apply in respect of suppliers informing the customer in a timely manner that they will be switched to prepayment terms and what they need to do to operate the meter in prepayment mode. As part of our review of the licence conditions in a smart metering context, we will consider whether it is necessary to introduce obligations on suppliers to clarify this.

Next steps

At this stage we are not proposing to make any interim amendments ahead of our full review and consultation on the consumer protections necessary in light of the smart meter roll-out. However, we will continue to keep under review how the current requirements and self regulation are working where suppliers have already begun installing smart meters.

We have published our first consultation on these issues as part of the smart metering prospectus published in July. Responses to the questions in this consultation are requested by 28 October 2010. Following this, we will be looking to bring forward a package of consumer protection measures in spring 2011. In the meantime, we welcome views on the approach we have set out in this letter.

If you have any further questions, please contact me or Claire Tyler (claire.tyler@ofgem.gov.uk; 020 7901 7331).

Yours sincerely,

Maxine Frerk
Partner, Sustainable Development

Appendix 1

Existing protections

The rights of suppliers to use PPMs and to cut off the supply to or disconnect premises in respect of unpaid charges are set out in the Gas Act 1986 and the Electricity Act 1989. The Acts stipulate that the customer must be given at least 28 days to pay their bill and then at least 7 days notice before installing a PPM or cutting off or disconnecting the supply to the premises. These obligations apply to both domestic and non-domestic customers.

The standard conditions of the supply licences contain further protections around disconnection and the use of prepayment meters before disconnecting domestic premises. For example, before disconnecting premises on the grounds of unpaid charges, all domestic suppliers (including suppliers with less than 50,000 customers) must offer a PPM, where it is "safe and reasonably practicable", to domestic customers that are struggling to pay their bills.

Ofgem has previously provided supplementary guidance³ alongside the licence conditions explaining that what is "safe and reasonably practicable" should be considered from the domestic customer's perspective. Ofgem indicated that relevant factors are likely to include whether the customer is able to understand and operate the PPM and visit top-up points to add more credit. Ofgem also said it may not be reasonably practicable to provide a PPM if a customer needs to travel over two miles to top-up the credit.

The supply licence conditions define disconnection, for the purposes of the obligations contained in the licence conditions, as "to stop [gas/electricity] supply to a Domestic Premises"⁴. Prior to disconnection, the supply licence conditions include a requirement to offer alternative methods of payment (such as prepayment, Fuel Direct and payments by instalment) and an affordable repayment plan prior to disconnection. Suppliers are also prohibited from knowingly disconnecting customers of pensionable age during winter (October to March) and must take all reasonable steps to avoid disconnecting during winter premises where the customer or occupants are disabled, chronically sick or of pensionable age. Members of the ERA have also introduced further voluntary protections through their code of practice known as the "Safety Net". Among other protections, this precludes the disconnection of vulnerable customers at any time.⁵

Ofgem considers that the licence conditions prohibiting and restricting disconnection of certain groups of vulnerable customers already require suppliers to identify the status of customers prior to disconnection. However, in order to make this requirement explicit, Ofgem is in the process of consulting on an amendment to the electricity and gas supply licences to clarify that suppliers must take all reasonable steps to identify the status of customers and the occupants of domestic premises prior to disconnection subject to the outcome of the Collective Licence Modification process Ofgem expects this change to come into effect from September. Ofgem has also provided guidance on the types of proactive steps it would expect suppliers to take prior to disconnection, which includes visiting the customer's premises⁶.

³ For the supplementary guidance, please see the following link:
[http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/Appendix%2010%20SLR%20-%20Supplementary%20document%20\(electricity\)%20\(Final\).pdf](http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/Appendix%2010%20SLR%20-%20Supplementary%20document%20(electricity)%20(Final).pdf)

For the supplementary guidance, please see the following link:
[http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/Appendix%2011%20SLR%20-%20Supplementary%20document%20\(gas\)%20\(Final\).pdf](http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/Appendix%2011%20SLR%20-%20Supplementary%20document%20(gas)%20(Final).pdf)

⁴ See Section 1.2 of the Standard Conditions of the gas and electricity supply licences.

⁵ The ERA defines vulnerable customers as those who, for reasons of age, health, disability or severe financial insecurity, are unable to safeguard their personal welfare or the personal welfare of other members of the household.

⁶ The following is a link to the statutory consultation:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/SLC%2027%20Formal%20con%20oc%20-%20150710.pdf>