Centrica plc
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
www.centrica.com

Martin Campbell
Head of Consumer Vulnerability and Debt
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

By email to: CDConsultations@ofgem.gov.uk

26 July 2023

Dear Martin

**Re: Statutory Consultation - Involuntary PPM**

We are writing in response to Ofgem's Statutory Consultation on Involuntary PPM, dated 28 June, which was expected after the introduction of the PPM Code of Practice (the 'Code') in April 2023. We have worked through Ofgem's consultation document and have raised concerns, by exception, where we believe further discussion or analysis is needed.

Executive Summary

Whilst we are broadly supportive of the proposals set out in the Statutory Consultation, we believe Ofgem hasn't fully appreciated the impact these changes will have on supplier capability and finance-ability and has failed to address a number of significant concerns – all of which we have raised previously.

1. Ofgem is intent on pressing ahead with its plans to put its current proposals in the Involuntary PPM Statutory Consultation into the Supply Licences, when it has not yet clearly set out how such significant costs to suppliers will be included in the default tariff calculation. Nor has Ofgem provided any transparency over what costs may be recovered in 2024. **This was one of the conditions of our signing up to the Code.**

2. We believe that Ofgem's Impact Assessment is incomplete and likely overstates the benefits. We have set out in our answer to question 5 in Annex 1 specific areas where we consider the Impact Assessment in insufficient. However, we have a fundamental concern that the conclusion of Ofgem's Impact Assessment is highly sensitive, to such an extent that even minor changes to assumptions would suggest Ofgem's proposals would result in a negative impact on society, and unintended consequences for both consumers and suppliers. As such, Ofgem must undertake further sensitivity analysis on the Impact Assessment to satisfy itself that the changes proposed can be expected to result in a net benefit to consumers

3. Ofgem has not allowed sufficient time for suppliers to fully consider and assess the implications of introducing these proposed licence conditions by winter. This is even more important when the Code has not yet been implemented and tested.

Therefore, we strongly feel that a more proportionate and measured approach would be to allow the Code to be trialled and tested over the winter period before consulting again in spring 2024, with a view to applying any lessons learned, and then aim to implement into licences from winter 2024.

Key concerns

- With the voluntary PPM moratorium on installations still in place, the Code has not yet had chance to be trialled or tested, nor have any learnings been taken from this to apply to the increase in proposed obligations. There is a massive risk that suppliers will interpret the intent and meaning of the Code and / or the SLCs and guidance differently, leading to different treatments across their customer bases. We therefore believe that the proposals should not be implemented at this stage and that Ofgem should wait for more evidence to be collated through the implementation of the voluntary code.

- There has been very little movement from the Courts on their plans to restart warrant court proceedings, nor any output from Ofgem's MCRs on PPMs, which may further highlight any additional safeguards, or areas where further guidance may be required.

- In our response of 7 March 2023 to *Ofgem's Prepayment meter rules and protections for domestic consumers: a call for evidence*, we stated "*we do not believe that evidence of financial vulnerability should be a general reason not to install a PPM. This is because of the risk that this may broaden the scope of exempt customers acting unreasonably. Furthermore, to include financial vulnerability would mark a material and significant shift in policy, which would mean that PPMs are no longer seen to be an effective means of managing debt for customers in financial difficulty. We would also question whether it is reasonable, or appropriate, to continue extending credit to customers who are in payment difficulty, via the means of a credit meter. As Ofgem will be aware, this behaviour would be expressly forbidden by the regulations in Financial Services".* It is therefore extremely disappointing, that the Statutory Consultation still includes this assumption within Paragraph 3.12 - Precautionary Principle.

  We would urge Ofgem to reconsider the inclusion of this assumption, that evidence of financial vulnerability should be a general reason not to instal a PPM, as it is simply not correct. SLC 27.6, explicitly requires that prepayment meters are provided as a payment method, so by excluding financially vulnerable customers from having an Involuntary PPM, this is a direct conflict with supplier obligations. Additionally, the Ability to Pay SLC 28.8(a) (i) requires that suppliers allow for customers to be dealt with on a case-by-case basis – again this is in contradiction to the Precautionary Principle. By not providing customers with these protections afforded from the SLCs, it could ultimately be more detrimental to them, resulting in higher level of debt build up, with no sustainable resolution to clear.

- Some of the SLC modifications are unclear and need additional explanation as to their meaning and how they apply. As such, this is a further reason why we do not feel the proposals are at a stage where Ofgem can take a decision to implement them. The SLCs need further consultation, pending clarification. We have set out these concerns in Annex 2.

