



The voice of the energy industry

Ofgem
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26 July 2023

Dear Martin and Lauren,

Thank you for the opportunity to respond to the statutory consultation on involuntary prepayment (PPM).

It is vital for good customer engagement and positive service outcomes that consumers can trust their energy suppliers. The Code of Practice and the proposed licence conditions and guidance help articulate clearer expectations that should ultimately support trust.

Energy UK and our energy supplier members worked with Ofgem and consumer groups to develop the code at great speed, to ensure customers were protected, which necessarily limited the ability for rigorous evidence-based impact assessment.

We welcome Ofgem bringing forward an evidence-based consultation at short notice to consider the impact of the code and a proposal to incorporate the change in licence and guidance. If implemented correctly, this would provide consumers with confidence that the commitments made by suppliers on customer protections before, during and after an involuntary PPM switch, are permanent and statutory.

We do agree that the case for the preferred option is the correct approach. However, the code remains untested, and we await the PPM Market Compliance Review (MCR) decisions from Ofgem on the materiality of the industry change needed and therefore potential impact of the intent set out in the code. We think Ofgem should allow limited trials that would provide valuable learning at an early stage. While the MCR decisions will provide better evidence than is currently available for the impact assessment, which currently appears heavily influenced by "*continued reports*" about the case for change. We consider that Ofgem should fix the issues with the current Licence drafting and allow testing of the Code of Practice to highlight any unidentified issues, prior to changing the Licence.

We also welcome the update on the debt-related costs review which sets out that as the evidence of benefits and costs of both the moratorium and licence changes become clearer, that this evidence will allow Ofgem to collate a stronger evidence base on the real-world debt impact. However, suppliers' commitment to the code was always on the basis that they could recover the additional costs that will

result from the new restrictions on involuntary prepayment, and it is disappointing that a process for suppliers to recover bad debt and other wider operational costs is yet to be put in place. It is critical that Ofgem deliver on this commitment and introduce an allowance into the Default Tariff Cap to enable suppliers to recover costs at the same pace at which this code will become binding.

There are, of course, areas of the evidence base in the impact assessment that are highly uncertain, which we acknowledge is inevitable. However, we think in the absence of better evidence, Ofgem could present a more balanced view. We think this has resulted in a considerably over-optimistic cost-benefit ratio.

Our concerns include the assumption that self-disconnection is only a concern where a consumer is on a PPM. Especially, given the current and urgent affordability and debt challenges of consumers, we do not believe this to be the case, as customers on any payment type may self-ration their energy-use to a similar extent.

As such, we believe a more balanced approach would utilise a comparison or estimation to assumed self-rationing of similar cohorts on standard credit and direct debit.

Further, the lack of consideration to the negative impacts of removing the scope for applying supportive debt management capabilities available with smart prepayment versus regular payment methods is not considered. This is despite the health benefits of warm homes being used to reduce the perceived benefits case for PPM. Also, given the links between unmanageable debt and wellness it is plausible that the licence changes will come with some health-related costs as well as benefits.

While we strongly support the Code of Practice, we think it is important that Ofgem properly recognises the complex and nuanced trade-offs that have been made in coming to a set of proposals. Whilst Energy UK and our members agree that overall, the proposals are beneficial for consumers, it is vital that the impact assessment and ongoing rationale used by Ofgem properly recognises the important role energy suppliers play in supporting customers. Utilising effective budgetary and support tools, of which smart prepayment offers huge benefits and further potential to help customers manage the pressing affordability challenge by energy bills and broader inflationary issues on essential costs.

Changing categorisations agreed in the Code of Practice

Ofgem has made a number of changes to the voluntary code, not previously consulted upon, nor discussed as part of the voluntary code development e.g. maintaining audio/ body cam for 5 rather than 2 years. There are many other changes made to the voluntary Code when moving it into the Licence and some of these have unintended consequences. Ofgem should ensure that they follow due process before making any Supply Licence changes even if they consider them to be minor.

