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By email only

Dear Martin and Lauren

Statutory Consultation – Involuntary PPM

We respond to the above Statutory Consultation. Our response is non-confidential.

Utilita is a predominantly smart prepayment supplier, specialising in delivering excellent services to prepay consumers for almost two decades. We are pleased that Ofgem has acknowledged the vital role that smart prepay plays in supporting customer choice and control over their energy spend and any debt levels.

Smart prepay not only provides valuable insights for customers and suppliers, for example we can identify when self-disconnection occurs and target instant support (unavailable to those on legacy prepay meters, or indeed for those on credit agreements), they are an effective method for suppliers to limit unrecoverable debt which is otherwise recovered from all consumers through increases in the price cap. In seeking to protect vulnerable customers, including those who are financially vulnerable, from the perceived customer detriment of self-disconnection, Ofgem must not lose sight of this very crucial point.

Ofgem should be aware of the unintended consequences that the new Code of Practice (CoP) may have, once cemented into licence, if not managed and communicated effectively. By further demonising smart prepay as a viable option for vulnerable and financially vulnerable customers, it would force suppliers to avoid prepay as a payment option altogether and force them to seek to recover arrears and ongoing consumption costs through more expensive, long-term debt recovery methods that are arguably more stressful to consumers. All of which will drive up costs. When properly used, with effective after care support, smart prepay is an effective tool to help consumers budget for ongoing costs.

Ofgem has gone some way to differentiating legacy prepay aftercare support from smart prepay aftercare support in determining the safe and reasonable practicableness of a prepay solution. The vast difference between legacy and smart prepay needs further recognition, however, when considering the viability of a prepay solution for customers.

For example, Utilita provides innovative self-services for its smart prepay customers, such as:

- Transferring credit from a “savings” account directly to the meter,
- Transferring meter credit balances from one meter to the other,
- Set up “AutoPay” a feature that lets the top up deductions be taken automatically via a Fixed Direct Debit that adds credit to the meter instantly, like a Credit agreement,
- Borrow Additional Support Credit at the click of a button via our PowerUp functionality,
- We have recently introduced a new self-serve tool where customers can choose their own debt recovery levels and change the amounts as many times as they like, when it suits their circumstances.

All of these services, that don’t require any human interaction, support smart prepay customers and make prepay more safe and more practicable for more customers than ever before. The potential for greater innovation is possible, where suppliers are allowed – even encouraged - to invest in prepay as a viable payment option. The CoP serves to pigeon-hole a large group of customers into never having a prepay option, and never getting the budgeting benefits that smart prepay provides.

As a smart prepay specialist, we know the value that consumers place on being able to pay for their energy via a prepay meter, with the vast majority of consumers preferring their smart prepay meter over a credit option. In fact, when Utilita asked a large cohort of our prepay customers if they would like a credit offering, they responded overwhelmingly in support of retaining their prepay option. Continued negativity around prepay increases its stigmatisation and the potential for consumer embarrassment. Ofgem’s external attitude to prepay, and that of consumer groups, should not reinforce this stigma, but encourage customer uptake of prepay (where it is safe and practicable) because of the genuine benefits this can have on customers’ lives. Ofgem should protect the consumers’ right to choose what is best for them when considering the introduction of this new CoP.

Considering the safety, financial and consumer service benefits that smart prepay meters provide to consumers, it is a disgrace that some suppliers are allowed to continue to install legacy “non-smart” prepay meters. The CoP in this area should be stronger. It is weak at present as it only requests suppliers retain reasoning for not installing a smart meter by default in warrant cases. All suppliers must be able to manage smart prepay, so there is no benefit gained by installing legacy meters and no supplier should be allowed to install one. By mandating installation of smart meters in **all cases** via the CoP, Ofgem would accelerate the rate at which all households, can benefit from the continuously evolving features of smart metering systems. It is within Ofgem’s remit to do so.

