

Cathryn Scott  
Director, Enforcement & Emerging Issues  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

Sent via email: [RetailFinancialResilience@ofgem.gov.uk](mailto:RetailFinancialResilience@ofgem.gov.uk)

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Dear Cathryn,

**RE: Statutory Consultation on Strengthening Fixed Direct Debit Rules**

I am writing to you regarding Ofgem's Statutory Consultation on Strengthening Fixed Direct Debit Rules. This is a high-level industry view - Energy UK's members may hold different views on particular aspects of the consultation. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

**Proposed Rules**

Energy UK supports the intent behind Ofgem's proposed rules, providing customer benefits and ensuring that suppliers do not artificially inflate customers' credit balances. However, we have concerns that the proposed wording may not result in the customer benefits that Ofgem intends, and could instead create unintended consequences for suppliers' operational processes that degrades consumers' experience.

In particular, we are concerned that the proposed removal of the two key sentences in the licence condition could lead to an obligation on suppliers to update direct debit levels whenever any new information becomes available. If this reading of the wording changes is accurate then it could lead to a poor customer experience and inefficient supplier processes whereby direct debit levels are constantly being updated and communicated to customers, such as with each monthly meter reading (where provided by the customer or via a smart meter).

If this is not the intent, or aligned with Ofgem's understanding of its proposals, then clarity is needed in its decision as to its expectations of suppliers in their compliance with the new requirement, and how it envisages good customer experiences to be maintained. Ofgem should also set out how this would impact on customers' ability to control their direct debit levels,

Ofgem should instead consider alternative principles-based wording changes to meet its policy intent while still maintaining suppliers' ability to operate efficient processes and offer beneficial customer experiences. One Energy UK member has put forward this potential wording which could form the basis of Ofgem developing this proposal further to better achieve its policy intent:

*The licensee must ensure that at the end of the 12-month direct debit scheme period, customers have paid for the energy they used, with minimal credit or debit balance remaining.*

## **Ofgem's Policy Process**

Energy UK is concerned that Ofgem has not undertaken a robust policy development process, nor assessed the potential impacts of its proposals on suppliers. While we note that similar proposals to tighten the licence condition were briefly raised in Ofgem's March 2021 consultation, it was not highlighted as one of its main proposals and received very limited feedback as a result. If Ofgem had undertaken greater proactive engagement prior to this Statutory Consultation, the concerns and potential unintended consequences outlined above could have been explored in greater detail through engagement with industry, benefiting Ofgem's final proposals.

In addition, Ofgem has recently undertaken a full review of suppliers' direct debit practices. Even though Ofgem has published its findings on 13 July, it is still unclear what the best practice in the market for setting Direct Debits has been or what the detailed findings at an industry-wide level show in terms of a need for the proposed changes. It is also unclear whether these proposals have been informed by the review.

Clarity is needed from Ofgem on the outcomes, and how Ofgem's learnings have informed this proposal including a clear document outlining its findings that has quantitative and qualitative justification for taking policy action.

We hope that these comments on Ofgem's update have been useful, and we would welcome the opportunity to engage if that would be beneficial.

Yours sincerely,

**Steve Kirkwood**

Senior Policy Manager, Energy UK

[Steve.Kirkwood@energy-uk.org.uk](mailto:Steve.Kirkwood@energy-uk.org.uk)