At this stage no changes should be made to the voluntary code as previously agreed as the code and its effectiveness has yet to be trialled or implemented. The opportunity to trial changes would allow the opportunity to test for any unintended consequences and should be considered. Because there are additional changes between the Supply Licence drafting and the current voluntary code approach and could potentially put suppliers in a position of having to make costly changes to their processes within a very short period of time.

Ofgem has also proposed further broadening of the 'Do Not Install' based on the input to the under 5s based on the evidence of three health experts. It is not clear what their guidance has been, and more transparency would be encouraged.

The 'Do Not Install' (DNI) category is a generalisation for customer clarity and consistency to capture those that are unlikely to be able to manage the operation of prepayment meter safely. However, if it is used too broadly it will include more households inappropriately. For example, households with under 5s that are not financially vulnerable or in a vulnerable circumstance would not be likely to find PPM unsafe or impractical. With smart prepay suppliers can innovate and develop deep monitoring and extra care services. These services can basically eliminate the risk of harm to those in vulnerable situations. This can even be the case for customers with medical conditions or those that are elderly or with young children that need warm homes for a healthy life.

While we do see a need for careful consideration of household risk where under-5s and over-85s are present, we believe this was already provided by the original code through the precautionary principle in the 'Further Assessment Needed' category. This means that where there is a risk of frequent and sustained disconnection due to affordability or other factors the customer will not be moved involuntarily to PPM. While we accept that the DNI category would avoid the risk of such households experiencing unforeseen transient periods of vulnerability on PPM, this is limited to those that may not self-report and do not have effective supplier monitoring.

Energy suppliers are already obligated to consider the propensity to be in vulnerable situations, this is applied across all customers. 90% of UK homes are currently signed up to Energy UK's Vulnerability Commitment that was developed in consultation with consumer and charity groups, and the energy regulator as well as with customers themselves to support people in vulnerable circumstances over and above existing regulations. As a result, this change would be poorly targeted, and create an unnecessary cost for customers with limited potential benefit. Energy UK and our members think bill support, such as direct bill support or social tariff are the most efficient routes for support and should be prioritised.

Role of licence and guidance

EUK do not generally favour an approach to regulation that requires supplementary guidance to explain obligation nor agree that Guidance is the appropriate place to set out new suppliers obligations drawn from in the Code, rather these should be contained in the Supply Licence. The role

of guidance is just that, to provide clarification on the meaning of an existing Supply Licence obligations, not to set the obligations itself. A reliance on guidance also enables Ofgem to update suppliers obligations without recourse. The requirements of the Involuntary Prepayment Code set new obligations on suppliers that comes with significant costs and, therefore, should be set out in the supply licence and subject to full and proper due process if they are to be changed in the future.

To ensure that current and future suppliers have the requisite confidence in the changes needed we urge Ofgem to ensure that the precautionary principle and other key definitions such as the site welfare visit, 'Do Not Install', 'Further Assessment Required' and time to retain audio/body cam are captured in licence rather than guidance. The precautionary principle is an important step that requires suppliers to take complex vulnerability assessments and changes to their service and this should become a clear tenant of the licence. Suppliers must also have certainty that other fundamental obligations that they agreed to when signing up to the voluntary code will not be changed without formal consultation or recourse.

A reliance on guidance enables Ofgem to update the intention and meaning of a Supply Licence obligation by purely amending the guidance, with reduced supplier recourse, and potentially to the extent that is unrecognisable from the earlier iterations that were originally consulted and agreed upon.

However, in the case of the Involuntary Prepayment code, we do not oppose some flexibility in the use of guidance to ensure that the practical implications of delivery are considered and responded to, and where they do not work or can be improved are amended. We think this is likely given the speed of implementing change and the potential to address unforeseen challenges. This is partly due to suppliers being unable to trial initiatives which Ofgem should consider further.

Ofgem use of licence should accelerate the end to legacy meters - we strongly oppose Ofgem's decision to only include 'Smart meter as default' in the guidance only. Due to the benefits of a smart meter particularly in terms of aftercare, there should be an explicit and clear obligation set out in the Supply Licence that suppliers install a smart meter in the case of an involuntary prepayment installation, unless it is technically infeasible. Smart meter technology has allowed suppliers to innovate and offer a far superior customer experience when compared to legacy prepayment meters. This includes more convenient ways to pay, real-time monitoring of when customers cease making payments and greater visibility for customers on their consumption and costs, all of which helps suppliers provide more pro-active support to customers facing payment difficulty.

