

## **Prepayment meters**

**Update document on new powers under the  
Energy Act 2004 including draft statutory  
instrument**

December 2005

## Summary

Under the Gas and Electricity Acts, suppliers can only recover, through a prepayment meter (PPM), sums owed by a customer in relation to gas or electricity supply or the provision of the meter at the customer's existing premises. The Energy Act 2004 (the Act) allows for Ofgem to make Regulations to extend the range of payments that can be collected through a PPM. Following the Ofgem consultation in February 2005 on three suggested options, Ofgem proposes to make Regulations which will allow with the customer's agreement:

- a gas or electricity supplier to collect a debt, through a PPM, which was accrued at a premises previously owned or occupied by the customer, and;
- an electricity supplier to collect ongoing gas charges and/or gas debt through an electricity PPM.

Ofgem initially sought views from suppliers, energywatch, consumer organisations and metering organisations on use of the new powers and suggested three potential options:

1. to allow a debt from existing premises to be transferred to a PPM in new premises when the occupant moves house;
2. to allow the use of one PPM to recover debts for two fuels so the customer would only have one PPM and one credit meter for the two fuels; and
3. to allow the use of a PPM to recover the costs of energy efficiency or energy services packages.

The majority of respondents gave broad support for option 1 provided there were adequate customer safeguards. There was a mixed response to option 2 from all parties acknowledging the potential cost savings but also raising concerns over the possible impact the option may have on customers, in terms of their budgeting, and industry processes. Most suppliers supported option 3 but acknowledged safeguards were needed. However, most consumer organisations opposed option 3 arguing that the problems associated with the option would outweigh the benefits to consumers.

Ofgem believes that Regulations containing adequate customer safeguards can be made to allow the recovery of debt from previous premises. In respect of the second proposal, where the initial option has been extended to permit the recovery of charges for two

fuels, in addition to debts, through one meter, Ofgem is seeking views on two possible ways of providing additional safeguards:

- (a) make the Regulations, monitor their impact closely and if necessary, amend or revoke the Regulations.
- (b) make the Regulations for a fixed period which can be extended

Either approach places an obligation on Ofgem to review, and as appropriate, propose amending Regulations, which can only be made with the approval of the Secretary of State.

The Regulations are attached in draft form at Annexes 1 and 2 to this document and comments are welcomed on them by 10 February 2006. At this stage Ofgem will not take forward proposals for Regulations to allow the collection of energy services charges through a PPM. However, Ofgem remains open to representations on this option if any proposals are made which would offer clear customer benefit and appropriate safeguards.

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# 1. Introduction

- 1.1. The Act gave the Authority a new power to make Regulations to extend the range of payments which can be collected through a PPM. This power can only be exercised following consultation with energywatch, authorised suppliers and such other persons as the Authority considers appropriate. Approval of the Secretary of State is also required.
- 1.2. Under the existing rules gas and electricity suppliers may only recover sums arising from the supply of one fuel through the appropriate meter or the provision of that meter, to premises currently occupied by the customer. The rules prevent customers having sums arising from more than one fuel, the purchase of other goods and services, or debts at a previous address, from being recovered through a gas or electricity PPM. Under the Act, this prohibition continues unless recovery of additional sums is permitted in Regulations made by the Authority.
- 1.3. The Act requires that there must be an agreement between the supplier and the customer for the collection of additional sums, which meets the requirements set out in the Regulations.

## ***Background***

- 1.4. Ofgem consulted in February 2005<sup>1</sup> on initial proposals for making such Regulations setting out three possible options to take forward.
- 1.5. **Option 1** was that debt from an existing premises could be transferred to a PPM in new premises when the occupant moves house. **Option 2** proposed the use of one PPM to recover debts for two fuels so the customer could have one PPM and one credit meter for the two fuels. **Option 3** concerned the use of a PPM to recover the costs of energy efficiency or energy services packages.
- 1.6. The consultation document also provided an update on various aspects of the arrangements for prepayment metering. The issues around metering competition

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<sup>1</sup> Prepayment meters: consultation on new powers under the Energy Act 2004 and update on recent developments. February 2005 32/05. Available from [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

and innovation are being taken forward separately by Ofgem and are not covered in this document.