We have made several of the points raised in this response in ongoing dialogue with Ofgem since the voluntary cessation of warrant/mode switch activity in February 2023. Our views are consistent with those previously communicated and are centred around ensuring that all elements of any ‘new’ CoP are tested and fit for purpose before it is cemented in licence (thus difficult to change). However, we agree that once tested, it is appropriate that the key CoP provisions are contained in Licence to ensure that proper governance is applied to any future changes.

It has now been six months since suppliers agreed to a voluntary cessation of Remote Switch and Warrant Switch activity. Whilst fully recognising the need for a pause, given the negative publicity surrounding the British Gas case, it is imperative that energy suppliers can start planning all the steps leading to resumption of potential remote switch/warrant activity under the guidance of the new voluntary CoP. This planning must extend to an agreed cohort of small customer volumes to road test the appropriateness of the CoP provisions, to ensure the new proposals are effective for

both consumers and suppliers, as well as those bodies which are key to any processing (i.e. magistrates).

Ofgem has maintained the voluntary pause of warrant and mode switch activity unless suppliers satisfy multiple “restart” conditions. One of which, is an “all clear” determination from Ofgem on the PPM Market Compliance Review (MCR) response that was provided in March 2023. The MCR is now less relevant for restart because it has been superseded by the CoP.

Our overarching views on the Statutory Consultation are captured below with responses to specific questions in Appendix 1 at the end of this response.

Timing

We understand that the intent of the consultation is to enshrine, in the Licence, this prospective set of new rules (i.e., enhancing and, in some respects, replacing old practices) for winter 2023/24. We encourage Ofgem to put a specific date on this aspiration and to consider the *absence* of any link between old practices and (new) CoP practices which underpin this new approach. Without visibility of Ofgem’s views on suppliers’ historic compliance, suppliers are blind as to whether none, limited or substantial corrective work is required. This ‘silence’ creates continued delays with suppliers trialling some CoP procedures, which only serves to exacerbate the concerns set out below.

Restart Conditions and Absence of Ofgem Support for Trial

This is a flawed approach for five reasons and is creating a hidden backlog of issues:

- (a) Consumer debt is growing exponentially in the absence of this legitimate debt management tool. Over a comparable time period, comparing debt value increase pre-warrant/remote switch cessation vs post-warrant/remote switch cessation, showed a 9% increase (pre-cessation) in live Domestic debt compared to 37% (post-cessation). These spiralling debts may turn into bad debts which all consumers will (in part) pay for through higher than needed energy bills.
- (b) There is no visibility of Ofgem’s view of how the bad debt allowances that will be incurred as a result of the introduction of the CoP will be accounted for under the Price Cap. Current indications are that allowances will significantly understate supplier costs and impacts.
- (c) Placing a completely untested, non-validated set of CoP rules straight into Licence in this complex area is both unnecessary and a dangerous precedent. As a minimum, there will be unintended consequences which will only surface when the CoP is applied in real customer scenarios. Low level testing by careful small-scale utilisation of the CoP, in agreement with Ofgem and with detailed reporting, would eliminate much of this risk. While we understand Ofgem’s hesitation to allow suppliers to trial this before the restart conditions have been met, we strongly encourage Ofgem to allow suppliers to carry out between 10-50 (pre-agreed) cases to test the robustness of the CoP to ensure good consumer outcomes are reached. The proposed restart conditions will not deliver a robust, well tested CoP as there is a limited link between the CoP and historic procedures. Instead, the “restart” conditions are mostly dependent on Ofgem’s assessment of historic supplier practices which are not necessarily essential to CoP compliance.

- (d) Pent up demand for many months of warrant activity will potentially see the system overloaded with supplier activity once Licence Conditions are in place. Considering this, we request that early activity be sanctioned in the remote switch cohort of customers to relieve some of the worsening debt burden customers and suppliers continue to carry (and accrue) on a daily basis.
- (e) Any unnecessary further delay linked to the use of this prospective new set of CoP rules will potentially drive suppliers towards court recovery methods with their accompanying costs and potential bailiff action, not to mention long term impacts on customer credit scores and other financial issues, e.g., court judgements. It is difficult to construct any scenario where that approach is a better outcome for any customer than a remote switch or warrant install.