Additional Support Credit

The emphasis on this question appears to be ensuring the money is spent. Given any unspent money by suppliers is recovered the emphasis should be on ensuring it is spent effectively – there is no disincentive on a supplier credit where suitable. There is no need to “ensure suppliers spend”, especially when they are effectively spending other customers money. There is not yet certainty of

the impact of the new PPM regulatory requirements or the level of customer need that will require ASC support this winter. Therefore, Ofgem should not draw any conclusion on the level of support that is provided versus that which is estimated at this point in time.

We encourage Ofgem to focus on ensuring that suppliers can effectively target those that need it through better access to data.

Our members broadly welcome the Additional Support Credit allowance proposal¹. However, it should be noted that for efficient costs for customers under the price cap there needs to remain an incentive on suppliers to help customers manage their debt and avoid involuntary prepay in the first place. This incentive is vital to drive suppliers to reduce the cost of serving prepay customers - through for example, installing smart pay as you go meters. It is weakened if there is an approach to "ensure suppliers spend" and recover all costs.

It should also be noted that our concerns regarding the "float and true-up" approach that was used for Covid debt in the Debt Recovery consultation also apply that it was a highly complex and time-consuming process. If such an approach was used, Ofgem should work with suppliers to ensure any such process is efficient and timely. This must be balanced with ensuring that efficient suppliers who deliver on their regulatory requirements for PPM customers have confidence that they will be able to recover the costs of providing ASC.

We support the decision for costs to be allocated to the PPM cap on the assumption that it is currently being levelised in cost with direct debit through Energy Price Guarantee support. Most of our members expect Ofgem to come forward with a plan to socialise this levelisation across bills as requested by the Government².

Better data to target affordability support

The number of PPM installs – both voluntary and involuntary are a direct reflection of consumers struggling to pay their bills. Targeted support to those that need it will reduce tax costs, inflationary pressure and socialised bill costs. As a result, better data for targeting support will reduce the number of involuntary PPM customer experiences and debt journeys.

Energy suppliers will need to collect a lot more data to comply with the code of practice and would like to see clarity from Ofgem on a clear lawful basis for doing so. It would also be helpful to clarify

¹ Octopus Energy does not support this proposal at all as it introduces very significant moral hazard by reducing the incentive on supplier to manage debt and the proposed implementation is flawed and unlikely to work in consumers' favour. Octopus supports Ofgem considering the cost of bad debt and payment differentials in the round as part of its price cap opex review.

² Octopus Energy does not support any supplier levy or reconciliation mechanism to deliver payment levelisation, as they are concerned it would introduce moral hazard.

where there is anticipated alignment with Priority Service Register criteria to ensure consistent application between suppliers.

As Ofgem acknowledge – when suppliers are unable to obtain information from a customer, despite multiple engagement attempts including a Site Welfare Visit there are limited options. The changes set out increase the difficulty, pressure and cost of making increasingly complex vulnerability judgements. Given the lack of guidance, it is anticipated that suppliers will be unable to interrogate the validity of information presented, raising the risk of gaming or manipulation over time. Suppliers would welcome further guidance on expectations regarding any anticipated interrogation of the validity of information – which suppliers already do for things such as tenancy and contract start dates.

Efficient compliance will work better where energy suppliers have easier access to information needed to guide vulnerability assessments. We urge Ofgem and government to consider how to work with suppliers on collective, efficient approaches to ensure consumers share data with their supplier and that where possible energy suppliers can access data. Ideally, trusted government data on determinants of vulnerability will further de-risk these situations occurring.

Ofgem and government should consider what additional steps can be taken where the lack of data sharing is unaligned with the public interest. These data sharing solutions should also help support the targeting of future financial support.

We would welcome the opportunity to discuss further any of the issues discussed in this consultation.

