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Changing standing charges for prepayment meters and debt related costs across payment methods - UW response

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Utility Warehouse was one of the first challenger brands when it entered the retail energy market over 20 years ago, and we have a unique perspective in that we operate across numerous regulated markets: energy, telecoms and insurance. Today we serve over 950,000 households.

UW overarching view

Utility Warehouse welcomes the straightforward approach to these changes in order to implement government policy. Removing Standard Credit (SC) customers from the levelisation of standing charges between Direct Debit (DD) and prepayment (PPM) customers ensures that the SC group, which contains a large number of vulnerable customers, will be protected from increased costs.

It is positive that PPM customers will not be penalised for their payment method but we need to ensure that this does not act as an incentive to move a large proportion of customers to PPM despite it being a payment method which would not typically suit their characteristics. The cost of supplying all customers would ultimately increase if a large number of customers move to a payment method where the cost-to-serve is, in effect, being subsidised. It is welcome that Ofgem has thought ahead and attempted to mitigate market distortions via the suggested approach to reconciliation.

Given the extent of this intervention into the price cap methodology **it is essential that levelisation variances are transparent as an explicit line in the price cap calculations, rather than being 'baked in'**. This will ensure that the costs of this measure are clear and that efficiency savings within the costs incurred by serving PPM customers are sought in the future. It is reassuring that Ofgem recognises the importance of this point and has set out how transparency will be achieved via the draft licence conditions. We note that reconciliation variances will similarly be presented to suppliers as an explicit item, due to being administered separately by the Retail Energy Code Company.

We appreciate that more work is to follow to implement the debt-related cost levelisation and we look forward to future consultations on this. **We strongly agree with Ofgem that debt related costs should be levelised between DD and SC customers.** The debt between them is intrinsically linked, given that debt built up on an account that pays by DD often moves onto SC at a later point.

Consultation questions

Q1	Do you have any comments or views on our updated case for the introduction of levelisation of payment methods?
	<p>We welcome the updated case as it reflects our views that applying additional charges to SC customers would be socially divisive. Levelising the standing charge between DD and PPM customers only, helps to protect the vulnerable customers on SC, as they will not subsidise customers on other payment methods.</p>
Q2	Do you agree with our levelisation policy aims?
	<p>We agree that PPM customers should not pay a premium and that all customers that have the ability to build debt, should contribute equally to debt-related costs.</p> <p>We also agree that the SC premium should be reduced but maintained (as it is reflective of the risks of supplying customers who opt for this payment method) and that the levelisation should be enduring and responsive to policy changes, with no gap in support for PPM customers.</p> <p>We believe that the aim for the solution to be proportionate (minimising the risk of unintended consequences) to be one of the most challenging. There is a need to be careful that PPM does not become the cheapest option available to consumers unless this reflects its cost to serve. If a dramatic influx of customers from DD and SC move to PPM tariffs, the aggregate cost to all customers may increase as the number of PPM meters increases. Customers who are too vulnerable to have a PPM meter and those who are disengaged will lose out further.</p>
Q3	Do you agree with our proposed approach to levelisation?
	<p>The approach to levelisation is sensible. We welcome the removal of the Additional Support Credit (ASC) adjustment as this would add complication for a time limited measure and fits in with the aim that all customers that have the ability to build debt should contribute equally to debt-related costs.</p> <p>The phased approach is correct to maintain the level of support from April that prepayment customers have been experiencing and to ensure that the debt related cost levelisation is fit for purpose.</p>
Q4	Do you have any views on the proposed amendments to SLC 28AD and model changes under Annex 9?
	<p>We welcome the clear way in which these adjustments are included in the cap mechanism. The inclusion in the price cap calculation should be clear so that it is easy to see how these changes are affecting capped tariffs. It is therefore welcome to see that Ofgem has considered this already and will enable levelisation transparency via the proposed licence conditions as drafted.</p>
Q5	Do you agree with our proposal to include uncapped contract numbers in the levelisation reconciliation?
	<p>Uncapped contract numbers should be included in the levelisation reconciliation. This will ensure that the burden of levelised costs is not limited to an ever smaller cohort of customers. Uncapped DD tariffs could become increasingly popular if they avoided this levelisation cost and as more customers moved from capped to uncapped tariffs to benefit from this, the levelisation cost would be borne by a smaller set of customers.</p>

Q6	Do you agree with our proposal not to introduce an SLC requiring suppliers to offer the same standing charge on equivalent DD and PPM tariffs?
	We agree with the proposal not to introduce a requirement for uncapped tariffs to mirror the standing charge of their equivalent capped tariffs. To maintain identical standing charges on DD and PPM equivalent tariffs would limit the innovation that is currently possible outside of the price cap.
Q7	Do you have any views on our other considerations related to levelisation, regional levelisation and treatment of smart PPM?
	<p>We support the view that regional variations should not be levelised. Levelising the extra costs that vulnerable customers incur through no fault of their own is fair but we believe that costs should be as reflective as possible. This will help the root causes for higher prices to be addressed rather than ignoring them and spreading them over all consumers' bills.</p> <p>The operating costs review is the best place to examine the differences between smart and traditional prepayment and whether they should be separated for the purposes of the cap.</p>
Q8	What are your views on our updated options including the need for a reconciliation mechanism and phasing of implementation?
	<p>A reconciliation mechanism is fair to ensure that suppliers are not penalised for the makeup of their customer base.</p> <p>The phased approach is correct to maintain the level of support that prepayment customers have been experiencing and to ensure that the debt related cost levelisation is fit for purpose when implemented.</p>
Q9	Do you agree with our proposal to exclude fixed term contracts agreed prior to our decision date from our levelisation proposal?
	We agree that this is sensible as levelisation costs will not have been built into the tariff design. Fixed term supply contracts could otherwise become loss-making for many months to come.
Q10	Do you agree with our proposal for suppliers not to carry out, at their expense, an audit of their systems, processes and data to be used in reconciliation?
	We welcome this additional cost not being placed on every supplier every three months as this would push energy bills higher. However, controls will need to be in place to ensure that accurate data is submitted as any inaccurate data, whether it be intentional or not, will have a financial impact on all other suppliers. Ofgem and RECCo should monitor submissions and investigate if they suspect that incorrect returns are being submitted.