

Report

Retail Compliance Bulletin June 2021 – Payments and Processes

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The Retail Compliance Bulletin is a series of short reports covering Ofgem’s retail compliance work and engagement with industry. Each report will focus on a key theme emerging from our work over the preceding months and identify compliance issues likely to be of relevance to the rest of the market. We will use these bulletins to highlight our expectations for suppliers. The aim is to help retail energy suppliers learn from our work, better understand their obligations, and prepare effectively for regulatory changes.

This issue will focus on payments and processes, specifically credit refunds and discretionary credit.

Future issues will be published bi-monthly and look at other areas of concern, including customer service, affordability, price protection, switching, price cap compliance and more. For more information about our approach to compliance work, see the [retail compliance page](#) of the Ofgem website.

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Spotlight: Payments & Processes

Why does it matter?

- 1.1. Ofgem wants a retail energy market that delivers good outcomes for all consumers, including the vulnerable. During 2020, on average 30% of complaints to domestic suppliers were related to billing.
- 1.2. It is important that suppliers take all reasonable steps to ensure that they are providing accurate bills to customers. The requirement to do so is set out for suppliers in Standard Licence Condition (“SLC”)¹ 21B of the supply licences, which requires a licensee to take all reasonable steps to reflect a meter reading in a customer’s bill or statement of account. The Standards of Conduct (set out in SLC 0.3) also require suppliers to treat customers fairly and provide information, such as billing, that is complete, accurate and not misleading. They also require customer service arrangements to be complete, thorough, fit for purpose and transparent.
- 1.3. When bills are incorrect, it can cause customers to overpay or underpay, leading to an imbalance, which may put the customer at risk of serious financial detriment. Although the back billing rules², set out in SLC21B, generally prevent suppliers from recovering charges from unbilled consumption more than 12 months old, payment imbalances within a shorter timeframe can still be significant, and overall, it is desirable to prevent these from occurring.
- 1.4. If a customer has built up credit, due to overpaying and requests that it be refunded, it is the suppliers’ responsibility to refund this in a timely manner. Where customers are paying by Direct Debit, suppliers are also expected to carry out Direct Debit adequacy checks regularly to ensure that direct debit payments are based on the best and most current information available. Such checks are recommended to prevent large variances building up and to ensure the customer is paying based on the energy they are using.
- 1.5. In March 2021, Ofgem published a consultation³ on proposals to limit the amount of consumer credit balances suppliers can hold.
- 1.6. Where customers use Prepayment Meters (PPM), suppliers can offer an additional support credit (ASC) payment, which may help support customers in vulnerable situations. This typically involves the supplier issuing a value of energy credit in advance that is later recovered from the customer in instalments from future energy top-ups. From December 2020, the requirement for suppliers to offer ASC, along with emergency credit, has been added to the SLCs, under SLC 27A.

¹ Licence conditions can be found here: <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions>

² More information on our expectations for energy suppliers who are dealing with domestic and micro business consumers when undertaking charge recovery action can be found here: <https://www.ofgem.gov.uk/publications-and-updates/expectations-energy-suppliers-who-are-dealing-domestic-and-micro-business-consumers-when-undertaking-charge-recovery-action>

³ This would limit suppliers from holding surplus payments from customers, automatically refunding credit at the end of a contract period and introduce thresholds, which would help reduce excess credit throughout the year. If confirmed, this would be rolled out from 2022. Available here: <https://www.ofgem.gov.uk/publications-and-updates/supplier-licensing-review-reducing-credit-balance-mutualisation>

- 1.7. We work closely with suppliers and engage with domestic energy suppliers regularly through our Supplier Account Management process. Through this process, we have an open dialogue and expect suppliers to self-report if they have identified that something has gone wrong⁴. These relationships provide a valuable tool for monitoring the retail energy market and help us identify where there may be concerning practices taking place.

Case Studies – credit refunds

- 1.8. In 2020, we engaged with a number of suppliers where we had information that related to customers experiencing delays or difficulties in receiving their credit balance refund from their supplier.
- 1.9. In February 2020, Robin Hood Energy self-reported to Ofgem an issue relating to the failure to review and adjust customer direct debits. The supplier's decision to suspend direct debit adequacy assessments caused over 17,000 customers to pay incorrect amounts. Customers had their direct debit set either too high or too low, leading to customers either overpaying on a monthly basis, building up high credit balances, or underpaying, exposing them to debt and a significant adjustment at a later point.
- 1.10. SLC 27.15 requires suppliers to take all reasonable steps to base a customer's direct debit amount on the best and most current information they hold for that customer. This means ensuring meter readings are used to calculate customers' bills and, where that is not possible, have processes in place to provide an estimated bill.
- 1.11. Following compliance engagement, Robin Hood Energy took corrective action to ensure customers' direct debits were evaluated and adjusted where necessary. Robin Hood Energy also agreed to make goodwill payments to all affected customers and a payment to the Voluntary Redress Fund (VRF) in recognition of the seriousness⁵.
- 1.12. Where a domestic customer has requested a refund, SLC 27.16 requires suppliers to refund any credit within a timely manner, unless the supplier considers that it is fair and reasonable not to do so. In this case, the supplier must inform the customer and explain the reasons for not issuing the refund.
- 1.13. Following ongoing dialogue via the Supplier Account Management process, in December 2020, we closed a compliance engagement with ENSTROGA in relation to poor customer experiences, including billing and refunds. During the engagement it was identified that a backlog of refunds owed to customers had built up. Through this engagement, the backlog was reduced and all customers received refunds and compensation under Guaranteed Standards.