We have provided responses to your consultation questions in Annex 1 below.

I trust the information we have provided is helpful. I am happy to discuss this response further if that would be useful.

Yours sincerely

Nigel Howard
Head of Consumer Regulation
Legal and Regulatory
**Centrica plc**

**Annex 1 – Responses to Consultation Questions**

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

Yes, we agree with the proposals to integrate the Code into licence, however we do not agree with implementation at this stage.

Ofgem has not yet proposed how such significant costs to suppliers will be included in the default tariff calculation, nor has Ofgem provided any transparency over what costs may be recovered in 2024. This was one of the conditions of our signing up to the Code.

The PPM Moratorium came very quickly on the back of a media story, which currently forms part of Ofgem's investigation into British Gas, and which is still underway.

PPMs have always been available as a payment option to consumers, designed to facilitate the ability for consumers to manage their debt effectively. Involuntary PPM is seen by many as a solution to their circumstances to ensure they can budget for and better manage their energy supply. PPMs have always been, and continue to be, preferrable to disconnection or court action for consumers

The Code was developed at haste as a pathway out of the PPM Moratorium, whilst reducing the risk of potential harm to customers in vulnerable circumstances.

Therefore, the Code has not had chance to be properly tested or applied in practice, and yet, Ofgem seems to be on a *'fast-track'* to implement the Code into licence, ahead of this winter.

It is completely unclear as to why there is the need for such pace, given the adoption of the Code, and suppliers' past and current engagement to provide support to customers, particularly those who are vulnerable, over the winter months.

Rather, we believe a more proportionate and measured approach would be to allow the Code to be trialled and tested over the winter period before consulting again in spring 2024, with a view to applying any lessons learned, and then aim to implement into licences from winter 2024.

Code integration into SLCs

- Ofgem proposes both Guidance and modifications to the SLCs relating to Prepayment Meters, with the Guidance focusing specifically on Safe and Reasonably Practicable.

- As SLC 28.8 is making the Guidance mandatory, we would expect that these obligations were contained directly in the licence, therefore negating the need for any separate Guidance. It is not clear why Ofgem is looking to have separate mandatory guidance that should be met through amended licence conditions instead.

- Also, there is some confusion between SLC 28.8 which states "*The licensee must comply with any other obligations relating to Prepayment Meters (including but not limited to those in SLCs 27, 27A and 28 and set out in the guidance issued under SLC 28.4)",* but SLC 28.4 only requires that suppliers "have regard to the Prepayment Meter Guidance". If Ofgem retain the Guidance rather than mandating the requirements, then the wording in SLC 28.8 of 'must comply' needs to be replaced with 'have regard to' so that it aligns with SLC 28.4.

We also seek clarification on the following:

- Paragraph 5.44, Ofgem references document retention for quality assessments. It would be helpful to understand if Ofgem considers retention periods to be aligned to those outlined under General Data Protection Regulations, or if there is an intent to be more prescriptive.

- Paragraph 10.2 requires the supplier '*to offer a replacement or repair if the PPMID breaks'* where the consumer *'relies on PPMID for top up…*' This again goes beyond current DESNZ guidance, which only requires suppliers to replace PPMIDS within the first twelve months. We

do not believe Ofgem has considered such additional costs, nor openly brought this change to suppliers' attention, either as part of consultation of the Code or this Statutory Consultation.

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

We do agree that there are areas of the Code which naturally sit within the Safe and Reasonably Practicable guidance. However, it is important that anything included in this guidance (against which Ofgem could take compliance or enforcement action), should be included in licence. Guidance should cover the expectations that Ofgem has and should not be mandated (as we outline in question 1 above), otherwise we believe this to be a misuse of guidance.

We seek further explanations on the following points within the Guidance:

- Paragraph 3.12 Precautionary Principle continues to require suppliers to assume that when faced with Involuntary PPM any customer is "*likely to be in financial difficulty and therefore more likely to self-disconnect".*

  We would reiterate, again, (as per question 1 above and noted within our covering letter) that financial vulnerability does not always mean there is a reason not to install a PPM and that the guidance should be updated to reflect this.

- Paragraph 3.14 *"where suppliers have attempted contact via multiple channels and conducted a Site Welfare Visit but have been unable to establish with certainty the level of detriment in association with FAN characteristics and/or financial assessments, suppliers should apply their own discretion on progression to Involuntary PPM, noting that any move to PPM may need to be reversed if vulnerabilities are subsequently discovered in the household"*.