Kind regards

Ed
Senior Policy Manager
Energy UK

Consultation Questions Response

Q1. Do you agree with our proposals to integrate the Code into the supply licences?

Yes we agree with the proposal in principle.

However, Ofgem has made a number of changes to the voluntary code, not previously consulted upon, nor discussed as part of the voluntary code development e.g. maintaining audio/ body cam for 5 rather

than 2 years. Ofgem should ensure that they follow due process before making any Supply Licence changes even if they consider them to be minor.

At this stage no changes should be made to the voluntary code as previously agreed as the code and its effectiveness has yet to be trialled or implemented. The opportunity to trial changes would allow the opportunity to test for any unintended consequences and should be considered because there are additional changes between the Supply Licence drafting and the current voluntary code approach and could potentially put suppliers in a position of having to make costly changes to their processes within a very short period of time.

Q2: Do you agree with our approach to integrating the relevant parts of the Code into the Safe and Reasonably Practicable guidance?

EUK do not agree that Guidance is the appropriate place to set out new suppliers obligations drawn from the Code, rather these should be contained in the Supply Licence. The role of guidance is just that, to provide clarification on the meaning of Supply Licence obligations, not to set obligations itself. A reliance on guidance also enables Ofgem to update suppliers obligations without recourse. The requirements of the Involuntary Prepayment Code set new obligations on suppliers that comes with significant costs and, therefore, should be set out in the supply licence and subject to full and proper due process if they are to be changed in the future.

To ensure that current and future suppliers have the requisite confidence in the changes needed we urge Ofgem to ensure that the precautionary principle and other key definitions such as site welfare visit, DNI, Further Assessment Required, consent and time to retain audio/body cam are captured in licence rather than guidance. The precautionary principle is an important step that requires suppliers to take complex vulnerability assessments and changes to their service and this should become a clear tenant of the licence. Suppliers must also have certainty that other fundamental principles that they agreed to when signing up to the voluntary code will not be changed without formal consultation or recourse.

A reliance on guidance enables Ofgem to update the intention and meaning of a Supply Licence obligation by purely amending the guidance, with reduced supplier recourse, and potentially to the extent that is unrecognisable from the earlier iterations that were originally consulted and agreed upon.

However, in the case of the Involuntary Prepayment code, we do not oppose some flexibility in the use of guidance to ensure that the practical implications of delivery are considered and responded to, and where they do not work or can be improved are amended. We think this is likely given the speed of implementing change and the potential to address unforeseen challenges. This is partly due to suppliers being unable to trial initiatives which Ofgem should consider further.

Ofgem use of licence should accelerate the end to legacy meters - we strongly oppose Ofgem's decision to only include 'Smart meter as default' in the guidance. Due to the benefits of a smart meter particularly in terms of aftercare, there should be an explicit and clear obligation set out in the Supply Licence that suppliers install a smart meter in the case of an involuntary prepayment installation, unless it is technically infeasible. Smart meter technology has allowed suppliers to innovate and offer a far superior customer experience when compared to legacy prepayment meters. This includes more convenient ways to pay, real-time monitoring of when customers cease making payments and greater visibility for customers on their consumption and costs, all of which helps suppliers provide more proactive support to customers facing payment difficulty.

Q3: Can you provide evidence on whether we should retain the 'over 85s' in the 'do not install' category?

As set out in more detail in Q4 the potential broadening of the 'do not install' category will further reduce suppliers ability to install prepayment meters where they are safe and practicable, in a way that could increase bad debt costs significantly. The precautionary principle is the tool within the code of practise to ensure due care and consideration is taken to ensure this is the case for categories of customers who are systemically more likely to be vulnerable.

Q4: Can you provide evidence on whether we should include children under the age of 5 in the 'do not install' category?

Ofgem has also proposed further broadening of the 'Do Not Install' based on the input to the under 5's based on the evidence of three health experts. It is not clear what their guidance has been, and more transparency would be encouraged.