Governance of CoP change process

It is critical that once the CoP is captured in Licence, that any element of the CoP can be subsequently changed after learnings from operating the CoP into practice. Once in Licence, the ability to change it becomes governance-heavy and slower than is required to deliver good customer outcomes. Ofgem should either:

1. Acknowledge a transitional period given lack of testing within which there is a fast-track process to consult and change at need; or
2. Allow a provision to be able to switch off/derogate provisions found to have unintended consequences pending identifying a long-term solution.

Gas / Electricity differential

There is no clear differentiation made anywhere in the CoP around the separate needs a customer in a vulnerable situation may legitimately require from their energy supply.

There are customer circumstances where prepay may be deemed safe and practicable for gas but where electricity should be retained in credit mode. Recognising this element of different energy types and approaches to PPM use is an important facet of the CoP and its overarching principles.

Legacy vs Smart

The critical service offerings that energy suppliers can offer their customers in the PPM market is vastly different between Legacy and Smart meters. This consultation is not the vehicle for making these points again, but it is important that sweeping statements around 'being moved to PPM' are linked to legacy only when the point is exclusively a legacy one. For example, in para 2.21 Ofgem state:

Some people told us they feel embarrassed about being moved to PPM, alluding to the stigma attached to having one. One example is a respondent who spoke of feeling embarrassed to be seen topping up their meter key in local shops.

This is only a legacy PPM issue and should be stated as such. Smart prepay means that customers can top up remotely, using their phone or using the internet.

To repeat a previous point, this "demonising" of prepay increases the stigmatisation of prepay and the potential for consumer embarrassment. Ofgem's external attitude to prepay, should be the

encouragement of customer uptake of prepay (where it is safe and practicable) because of the genuine benefits this can have on customers' lives.

Evidence vs Anecdotal statements and assumptions

Evidence is critical in shaping policy.

It is unhelpful for a consultation to inadvertently promote a view (such as in 2.21 above) which is only linked to one element of PPM provision. More broadly, we are concerned that elements within the consultation lean on anecdotal, potentially unsubstantiated points which may lead a reader to believe the evidence presented is conclusive. For example, in para 1A.39 below:

Finally, we take into account that a number of PPMs may have been incorrectly installed and that installation might be reversed under the new policy. We have assumed that between 5%-8% of meters were installed in this way. Although there is no direct evidence, we support this assumption by taking the proportion of households on the Priority Service Register and assuming that 50% of those who had a PPM installed should be on Standard Credit instead.

Language is important. PPMs 'may have been incorrectly installed' is a broad statement that could mean many things. Assertions like this need to be founded on a well-constructed argument so any reader can have the same understanding. This is an unhelpful line as it is not at all clear what is meant by this. Some may incorrectly conclude that this implies installs were poorly completed and thus unsafe. This can cause unnecessary customer concern.

Our concern is that Ofgem is retroactively applying the new CoP principles to historic remote switches and warrant installs. Suppliers should not be held accountable for actions that were permitted under the existing rules and performed under the existing rules. Holding suppliers to account for prospective requirements on historic activities is an inappropriate and dangerous precedent.

Principles vs Prescription

Prescription versus Principles-Based Regulation is a balance, and it is utterly appropriate to mix and match where the topic and circumstances dictate. Two examples cited in the consultation make this point and should be used to legitimise any different approaches suppliers should take.

Approach 1. Fixed and unambiguous: A sole resident in the property is aged over 85. This is clear cut and a policy can be set, understood and easily monitored across the industry.

Approach 2. Quoting from the consultation, para 3.6:

Some consumer groups and charities suggested PPMs should not be installed in households where there is someone present who.....suffers from mental ill health, has issues with nutrition or could otherwise be considered elderly or disabled.

