

2 January 2024

Sabreena Juneja
Head of Price Cap Policy
Ofgem
10 South Colonnade
Canary Wharf
London E14 4PU

Email: alisonrussell@utilita.co.uk

Dear Sabreena,

CONFIDENTIAL SUBMISSION – redacted version

Re: Changing Standing charges for prepayment meters and debt-related costs across payment methods

Thank you for the opportunity to comment on the above consultation. We ask that this short response should be considered confidential, reflecting the data included.

Utilita is not in favour of an unjustified and unfair cross subsidy between payment methods (as has been endemic within the Default Tariff Cap (DTC) over the years). Disallowing the recovery of efficient costs for a customer group creates a perverse incentive for suppliers to reduce operating costs associated with these customers, regardless of the effect on customer service, and discourages suppliers from competing for these customers – leading to a reduced choice and poorer service overall.

Furthermore, we believe that such a cross subsidy creates a market distortion, which favours the status quo and ‘the average supplier’. It reduces both innovation and the opportunity for different business models to develop – which could better serve these customers – given it creates an under-recovery of efficient costs.

However, if a cross subsidy is to be applied, then a clear and transparent mechanism, properly quantified, reconciled and audited, to ensure that suppliers – especially specialist suppliers – are not disadvantaged, is a reasonable approach, and one we support. Allowing full cost recovery for prepayment customers will promote competition in this sector, improving the standard of customer service and the rate of product innovation.

We agree that the reconciliation and levelisation mechanisms should be robustly set out and held within industry codes, supported by licence and further that non-compliance should be an event of default. The proposal summary (Table 15, page 47) provides a reasonable balance between prompt reconciliation and administrative burden and should meet the need. Appropriate supporting materials will be required to assist suppliers in data submission and invoice validation. Audit into the reconciliation process should be transparent and promptly shared with participants.

We understand the requirement for a phased approach and that debt-related costs will follow. However, we believe that additional work may be needed in this area. While we agree that in general, substantial debt will usually be accrued while on a Standard Credit (SC) or less commonly, Direct Debit (DD) payment methods, that is not the whole story.

Ofgem has recognised that prepay customers may accrue debt as a result of Additional Support Credit (ASC), they may also accrue debt as a result of Emergency and Friendly Credit debit balances being added to the meter as debt to assist the customer when they are in difficulty. In addition, the Debt Assignment Protocol may require suppliers to accept £500 of debt per meter in prepay – when the supplier did not receive the additional revenue from the period in credit when the debt was accrued. We believe that Ofgem should properly profile debt repayment rates and evaluate the current costs of debt management to suppliers.

A customer is likely to accrue debt in credit mode much more quickly than they will repay it in prepay mode. For example, a customer who has struggled to pay their bills over the last two years could easily have accrued a debt of £2,000. When they eventually move into prepay, assuming they can keep up with current consumption, if they pay off their debt at £10 per month (above consumption), this may take over 16 years to repay.

Debt at these levels, with low repayment amounts and long repayment timelines is now much more common than previously; we consider that Ofgem should re-test whether the existing assumptions on allowances are adequate. Making adjustments to present DD and SC debt while disregarding existing debt being managed through prepay meters is inconsistent and misguided.

This means that in our view, an appropriate allowance for debt in the prepay cap is needed. While our numbers of supply points have remained similar at a portfolio level (circa 1.5m), we have been seeing a number of impacts over the last five years. We have used this timeline to ensure we compared pre-COVID as well.

Figure 1 below shows the increased numbers and quantities of debt for our smart prepay meters. The accompanying Table 1 highlights that not only have absolute debt levels increased, but the average debt per supply point has increased by nearly six times.

[X]

For clarity, in both Figure 1 and Table 1, snapshots at a date are used, and for 2023, that date is end of November rather than end of December. The December 2023 data are not yet available, but current indications are that they will be higher than November 2023.

The second substantial change that we are seeing is that debt repayments through the prepay meters are at generally lower recovery rates, and so repayment takes longer – even where customers can keep up with current consumption. Figure 2 below shows the distribution of repayment rates. In each case, as in the title, the chart key is the lower bound for the band – e.g. the bright blue band is 0.00% to 9.99% – in most cases, this will be at 5% or 5p out of each £1 topped up. The stacked bars' total values agree to the totals in the debt column in Table 1, but only the larger bands display the values due to space.

[X]

We have previously explained to Ofgem colleagues who are engaged in the work on the involuntary prepayment moratorium, that there is a substantial amount of debt currently on credit meters which will move onto prepay meters once suppliers are allowed to resume warrant installations under the new code. In order to complete the picture in Figures 1 & 2 and Table 1 above, this will add around a further [3<] of debt, increasing the total by around 40% to over [3<].

These additional prepay debts, when added to the meters, are likely to be in the higher debt brackets (by value) and would alter the distribution either by repayment rate or duration, according to the customers' ability to pay. We are not currently able to provide data on this impact due to annual leave but would be happy to meet with the team in the new year to discuss these effects.

We have also, as explained previously, seen substantial increases in the levels and numbers of Additional Support Credits demanded, and while we acknowledge an allowance has been provided, we do not consider that it reflects the burden of ASC borne by suppliers nor the impact of previous support given and repayment levels/rates by customers.

The other area in which we have seen impacts is the level of Change of Tenancy (CoT) risk faced. CoT rates are increasing again to previous levels, and as the data above indicate, we are also seeing higher levels of debt associated with CoT. As the supplier may often not receive forwarding addresses for prepay tenants leaving properties, and the incoming tenant will of course need a zero-opening balance, CoT debt is also increasing. We are also not currently able to provide data on this impact due to annual leave, but again, we would be happy to meet with the team in the new year to discuss these effects.

Please note that we consider the data provided above in this submission to be confidential.

Finally, we are in general agreement that some aspects of standing charges are better addressed through the broader work on standing charges including such matters as regional differences.

We hope that this submission has been helpful, and we would be happy to meet with you and the team to discuss any questions you may have in more detail. We would also welcome such a 1-2-1 discussion, which we believe would be a good opportunity to share the extra data mentioned above.

Yours sincerely,

By email

Alison Russell
Regulatory Adviser