The 'Do Not Install' (DNI) category is a generalisation for customer clarity and consistency to capture those that are highly unlikely to be able to manage the operation of prepayment meter safely. However, if it is used too broadly it will include more households inappropriately. For example, households with under 5's that are not financially vulnerable or in a vulnerable circumstance would not be likely to find PPM unsafe or impractical. With smart prepay suppliers can innovate and develop deep monitoring and extra care services. These services can basically eliminate the risk of harm to those in vulnerable situations. This can even be the case for customers with medical conditions or those that are elderly or with young children that need warm homes for a healthy life.

Given the breadth of the category, this proposed extension beyond the original code of practice is likely to place significant additional debt costs on all customers through the lower access to the benefits of PPM. Of the 1.6 million homes this adjustment would capture the evidence of the most likely indicator – financial vulnerability – is likely to see roughly 26% of households with under 5s in the bottom quintile for disposable income or 51% in the bottom two quintiles³. However, this number

³ [ONS \(2016\)](#)

excludes any of the 4.3 million households already in the do not install category. This would not be a targeted intervention, creating additional socialised costs.

While we do see a need for careful consideration of household risk where under-5s are present, we believe this was already provided by the original code through the precautionary principle in the 'Further Assessment Needed' category. This means that where there is a risk of frequent and sustained disconnection due to affordability or other factors the customer will not be moved involuntarily to PPM. While we accept that the DNI category would avoid the risk of such households experiencing unforeseen transient periods of vulnerability on PPM, this is limited to those that may not self-report and do not have effective supplier monitoring.

Energy suppliers are already obligated to consider the propensity to be in vulnerable situations, this is applied across all customers. 90% of UK homes are currently signed up to Energy UK's Vulnerability Commitment that was developed in consultation with consumer and charity groups, and the energy regulator as well as with customers themselves to support people in vulnerable circumstances over and above existing regulations. As a result, this change would be poorly targeted, and create an unnecessary cost for customers with limited potential benefit. Energy UK and our members think bill support, such as direct bill support or social tariff are the most efficient routes for support and should be prioritised.

Q5: Can you provide any further evidence on the potential costs and benefits of our proposals?

Capturing the full costs

Additional Costs

There are wider operational costs because of the code that suppliers will incur as a result of the new regulatory changes, including operational costs such as staff increases, changes to IT systems and processes, and ongoing higher working capital requirements.

We welcome Ofgem's recent Request for Information on 'Debt related costs in the Default Tariff cap' and suppliers will submit information on the extent of these additional operational costs. The operational costs to suppliers should also be factored into the impact assessment alongside bad debt.

Representation of the potential impact

We are concerned by the assumption that self-disconnection is only a concern where a consumer is on a PPM. Given the current and urgent affordability and debt challenges of consumers, we do not believe this to be the case, as customers on any payment type may self-ration their energy-use to a similar extent. As such, we believe a more balanced approach would utilise a comparison or estimation to assumed self-rationing of similar cohorts on standard credit and direct debit.

We also think using water sector debt trends as a direct model for energy debt has significant issues given the different scale of energy costs for customers. Consumers' considerations about how they

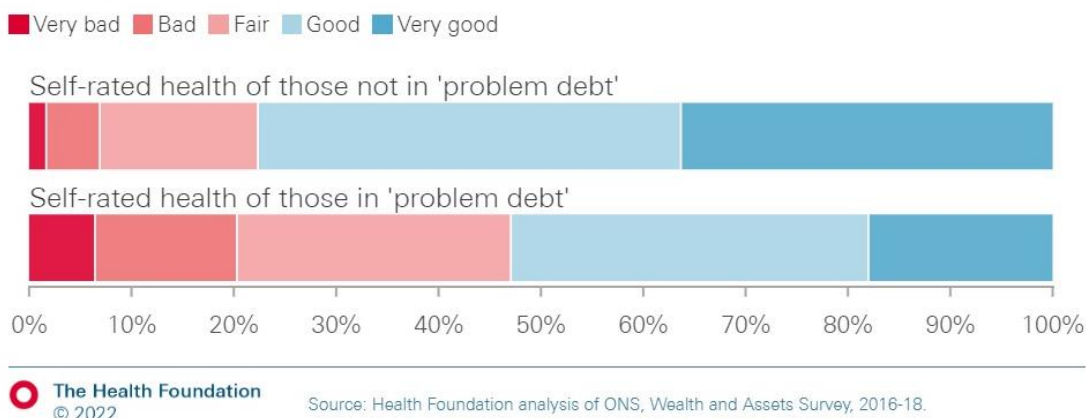
manage bills, particularly when they are struggling to pay their ongoing expenses will likely be impacted by scale of cost as a proportion of disposable income. This draws further concern about the unusual assumption to draw from the bottom of the range on anticipated debt rather than assume a mid-point estimate. The rationale presented - that the high estimate is less evidenced because it is based on assumed behaviour - is in direct contrast to Ofgem's use of behavioural assumptions in the benefits case (e.g. the assumed absence of self-disconnection set out above).