These are legitimate areas of potential vulnerability, however they, in no way, lend themselves to a tick box approach whereby any supplier can do anything but consider each case on its merits when considering customers in a vulnerable situation. Vulnerability, in itself, should not preclude customers from having a prepay meter if it can be safely operated and topped up. Negative

messaging around PPM (solely based on vulnerability) does a disservice to the customers with vulnerabilities who elect to use smart prepay as their payment method of choice.

Ability to Pay

In para 5.21, Ofgem states:

5.21. Within the Code, we included requirements prescribing specific actions we expected suppliers to take regarding ability to pay when progressing with Involuntary PPM. These include:

- *Not pursuing Involuntary PPM when a customer has agreed to and adhered to repayment, no matter the amount.*

This is dangerous and unhelpful language.

Let's take a typical example where a dual fuel customer with no relevant PSR considerations, has a debt of £1,000 and a typical monthly consumption of £100 a month (averaged out over a year). If this customer offers £15 a month to cover ongoing consumption and arrears, the debt will spiral to £2,020 in 12 months. The statement in para 5.21 suggests suppliers must accept this scenario.

While we acknowledge that in some extreme cases, a customer may not be able to afford the ongoing consumption, let alone an arrears balance (and therefore asking for a repayment amount that covers both the debt and the ongoing consumption would not be appropriate), we would expect customers to attempt to help themselves. This might include seeking specialist help from a charity, income maximisation, proactive energy efficiency activities to reduce consumption to eventually meet or get close to meet their ongoing consumption. Payment amounts that do not cover even ongoing usage for long periods will not be sustainable, nor in the best interests of the consumer.

If "*no matter the amount*" is deemed the correct approach, at what stage would any energy supplier let this debt increase to without seeking a different, more intrusive, debt recovery method (i.e., court judgement)? It is imperative that this statement (***no matter the amount***) is altered to ensure suppliers take account of a customer's Income and Expenditure before agreeing any repayment arrangement.

We respond to Ofgem's specific consultation questions in our Appendix 1. We trust that our comments are viewed as constructive and helpful. We are fully committed to ensuring all customers are given every opportunity to manage their debts and specific concerns through appropriate dialogue and support where possible.

Our call to move things at pace with a focus on future CoP practices now, is to recognise that additional delays will serve to compound the customer harm caused by spiralling debt and the absence of legitimate methods of debt recovery.

Yours sincerely

By Email Only

Robert Cameron-Higgs
Head of Regulation & Government Affairs

Appendix 1: Consultation Questions Response

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

We have engaged with the E-UK submission and are generally supportive, however we wish to state firmly the following observations in addition to their points. We do not agree with the proposals to integrate the Code into supply licence at this stage for the reasons set out in our covering letter. Suppliers need to be allowed to test the CoP to ensure it is fit for purpose and delivers good consumer outcomes while avoiding unintended consequences. Cementing an untested process into Licence is premature and will create legal issues further down the line where the CoP needs to be changed quickly.

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

We have engaged with the E-UK submission and are generally supportive, however we wish to state firmly the following observations in addition to their points.

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 obligation mandated in the Supply Licence that suppliers install a smart enabled meter in the case of an involuntary prepayment installation in EVERY case. The smart meter must also be installed and commissioned in every case and must not be left in an un-commissioned state. This is protective for the consumer, in case of a change of circumstance.

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 are self-disconnecting, access to Additional Support Credit provision 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.

The chasm between legacy and smart meters has never been more apparent and this specific mandate should be enshrined in Licence.

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

We agree with the points made in the EUK response and additional detail is set out in Question 4. However, the extension of the 'do not install' category will further reduce suppliers' ability to install prepayment meters, where they could be safe and practicable where no other vulnerabilities are present, in a way that could significantly increase bad debt costs.

To retain the Over 85 category, and see consistent application across all suppliers, we recommend this category is targeted at those where all residents in the property are aged 85+, i.e., where there is not a younger person in residence who could safely operate the prepay meter.

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

Under 5’s should not be in the ‘do not install category’ where that is the only vulnerability that is present.