### **Consultation responses**

- 1.7. Respondents to the consultation provided comments on each proposed option. These are set out in detail at Annex 3. In summary, the majority of respondents agreed **Option 1** was workable and potentially beneficial to customers and suppliers. For **Option 2**, there was some support from suppliers and consumer organisations but also concern that the option would require additional safeguards for customers and that industry processes would need to be revised. For **Option 3**, there was support from the majority of suppliers who acknowledged that customer safeguards would be required but there was consistent opposition from consumer organisations who felt that the potential problems outweighed the potential benefits for customers.

### **Document structure**

- 1.8. This document is divided into the following sections. Chapter 2 sets out the proposed way forward and Chapter 3 sets out the scope of the Regulations and the issues for consultation. The draft Regulations are at Annexes 1 (gas) and 2 (electricity) and Annex 3 summarises the responses to the February 2005 consultation document.
- 1.9. Following this consultation document, Ofgem will issue the statutory consultation on the Regulations in early 2006.

### **Views sought**

- 1.10. Ofgem would welcome views on the draft Regulations in general and any comments on the specific issues set out in Chapter 3. Responses should be submitted electronically to [kiera.bower@ofgem.gov.uk](mailto:kiera.bower@ofgem.gov.uk) and will be published on the Ofgem website. Any confidential material should be marked as such and will not be published. Where possible, confidential material should be confined to an appendix. Responses should be submitted by 10 February 2006.
- 1.11. In order to provide an opportunity for interested parties to learn more about and discuss the proposals in this consultation document before providing their

responses, Ofgem will be holding a meeting on Monday 23 January 2006. The meeting will be open to any interested parties and will be held at Ofgem's offices at 9 Millbank, London from 11am. If you would like to attend the meeting please respond to [kiera.bower@ofgem.gov.uk](mailto:kiera.bower@ofgem.gov.uk) by Monday 16 January 2006.

## 2. Proposed way forward

### *Overview*

- 2.1. The approach Ofgem proposes to take in light of the consultation responses and further discussions with stakeholders is to proceed with **Option 1**, and a variant of **Option 2** but not with **Option 3**. Draft Regulations for electricity and gas are included at Annexes 1 and 2.
- 2.2. For **Option 1** (to collect a debt from a previous premises) there is broad support from all parties provided there are adequate customer safeguards. Ofgem therefore intends to proceed with this approach. Customer safeguards are provided by the requirement for there to be an agreement between the customer and the supplier. The customer benefits of this Option are described more fully below (paragraphs 2.11 and 2.12).
- 2.3. **Option 2** (to allow the use of one PPM to recover debts for two fuels to avoid the costs associated with having two PPMs) raised more issues and there was a mixed response to the consultation from all groups. Respondents acknowledged the potential cost savings but also raised a range of concerns, including the potential for customers to self-disconnect due to additional charges being recovered through a single meter; the potential for debt to build up through a credit meter if one PPM was removed; and the potential impact on industry processes, such as change of supplier, of having charges for two fuels collected through one meter.
- 2.4. However, some respondents were interested in the cost savings from collecting electricity and gas payments through a single meter, particularly members of the Fuel Poverty Advisory Group. Ofgem has held discussions with a group of stakeholders, including EDF Energy who wanted to work collaboratively on this option, and a number of consumer organisations, to explore this option further.
- 2.5. These discussions have highlighted the benefits of the original option as well as the scope for broadening it to allow the recovery of both debt and ongoing usage charges for two fuels through one PPM. The greatest cost savings for this option would come from a customer using an electricity PPM rather than a gas PPM. Therefore the Regulations proposed would allow an electricity supplier to



recover ongoing gas charges and gas debts through an electricity PPM. A regular payment would be collected through an electricity PPM to cover ongoing gas charges, with a regular reconciliation as occurs now with direct debit.