Further, the lack of consideration to the negative impacts of removing the scope for applying supportive debt management capabilities available with smart prepayment versus regular payment methods is not considered. This is despite the health benefits of warm homes being used to reduce the perceived benefits case for PPM. Also, given the links between unmanageable debt and wellness (see Figure 1)⁴ it is plausible that the licence changes will come with some health-related costs as well as benefits.

Figure 1

Being in problem debt is associated with worse self-rated health

The health of working age people (age 16–64) by 'problem debt' status, Great Britain, 2016–2018



Gas and electricity impacts are not distinguished in the impact assessment, nor is the use of smart prepay relative to traditional prepay. We think there may well be a weaker case for gas given the lower range of applications and the number of scenarios where electric alternatives are available. While the benefits of smart prepay should be better reflected.

Q6: We are consulting separately on an increased Additional Support Credit allowance to mitigate any impacts on bad debt. Do you have views on how we can ensure suppliers spend this ASC allowance to help PPM consumers stay on supply?

The emphasis on this question appears to be ensuring the money is spent. Given any unspent money by suppliers is recovered the emphasis should be on ensuring it is spent effectively – there is no disincentive on a supplier credit where suitable. There is no need to “ensure suppliers spend”,

⁴ [Health Foundation \(2022\)](#)

especially when they are effectively spending other customers money. There is not yet certainty of the impact of the new PPM regulatory requirements or the level of customer need that will require ASC support this winter. Therefore, Ofgem should not draw any conclusion on the level of support that is provided versus that which is estimated at this point in time.

We encourage Ofgem to focus on ensuring that suppliers can effectively target those that need it through better access to data.

Our members broadly welcome the Additional Support Credit allowance proposal⁵. However, it should be noted that for efficient costs for customers under the price cap there needs to remain an incentive on suppliers to help customers manage their debt and avoid involuntary prepay in the first place. This incentive is vital to drive suppliers to reduce the cost of serving prepay customers - through for example, installing smart pay as you go meters. It is weakened if there is an approach to "ensure suppliers spend" and recover all costs.

It should also be noted that our concerns regarding the "float and true-up" approach that was used for Covid debt in the Debt Recovery consultation also apply that it was a highly complex and time-consuming process. If such an approach was used, Ofgem should work with suppliers to ensure any such process is efficient and timely. This must be balanced with ensuring that efficient suppliers who deliver on their regulatory requirements for PPM customers have confidence that they will be able to recover the costs of providing ASC.

We support the decision for costs to be allocated to the PPM cap on the assumption that it is currently being levelised in cost with direct debit through Energy Price Guarantee support. Most of our members expect Ofgem to come forward with a plan to socialise this levelisation across bills as requested by the Government⁶.

⁵ Octopus Energy wishes to make clear that it does not support this proposal as it considers the proposed implementation to be flawed and that it would reduce the incentive on suppliers to manage debt effectively. Instead, Octopus Energy encourages Ofgem to consider the cost of bad debt and payment differentials in the round as part of its price cap operating expenditure review.

⁶ Octopus Energy does not support any supplier levy or reconciliation mechanism to deliver payment levelisation, as it is concerned it would introduce moral hazard.