



Making a positive difference
for energy consumers

Date 18 April 2023

Dear stakeholders,

A Code of Practice for Involuntary¹ Prepayment Meter Installations

Prepayment meters (PPMs) are an important payment option, helping millions of households to control their spending on energy and avoid getting into debt. They are also an effective way for suppliers to limit bad debt. But they are not suitable for everyone. As our monitoring and compliance work have shown, there have been unacceptable practices by some suppliers in how some PPM customers are treated.

We launched an investigation into British Gas and agreed a suspension of involuntary PPM installation (including remote switch of smart meters to PPM mode) by all suppliers to enable a review of the rules around involuntary PPM. We are also conducting a Market Compliance Review focused on PPM installations and processes.

We are today publishing a **Code of Practice on Involuntary PPMs** which we have developed after intensive engagement with consumer groups and suppliers. The Code proposes strengthened protections for the most vulnerable customers for whom PPM may not be a safe option, alongside standards for those customers who are currently on PPM or may be moved to PPM.

The Code builds on our existing licence rules and guidance, and much of the Code represents examples of best practice that already exist in the sector, which we are proposing to make mandatory for all energy suppliers.

¹ Involuntary PPM includes both installation under warrant and remote switching smart meters to PPM without consent from the consumer.

The Code makes some judgements about the levels of protection that should be in place for different customer groups. As we consult on turning the Code into licence, we will be seeking further feedback on whether we have got the right balance on this and other important issues. We will closely monitor the impact of these revised rules to ensure they have the intended impacts, and will make changes if necessary.

One element of the Code is making Smart the default for new PPM installations. Smart PPM offers enhanced benefits to consumers, including the ability to top up digitally and better visibility of a consumer's consumption and spend. Smart PPMs also enable suppliers to identify the early signs of customers self-disconnecting and take proactive measures to support them (as their licence requires them to do). Smart PPM could also be used to help close the affordability gap whilst limiting bad debt accumulation by, for example, providing customers in a vulnerable situation with targeted support for a minimum level of energy supply.

Suppliers have agreed to comply with this Code before it becomes part of the licence or guidance, so that consumers can feel the impact of these beneficial changes right away. In the meantime, we are asking suppliers to refrain from further involuntary PPMs until they have demonstrated their readiness to fully implement the new Code. Suppliers should understand that we will not hesitate to take strong action where we see evidence of failings against our rules, now and in the future.

Whilst Ofgem can strengthen protections for vulnerable consumers, this is part of a wider affordability challenge, exacerbated by record high energy prices and a wider cost-of living crisis. We welcome the unprecedented support the government provided to households through the winter, and call on them to provide further support to those who most need support, for example through a targeted intervention such as a social tariff.

Jonathan Brearley
Chief Executive

Steps we are taking to protect consumers around Involuntary PPM

An overview of the Code

The Code of Practice for Involuntary PPM can be found here:

<https://www.ofgem.gov.uk/publications/involuntary-ppm-supplier-code-practice>

It works in tandem with existing licence rules and guidance, and its goals are:

- to ensure that customers, especially vulnerable customers, are protected and that PPMs are only used where safe and reasonably practicable;
- to recognise that PPM is a valid payment option for many customers, and should be retained as an option where safe and reasonably practicable for the customer; and
- to deliver high standards and protections for all PPM customers, for example through the promotion of smart PPM.

The Code sets out how suppliers should deal with a customer who is facing an involuntary PPM. Every household is different and suppliers should individually assess the suitability of each household for involuntary PPM. To assist in this assessment, the Code sets out examples of 'high risk' customer groups for whom involuntary PPM should not be used:

- i. they are unable to operate the PPM;
- ii. they require a continuous supply for health reasons, eg, heart/lung ventilators, dialysis;
- iii. they have a medical dependency on a warm home, eg, due to illnesses such as emphysema, chronic bronchitis, sickle cell disease;
- iv. they are very elderly (85+) without support in the home; and
- v. they have chronic/severe or terminal health conditions such as cancer, cardiovascular/respiratory disease and organ failure.

We have also identified a second group, medium risk customers: over 75s, under 5s, serious medical and mental health conditions and disabilities, and temporary situations such as pregnancy. For these households, the Code requires that suppliers conduct an affordability assessment, and if (when meter type and support arrangements are taken into account) the customer cannot afford a reasonable level of energy consumption and is at risk of significant harm from disconnection, the supplier should not proceed with involuntary PPM.