  Further guidance is needed around what is inferred by 'apply their own discretion'. Supplier discretion may differ to that of a consumer, Ofgem or a consumer group and therefore, even if a 'PPM may need to be reversed' and indeed is, in a timely manner, this may be interpreted as being non-compliant with the guidance, also supported by SLC 28.4.

- The increased checks and balances used to introduce Involuntary PPM into licence, remove the need for the Precautionary Principle and its assumptions. As such, we would suggest that this is removed.

- Paragraph 5.14 requires that the Welfare Officer is "*a senior member of staff… and attested to be fit and proper person(s).*" We require Ofgem to clarify if this has the same meaning as that outlined in SLC 4C Ongoing fit and proper requirement or whether this is more akin the requirements set out in SLC 13.

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

We agree that the 'over 85s' should be retained within the 'do not install' category.

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

We agree with the inclusion. However, we would highlight that the PSR flags and the Energy UK Vulnerability Commitment refer to children under the age of 6 (i.e., aged 5 or under), so we would suggest that this is aligned in the proposed SLCs.

**5. Can you provide any further evidence on the potential costs and benefits of our proposals?**

Impact on Bad Debt

We are extremely concerned that Ofgem is pressing ahead with its plans to put Involuntary PPM into licence when it has not yet proposed how such significant costs to suppliers, in the form of bad debt,

will be included in the default tariff calculation, nor has Ofgem provided any transparency over what costs may be recovered in 2024. **This was one of the conditions of our signing up to the Code**.

Paragraph IA.27 (Appendix 1 Impact Assessment) states that Ofgem expects 'debt to go back to trend.' Yet we believe there is generally no expectation in today's climate, that bills will return to pre-cost-of-living-crisis levels until at least 2025. In addition, more cost is being added to bills e.g., proposed ASC costs, potential opex costs, aside from the bad debt costs which we strongly believe should be part of the default tariff calculation.

We note that Ofgem has referenced an increase in smart mode switches and traditional meter exchanges between 2021 and 2022. However, we strongly believe this this period of uplift is a natural result which followed the Covid-19 pandemic and when business as usual activity recommenced, there was a natural increase in work to complete PPM installations and mode changes on pause due to Covid restrictions.

We disagree with Ofgem's view that the impact on bad debt is towards the lower end of its defined range. As above, Ofgem is using periods which were not following normal trends (Covid-19 pandemic) and is comparing against a sector (Water) which results in much lower debt levels than the energy sector.

Ofgem has modelled its analysis on water bills, at a time when disconnection was not allowed. But we do not believe this is a like for like comparison – water bills average c. £400 per year, whilst energy bills average c.£2k per year. In addition to this, the water sector already has Social Tariffs, which may account for a lower debt value.

A Dynamic Impact may be seen if consumers don't pay but increase their energy usage. If this happens, then bad debt charge (BDC) will increase. And if suppliers have no end solution at their disposal, it is likely that more consumers will become aware of the ability to not pay for their energy, using unlimited supply.

Overall Societal Cost Benefit Analysis

In terms of the wider societal analysis, we are concerned that Ofgem has mixed up the distributional impact with net costs and benefits i.e., costs distributed from one group to another, while benefits are those to overall affected customers.

We also believe that Ofgem's Impact Assessment is incomplete and likely overstates the benefits. We have a number of questions that we pose to Ofgem to consider as further areas of Impact Assessment, which we have outlined below. But our key point is that we strongly believe that if Ofgem were to change its Impact Assessment in any way, this could result in a negative impact on society, and unintended consequences for both consumers and suppliers

- What is the counter factual of Do Not Install (DNI), is it that the customer never pays or does Ofgem consider there is an alternative collection route through which the customer or someone else pays? Even if a PPM is not installed this does not remove affordability issues and the affected households would be ultimately subject to alternative debt collection measures. This may not result in the same type of behaviour in terms of self-disconnection, but it is likely that a consumer would end up in arrears and face significant associated costs.

- Ofgem's analysis uses Value of Lost Load (VOLL) to assess the value of the energy not consumed which has a different concept value to the cost of market price. We understand that Ofgem believes energy is worth more to those who self-disconnect, but we would challenge if this worth should be many times more than the market price.

- Ofgem appears to have (approximately) used the following estimates based on the 2011 assessment cited in the document (which only refers to electricity):

| | Low | High |
|---|---|---|
| Electricity | £2.00/KWh | £12.00/KWh |
| Gas | £1.25/KWh | £2.50/KWh |

- The fact that these VOLL assessments are many times (30x-60x) market prices is also implausible if they are supposed to represent a real difference in the value of energy consumed between different consumers at the same time.

