

## Changes to prepayment meter standing charges and other debt costs

Energy Saving Trust welcomes the opportunity to feed into OFGEM's consultation on changes to prepayment meter standing charges and other debt costs. Our response covers questions 1-3, 6-8, and 10.

Energy Saving Trust is an independent organisation dedicated to promoting energy efficiency, low carbon transport and sustainable energy use to address the climate emergency.

Our work focuses on reaching net zero targets by taking action to reduce energy consumption, installing new infrastructure and accelerating a move to sustainable, low carbon lifestyles.

A trusted, independent voice, we have over 25 years' sector experience. We provide leadership and expertise to deliver the benefits of achieving carbon reduction targets: warmer homes, cleaner air, healthier populations, a resilient economy and a stable climate.

We empower householders to make better choices, deliver transformative programmes for governments and support businesses and community groups with strategy, research and assurance – enabling everyone to play their part in building a sustainable future.

**Q1. Do you have any comments or views on our updated case for the introduction of levelisation of payment methods?**

Energy Saving Trust is supportive of the intention behind what OFGEM is seeking to achieve – namely increasing fairness and reducing inequalities that arise simply due to type of payment method; an issue over which many consumers have no real choice. Although we are generally supportive of a rapid resolution being found that benefits consumers, we consider that the current consultation would benefit from taking longer to think through and develop appropriate systems, rather than rushing to meet an artificial deadline.

Energy Saving Trust broadly agrees with the proposal to levelise debt-related costs between Standard Credit (SC) and Direct Debit (DD) payment methods, without placing additional costs on Pre-Payment Meter (PPM) customers.

However, we continue to believe that the objective of levelisation should be full levelisation across payment methods and that the focus should be on achieving fairness across the entire system, looking at both PPM and SC.

**Q2. Do you agree with our levelisation policy aims?**

Energy Saving Trust agrees with National Energy Action (NEA) that there is strong evidence to show that both prepayment customers and those that pay by standard credit are likely to be vulnerable across a number of metrics. Energy Saving Trust does not agree that any degree of price difference should remain and we disagree strongly with the proposal to maintain a standard credit premium *‘to incentivise efficient payment methods’*. The focus should be on achieving fairness for consumers, regardless of payment method, rather than using standing charge and unit prices to incentivise a particular payment method that does not work for all consumers.

We do not consider it to be appropriate for OFGEM to penalise standard credit customers, many of whom OFGEM acknowledges choose this payment mechanism to give themselves more control over their monthly payments and may in any event pay by standing order. This is particularly relevant given the large amounts of customer credit energy suppliers have been able to build up using direct debits.

Energy Saving Trust welcomes the emphasis placed on OFGEM’s new Consumer Interests Framework and agrees that the main aim of levelisation policy should be fair prices for consumers. However, we do not agree that the proposals put forward by OFGEM will achieve this objective of the Framework because of the degree of unfairness

that will still be faced by SC customers; or that it will help to achieve the sub-objective of protecting consumer welfare.

**Q3. Do you agree with our proposed approach to levelisation?**

No. Energy Saving Trust continues to believe that full levelisation across payment methods should be introduced. We are not convinced by OFGEM's argument that a differentiation in costs between DD/PPM and SC is warranted or proportionate. Neither do we consider that OFGEM has justified its decision to expose SC customers to higher costs, both in terms of standing charge and unit costs. We would therefore propose that OFGEM develop a further option that fully considers full levelisation of costs, as this does not appear to form part of the options that have been considered to date.

**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?**

No, we do not agree with OFGEMs proposal not to introduce an SLC requiring suppliers to offer the same standing charge on equivalent DD and PPM tariffs. We consider that the rationale for introducing such a requirement, as set out in the original consultation, was sound and we would also note that the majority of respondents supported this approach.

**Q7. Do you have any views on our other considerations related to levelisation, regional levelisation and treatment of smart PPM?**

Energy Saving Trust considers that OFGEM should take the opportunity offered by the current policy review to give more consideration to the case for regional levelisation. Whilst it may be true that the cost of serving some regions of the UK has historically been higher than for others, OFGEM itself acknowledges that changes have occurred that shift the balance of supply costs between regions without a concomitant change having been made to the network delivery costs included within the standing charge. This creates a fairness issue for Scotland in particular. As the energy system and energy mix change, and as Scotland consolidates its position as a significant generator of renewable energy for the rest of the UK, the rationale for differential standing charges based on regional location decreases.

Adopting regional levelisation would, in our view, be a simpler and fairer system that is more consistent with OFGEMs consumer and net zero duties and would also provide OFGEM with an opportunity to correct inherent unfairness in the system. We do not accept OFGEM's proposition that a single charge without regional differences would be more complex than the multitude of different approaches that apply at present and we do not consider that this has been sufficiently well evidenced.

In respect of smart PPM, we would note that OFGEM indicates supplier feedback supporting smart PPM and the proposition that such a switch should result in lower costs from servicing PPM meters. We would support this view and would encourage OFGEM to reconsider its position on smart PPM and in particular whether its response to this consultation could help to create the conditions to benefit consumers and support rather than hinder the smart meter rollout.

**Q8. What are your views on our updated options including the need for a reconciliation mechanism and phasing of implementation?**

We do not support the proposal to introduce a billpayer funded reconciliation mechanism. The system should be designed to be sufficiently robust not to need a reconciliation mechanism; and we do not consider that placing additional costs on billpayers should be necessary to produce and implement an inherently fair system for consumers. In a cost-of-living crisis, Energy Saving Trust considers that OFGEM should be looking to minimise additional costs for consumers and be proactively working to reduce the costs they have to bear. In addition, we consider it to be inherently unfair for consumers who have acted properly to have to bear additional costs to set up a reconciliation mechanism.

**Q10. Do 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?**

No. Energy Saving Trust considers that the audit of suppliers' systems, processes and data should be carried out at suppliers' own expense.