In the coming months, we will also further explore with suppliers and consumer groups the potential role for trickle charging or trickle credit as a way of enabling vulnerable customers to retain some energy supply whilst limiting bad debt accumulation. Trickle charging caps electricity consumption (for example to a maximum of 1kW), whilst trickle credit could provide vulnerable consumers who cannot afford their energy bill with a limited amount of energy each day.

Setting the conditions for restart of involuntary PPM activity

Given the high levels of concern and the need to establish confidence in suppliers' ability to implement the Code, suppliers should meet five conditions before restarting involuntary PPM activity.

- First, having signed up to the Code, suppliers should set out a change plan for how they will implement it, and commission and conclude an independent assessment to verify their readiness.
- Second, suppliers must conduct an independent audit to identify wrongfully installed involuntary PPMs and offer compensation and a return to a non-prepayment payment method to any affected customers.
- Third, supplier Boards should attest that the two conditions above are met: that the supplier is ready to restart involuntary PPM compliant with the Code, and that redress will be offered to wrongfully installed PPMs.
- Fourth, the initial results of the PPM MCR should find no major concerns with the supplier's historical compliance on PPM. At this point, Ofgem will decide whether we think it is right that the supplier can restart involuntary PPM. If the initial MCR results do find major concerns, it is likely that a supplier will need to take corrective action before we would think it reasonable to restart.
- Fifth, suppliers will need to provide regular monitoring data to Ofgem, which will help us spot concerning trends on involuntary PPM practices.

Suppliers will be able to go through this process on individual timetables. The pace at which a supplier moves through the conditions will determine how quickly they may be able to restart involuntary PPM installations.

For warrant installations, the courts in England and Wales will also independently need to restart consideration of warrant applications. We understand that courts in Scotland did not stop considering domestic warrant applications.

Separate to these conditions for restart, we expect suppliers to have contacted, at a minimum, all PPM customers identified as most vulnerable, those who have recently self-disconnected, and any referred to the supplier by consumer groups or charities, before 1 October to assess if PPM is safe and reasonably practicable in line with the Code. We also expect that suppliers will attempt to contact their remaining PPM consumers by 31 December to check they do not have one of the high or medium risk factors set out in the Code. Customers for whom PPM is not considered to be safe and reasonably practicable (as set out in the Code), should be given an opportunity to move off PPM. Going forward, we expect suppliers to check the vulnerability status of their PPM customers at least once a year.

Assessing the bad debt allowance in the price cap

Whilst many supplier practices are already in line with those in the Code, we recognise that the rules set out in this Code could result in fewer PPM installations. Combined with the current pause in involuntary PPM installations, this may contribute to higher levels of bad debt, although we note that an efficient supplier should use other mitigations in line with debt management best practice to reduce the likelihood of bad debt for these customers. In parallel to our work on translating the Code into the supply licence, we will be assessing likely bad debt levels and associated costs. If the evidence supports it, we will adjust price cap levels to reflect these costs. We are aiming for any price cap adjustment to be in place for the October 2023 price cap. Suppliers must make their own judgements on setting provisions for bad debt for tariffs not covered by the price cap.

Recognising that the incidence of bad debt could differ significantly between different suppliers, Ofgem is also committing to review alternatives to the price cap for efficient recovery of bad debt, with any policy decision subject to the aforementioned assessment of suppliers' evidence.

Helping to address the affordability of energy, particularly for the most vulnerable

We recognise the impact that rising energy bills have on consumers, particularly those on low incomes and/or in vulnerable circumstances. Government provided crucial short-term support over the winter. However average energy bills are currently expected to remain around double pre-crisis levels, which would leave millions of households struggling to pay for their energy needs. We are supporting the government in its consideration of further potential interventions, such as a social tariff, that could provide targeted support to those who most need it.

Ofgem has also been considering whether it should levelise payment type cost differentials such that customers would be paying a more equal price for their energy regardless of their payment method. We are publishing a Call for Evidence this Spring to help shape our views. The Chancellor committed in his March Budget to use the Energy Price Guarantee to bring the PPM price cap tariff down to the same level as the Direct Debit tariff, from 1 July until end March 2024, and has asked Ofgem to consider regulatory options from April 2024.

Next steps

Building on extensive engagement we have already had with suppliers and consumer groups, we will formally consult on translating the Code into the supply licence, which we expect to be in place ahead of the winter.

We will closely monitor and review the impacts of the Code and subsequent licence changes, both on protections for the vulnerable and on levels of bad debt, and may adjust the rules if the intended outcomes are not being realised.

We are also increasing suppliers' reporting requirements around PPM, which will continue to be supplemented by gathering of customer complaints and PPM experiences. We will not hesitate to take further compliance and enforcement action if we see evidence of licence breaches.