Case Study – additional support credit (ASC)

- 1.14. Suppliers can offer PPM customers additional support and emergency credit to prevent customers going off supply. During the beginning of the Covid-19 pandemic in early 2020, Ofgem and BEIS asked suppliers to ensure customer needs were

⁴ SLC 5A sets out the obligation for suppliers to disclose any circumstances that the Authority would reasonably expect notice of.

⁵ Due to Robin Hood Energy exiting the market in September 2020, goodwill payments were attempted to be made directly to customers and where this was not possible, all outstanding funds were paid into the Voluntary Redress Fund.

continued to be met, particularly the most vulnerable or where customers were at risk of going off supply, including self-disconnection. Suppliers used these mechanisms to achieve this.

- 1.15. ASC is offered when customers are faced with a loss of supply or shortage of PPM credit due to being unable to afford to top up. Emergency credit is offered out-of-hours, or if a customer is experiencing problems topping up. With restrictions in place, customers were less able to top-up their PPM cards or they may have been impacted financially as a result of the pandemic.
- 1.16. It came to our attention that some suppliers were requiring some PPM customers to repay in full any ASC that they had been given before allowing the customer to transfer to another supplier.
- 1.17. Ofgem engaged with British Gas, E (Gas & Electricity) and Utilita in relation to this issue and found that this could be caused by one or more of the following factors:
 - lack of process for monitoring how customers used credits that were issued as part of the response to Covid-19
 - incorrect objection to a transfer, where the debt is due to the provision of discretionary credit that has been owed for fewer than 28 days
 - system or human error leading to an incorrect objection
- 1.18. All of the suppliers involved have updated their processes in order to be compliant with the SLCs and provided assurances that this will not reoccur. The suppliers have also either written off the outstanding ASC and/or made a goodwill payment to customers whose switch was blocked, or are in the process of doing so.
- 1.19. SLC 14 prohibits suppliers from preventing a proposed customer transfer, with the exception of specific circumstances. Suppliers must facilitate the transfer of PPM customers with up to £500 of debt per fuel type, in accordance with the Debt Assignment Protocol.

Case Study – Prepayment Meters

- 1.20. As of the end of June 2021, PPM customers will no longer be able to top-up their meters using npower Talexus keys at National Service Providers (e.g. PayPoint, Payzone and the Post Office). Ofgem wrote to all suppliers who provide PPM in February 2021 advising them of this upcoming change.
- 1.21. npower keys will stop working at the end of June 2021 and with that there is a risk that customers of other suppliers, but still using npower keys, could go off-supply. Many PPM customers continue to use older top-up cards, even if they change supplier, so it is important that this message is communicated clearly and all customers have keys that will function correctly after the end of June. By engaging proactively with suppliers through our Account Managers, Ofgem has received reassurances that this risk has been minimised.
- 1.22. All suppliers have confirmed receipt of letters and have provided evidence of how they are prepared for the change. We have received evidence that some suppliers are sending out new keys and we are expecting similar actions from all other suppliers. This will continue to be monitored until the change goes live in June.
- 1.23. There are various SLCs that suppliers should take into account in relation to this. In particular, the Standards of Conduct (SLC 0.3) require suppliers to make appropriate

customer service arrangements and consider the needs of vulnerable customers. Therefore, suppliers must ensure all PPM customers are informed of the change and have access to working top-up keys.

Key Lessons

- 1.24. Suppliers may decide to change their internal processes, however, when suppliers choose to do so they must ensure that they continue to make all reasonable efforts to provide accurate bills. This includes ensuring regular meter readings are provided and customers' payments are adjusted as required. They must also have processes in place to facilitate the refund of customer credit balances, when requested.
- 1.25. The ability for customers to readily switch supplier is a key element for effective competition in the market. Suppliers should not take any actions that prohibit customers from doing so, other than in exceptional circumstances as outlined in the SLCs.
- 1.26. Ofgem encourages and expects suppliers to self-report to the regulator any possible non-compliance or customer detriment as a matter of good practice.