- Table 1 of the 2011 document clearly states that the VOLL estimations are based on a one-hour outage based on an *unplanned* interruption. In this context it is also notable that the large majority of "lost hours" are from consumers self-disconnecting for more than 28 days. There are likely other reasons why consumers would have self-disconnected from both electricity and gas supply for such long periods

Health Benefits

We are concerned that Ofgem uses references to cold, damp, mouldy homes and links these to poor health. Although this link is well-acknowledged, as Citizen Advice points out in its 'Future of Retail' discussion paper[1].

Many households across all payment methods can be affected by health issues relating to energy bills. We have repeatedly put forward our proposals for a wide social tariff to extend the coverage of WHD. The proposed PPM licence conditions, being largely a transfer between consumers will merely move the issue around. So, the claimed health benefits should not be an element of the impact assessment.

Ofgem's Distributional Impact Assessment should feed into the default tariff and price cap uplift methodology

As outlined in our covering letter, we are concerned that Ofgem is putting into licence an activity which has not yet been tested under the Code, and one example of this is the agreed approach to provide £30 Emergency Credit for all Involuntary PPMs. A full impact assessment has still not been conducted of this by industry, and early signs show that, for some meters, this £30 will not just be an initial Emergency Credit amount, but, due to meter functionality, will remain available at any time the customer accesses Emergency Credit.

Although this is positive, that it provides more credit at a time when it is needed, this also means that consumers will need to repay more i.e., up to £30 before they can resume their normal supply, and, where appropriate, recommence debt repayments. And if a customer remains in Emergency Credit e.g., only tops up sufficient to remain within £30, and has a debt to repay on their meter, this will not be recovered until Emergency Credit is fully repaid.

We do not believe Ofgem, or energy suppliers have considered the cost implications and potential unintended consequences for consumers of this change, driven by the speed of the Code's implementation (and noting that this has still not had time to be put into practice for reasons outline in our cover letter).

We are keen that Ofgem holds itself to account for its statement in Paragraph 1A.19 (Appendix 1 Impact Assessment) *'Over time we could get better data and develop more robust estimates*.' It is important that Ofgem takes time to review the implementation of the policy; its costs and benefits, particularly those which are customer impacting. However, it remains our view that this piece of activity would quite simply be much more appropriate taking place once the PPM Moratorium lifts and the Code has an

[1] *'Fuel poverty - consumers being unable to afford enough energy to meet their basic needs - has been stubbornly persistent, and increased markedly during the recent price spikes.* ***Policies to tackle the problem have not kept pace, with the Warm Home Discount only increasing by £10 since its inception, and millions of households still living in energy inefficient homes****. While there is a constraint on prices in the form of the energy price cap, it is only intended to ensure that consumers on default tariffs pay a price that fairly reflects the underlying costs of serving them.*

***Likewise, there are real ironies in tackling fuel poverty through schemes that are paid for in a manner that increases bills. Only one of the key causes of fuel poverty, high prices, is driven by the energy sector. Other key causes, such as poor housing, low incomes, or increased need due to personal circumstances such as critical healthcare, are not. Yet we pay for fuel poverty policies exclusively through energy bills, and not as social policy paid for through the broader tax base****. The ghettoisation of fuel poverty as an 'energy issue', when its causes are much broader, may impede the holistic thinking needed to adequately tackle its causes.'*

opportunity to be applied, and not before any of these activities, and whilst the PPM Moratorium is still in place.

Lastly, Ofgem states that it does not expect suppliers to automatically write-off debt where a PPM would otherwise have been installed. For the purpose of clarity, we will continue to write off debt we have attempted to collect, where we no longer have a supplier-customer relationship i.e., we will follow up finalised accounts.

**6. 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 customers stay on supply?**

Providing ASCs to customers will continue to be an ongoing cost, and where the ASC isn't repaid, suppliers are already making payments from their own income to fund vulnerable consumers' energy use. Therefore, the bad debt related to these costs is something suppliers may expect to incur on an ongoing basis.

The ASC allowance will help to ensure that suppliers can allow for this spend within the price of the cap, and therefore, simply not transfer funds from elsewhere to subsidise an activity that is already in place, because of the licence.

It is for this reason that the allowance for ASC related bad debt should be made a permanent part of the regular price cap allowance assessment. The allowance should include both the bad debt costs associated with the ASC, as well as the operational costs that suppliers incur in distributing additional ASCs to customers – for example using open banking to help identify customers struggling to pay and to provide an ASC amount to keep a customer on supply until they next have available funds to top up.