- 2.6. For **Option 3** (to allow recovery of costs of energy efficiency or energy services packages) Ofgem does not intend to make any Regulations at this stage. Although suppliers supported this option, they did acknowledge the associated problems, for example, customers self-disconnecting because they are paying for debts unrelated to fuel consumption or customers being eligible for free measures under Government schemes such as Warm Front inadvertently paying for the measures. However, suppliers felt such problems could be overcome with appropriate safeguards. Consumer organisations did not support option 3 as they felt the potential problems associated with this option would outweigh the customer benefit. Given these concerns, and in the absence of any proposals in this area which would offer clear customer benefits, Ofgem does not consider it to be in customers' interests to make provision for this option in the Regulations at this stage. However, if suppliers and consumer organisations wish to undertake further work on this option to clarify the consumer benefits, then Ofgem remains open to further representations on the desirability of including this provision in the Regulations in due course.

## ***The Regulations***

- 2.7. The Regulations require that an agreement is put in place between the supplier and customer for the collection of specified sums. Suppliers will not be required to offer the payment method nor will customers have to accept the payment method.
- 2.8. Ofgem expects suppliers to have a clear policy in place before offering Option 1 and Option 2. Suppliers must comply with their obligations under the supply licence and codes of practice for customers with payment difficulties and for customers using PPMs, as such there is considerable customer protection already in place.
- 2.9. **Option 2** is more complex than **Option 1**. This would allow gas charges to be recovered through an electricity PPM. The meter would be set to recover ongoing electricity usage and fixed charges, plus a regular payment to cover

estimated gas usage and any recoverable debts. A gas credit meter would be used to record gas consumption. Gas charges collected through the electricity PPM would need to be adjusted periodically to account for any under or over payments. This arrangement would be similar to that made for customers paying by direct debit.

- 2.10. Given the range of issues associated with this arrangement, Ofgem is considering whether to limit the Regulations for Option 2 to allow the collection of ongoing gas charges and/or gas debt through an electricity PPM for a 2 year period only. In this case the Regulations would cease to have effect for this provision unless Regulations were made to amend the Regulations. This would allow for the provision to be reviewed in the light of experience. This suggestion is discussed further in Chapter 3.

### ***Benefits of recovering a debt from a previous premises***

- 2.11. Currently when a customer with a debt moves home they would have either to repay the debt upfront or agree to another repayment method. The Regulations will overcome this problem and will increase a customer's options for repaying a debt when moving home. A customer can choose whether to settle the debt in full, agree an alternative arrangement for repayment, or to have it recovered through a PPM in their new property (whether or not they had a PPM in their old home). The existence of the Regulations will not limit the customer's options in any way.
- 2.12. Of particular benefit, if a customer is already repaying a debt through a PPM when they move home, is that they can continue their repayment arrangement uninterrupted, if they choose to do so. At present this option is prohibited.

### ***Benefits of recovering gas charges through an electricity PPM***

- 2.13. It is estimated that some 1.5 million customers have both gas and electricity PPMs. Using one PPM to collect charges for both fuels has the potential to significantly reduce suppliers' costs and thereby the prices paid by customers. Apart from the additional cost of the meter, the ongoing costs for PPMs are higher than for credit meters due to higher maintenance costs and the costs of the prepayment infrastructure. The cost of installing a gas PPM where a customer

is in debt is estimated to be £250 in comparison to £150 for an electricity PPM. Some suppliers have equalised their electricity prepayment and standard credit tariffs but all maintain a differential on gas. Therefore there is benefit to the customer in only having an electricity PPM.

- 2.14. This provision will also increase the choice a customer has in repaying a debt and paying for their gas and electricity. Customers currently using two PPMs to pay for their fuel may find it is more convenient, and it may save them money, to use only an electricity PPM to pay for two fuels. Since Ofgem sees no benefits in using a gas PPM to collect two fuels because of the higher costs, there are no proposals for an arrangement of that sort. However, the making of these Regulations may encourage the development of more advanced and lower cost dual fuel meters.