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 a prepayment meter, safely. Households with under 5’s that are not financially vulnerable or in a vulnerable circumstance would not be likely to find prepay unsafe or impractical. Parents and carers of “Under 5’s” will be in the age bracket where, for the overwhelming majority, operating a smart prepay meter will be completely appropriate with no risk of detriment.

Of the 1.6 million homes in Great Britain, this adjustment would capture the evidence of the most likely indicator – financial vulnerability – is likely to see roughly 26% of households with under 5’s in the bottom quartile for disposable income or 51% in the bottom two¹. However, this number excludes any of the 4.3 million households already in the “do not install” category. This would not be a targeted intervention, and so would simply create additional socialised costs.

Given the breadth of the category, this proposed extension beyond the original code of practice is likely to place significant additional debt related costs on the industry. This goes back to our point raised in the covering letter, prepay installation or prepay mode switching will become an exception, suppliers will not be able to enact their legislative right to recover their costs and consumers will ultimately suffer through price cap rises as the industry adjusts to ever larger bad debt costs.

This is particularly sensitive as Ofgem has not allowed for suppliers to trial the original Voluntary CoP as it was agreed by all industry participants. This needs time to embed, to learn from trials and to be thoroughly tested in a responsible manner to ensure there are no unintended consequences of the policy.

While we do see a need for careful consideration of household risk where under 5’s are present, we believe this was already provided by the original Code wording 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 customers that may not self-report and those suppliers who do not have effective monitoring.

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

a) Capturing the full costs

We refer to the response submitted by EUK and the points below, capturing our feedback.

b) Additional Costs

¹ [ONS \(2016\)](#)

There are increased operational costs because of the CoP 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.

c) 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, but this is less visible. 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 payment methods.

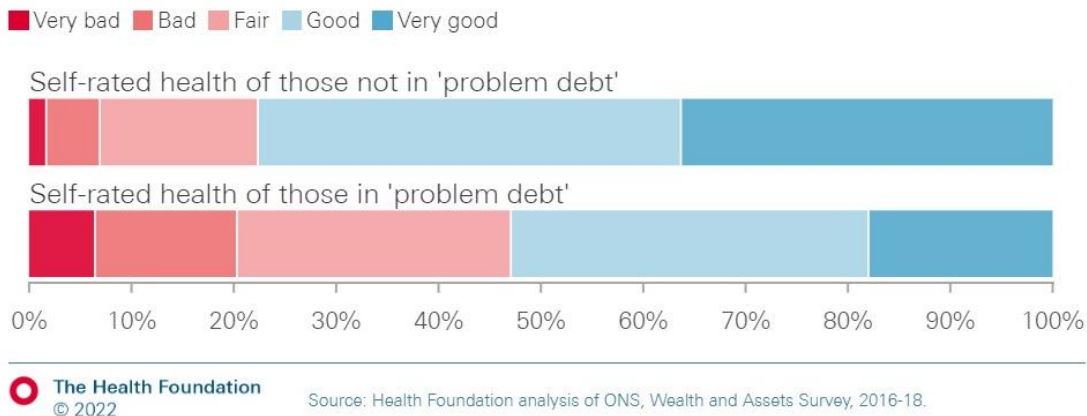
We also think using the water sector debt trends as a direct model for energy debt has significant issues given the different scale of energy costs for customers. Consumers' considerations about how they manage bills, particularly when they are struggling to pay their ongoing expenses will likely be impacted by scale of cost as a proportion of disposable income. This raises further concerns 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 (lack of) wellness (see Figure 1 below) it is plausible that the licence changes will come with some health-related costs as well as benefits.

Figure 1 - Health Foundation (2022)

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 to provide a more representative Impact Assessment.

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 evidence that fully compliant PPM suppliers will spend this ASC allowance to keep customers on supply is overwhelming and indisputable.

Utilita provided more than 50% of all ASC provision since 2022 with a market share close to 20%. Our customer ASC requests typically see over 99% granted.

Winter 2023 is expected to see rates of ASC requests spiral to a new industry high.