Using the allowance for both bad debt and operational costs will ensure suppliers can provide support to the most vulnerable customers, by helping them to remain on supply.

**Annex 2 - Supply Licence Conditions - Modifications**

- *SLC 28.2 Where a Domestic Customer requests, is offered or uses a Prepayment Meter, or a licensee installs an Involuntary Prepayment Meter and the licensee becomes aware or has reason to believe that it is ~~no longer~~ not safe and reasonably practicable in all the circumstances of the case for the Domestic Customer to have a Prepayment Meter ~~do so~~, the licensee must offer*:

  The SLC extends the scope of the consultation beyond Involuntary PPMs, as it includes where a customer 'requests, is offered or uses' a PPM. We also note a change in wording within this SLC from 'no longer safe' to 'not safe.' It would be helpful to understand if this change to the wording also changes the meaning of the obligation, as this is not clear.

- *SLC 28.7A (e) the licensee has determined that an Involuntary Prepayment Meter would be safe and reasonably practicable in all the circumstances of the case (including but not limited to the Precautionary Principle and having carried out checks of all information relating to the Priority Services Register).*

  This proposed SLC places a disproportionate expectation on the supplier to have "*carried out checks of all information relating to the Priority Services Register*". We would suggest that the wording is changed to "carried out all reasonable steps to check the information relating to the Priority Services Register".

- *SLC 28.8 The licensee must comply with any other obligations relating to Prepayment Meters (including but not limited to those in SLCs 27, 27A and 28 and set out in the guidance issued under SLC 28.4). In the event of any irreconcilable inconsistency between SLC 28.7 and any other SLC or any other provision made under them, SLC 28.7 shall prevail.*

  Suppliers are aware that all obligations must be complied with, so we do not feel that it is necessary to include the wording requiring "the licensee must comply…."

- *SLC 28.9 (b) must accept information from and actions on behalf of a customer by any person or organisation legally entitled to act on their behalf;*

  We require that Ofgem outlines its interpretation of a person or organisation that is 'legally entitled to act' and for what purpose e.g., in the best interest of the customer. We suggest this is an example of where this statement sits better in the Safe and Reasonably Practicable Guidance than in licence directly.

- *SLC 28.10 The licensee must not exercise a Relevant Warrant (or otherwise exercise a statutory power which would give rise to the grounds for obtaining a Relevant Warrant) in respect of a Domestic Customer's premises where such action would be severely traumatic to that Domestic Customer or any member of their household due to an existing vulnerability which relates to their mental capacity and/or psychological state and would be made significantly worse by the experience*

  We require that Ofgem makes clear if its intention here is that suppliers capture vulnerable characteristics about any household member, as opposed to the named account holder only.

- *SLC 28.17 The licensee must ensure that once a customer using an Involuntary Prepayment Meter has repaid all debt owed, the customer is contacted and offered:*
  *(a) an assessment of whether a Prepayment Meter remains the most appropriate payment method (including but not limited to in accordance with SLC 28.2 and the guidance issued under SLC 28.4);*
  *(b) appropriate information on alternative payment methods and tariffs; and*
  *(c) the option to move to an alternative payment method.*

  This new SLC raises many questions about the obligation to '*ensure…the customer is contacted and offered…c) the option to move to an alternative payment method*.' Ofgem fails to make clear at this point, and only separately in SLC 28.18, at what point we should consider this 'move' i.e., as soon as debt is repaid, or at the point we understand if the customer is likely to fall into debt again? We strongly urge Ofgem to revisit SLC 28.17 and consider including the reference from 28.18 on

credit checks and security deposits, to be directly associated with the 'option to move.' Therefore, suppliers would conduct credit checks

- *SLC 28.2 Where a Domestic Customer requests, is offered or uses a Prepayment Meter, or a licensee installs an Involuntary Prepayment Meter and the licensee becomes aware or has reason to believe that it is ~~no longer~~ not safe and reasonably practicable in all the circumstances of the case for the Domestic Customer to have a Prepayment Meter ~~do so~~, the licensee must offer*:

  The SLC extends the scope of the consultation beyond Involuntary PPMs, as it includes where a customer 'requests, is offered or uses' a PPM. We also note a change in wording within this SLC from 'no longer safe' to 'not safe.' It would be helpful to understand if this change to the wording also changes the meaning of the obligation, as this is not clear.

  Also, within Appendix 4 – Safe and reasonably practicable guidance, section 1.1 b) the supplier becomes aware that it is no longer safe and reasonably practicable for the customer to use a PPM. This needs to be aligned against the proposed changes to SLC 28.2.