### 3. The scope of the Regulations

3.1. The gas Regulations at Annex 1 allow for debts accrued for the supply of gas or the provision of a gas meter at a previous premises to be collected through a gas PPM at a new premises (Option 1). The electricity Regulations at Annex 2 also allow the collection of debt for electricity supply or meter provision at a previous premises (Option 1). In addition, they allow the electricity PPM to be used to collect gas debt from previous premises and ongoing gas usage (Option 2). The main features of the Regulations are as follows:

- ◆ The Regulations do not make it compulsory for suppliers to collect debt repayments or for customers to agree to these. Customers already using a PPM and customers wishing to switch to a PPM come within the scope of the Regulations.
- ◆ Customers must agree to the debt from previous premises being collected through a PPM at the new premises (electricity and gas Regulations) and to payments being made through a single meter (electricity Regulations). The customer can decline to enter the agreement within a specified period. The agreement would provide the customer with written confirmation outlining their choice and the details of that choice. It is envisaged that the supplier would send the customer the agreement following an initial dialogue explaining the options and establishing the customer's ability to pay.
- ◆ The Regulations do not prevent more than one customer being named on the agreement as long as the customers agree. This allows two people wishing to move in together who both have debts from a previous property to have a joint agreement, provided the supplier agrees.
- ◆ Customers would be able to take their debt with them from one premises to another, irrespective of the frequency of their moves. The electricity Regulations would allow customers to take their gas debt and/or electricity debt from one premises to another and repay it through an electricity PPM.

- ◆ To prevent these options becoming the default options for suppliers, the supplier would have to inform the customer of the other payment options available to them and the specific features of PPMs before the agreement can be made.
- ◆ The payment plan must take account of the customer's ability to pay any charges owed in addition to other sums lawfully being recovered through the PPM. The repayment can be varied at the customer's request with the agreement of the supplier.

### ***Consultation issues***

- 3.2. Set out below are the various consultation issues related to the Regulations.

#### ***Definitions used***

- 3.3. In drafting the Regulations Ofgem has not defined debt. As the Regulations are optional for suppliers to use and optional for customers to agree to, as long as the amount owed relates to gas and electricity supply or the provision of a meter for the supply, the debt is what the supplier and customer agree to within the limitations of the Regulations.
- 3.4. In the electricity Regulations the 'repayment amount and rate' are defined so as to only include sums that have arisen through debt. This is to ensure clarity in the Regulations. Ofgem considers it necessary to distinguish between sums owed for debt and ongoing usage as different obligations arise for each, as set out in regulation 5 and 6 respectively of the electricity Regulations. This is not designed to fetter how suppliers choose to word or present information in the agreement.
- 3.5. In drafting the Regulations Ofgem has not included reference to 'domestic' customers. This is to ensure that customers with a debt moving from a non-domestic premises to a domestic premises are not precluded from being offered this option. As the Regulations stand a supplier could offer this option to any customer. However, Ofgem would expect suppliers to have a clear and consistent policy on which customers can be offered this payment option.

3.6. *Comments are welcomed on the above issues, the definitions set out in regulation 2 (the interpretation section) of the Regulations and the terminology used throughout the Regulations such as ongoing usage, fixed charges, repayment rate and repayment amount. Ofgem would welcome comments on whether these will be understood throughout the industry and to customers and whether the definitions are accurate and workable.*

## **The agreement**

3.7. Currently the Regulations refer to a 'written agreement'. In drafting the Regulations Ofgem has included a termination clause to allow a customer to decline to enter the agreement within seven working days after it has been received. The Regulations also include a term allowing for either party to terminate the agreement on provision of 30 days notice. The supplier has to give notice in writing<sup>2</sup> and the customer either orally or in writing. This increases customer choice but also allows a supplier to end the agreement if it is not working.

3.8. For the electricity Regulations at Annex 2, Ofgem has included a term providing that the agreement must include the level and frequency of ongoing gas payments where a supplier is recovering ongoing gas consumption through an electricity PPM.

3.9. *Ofgem would welcome comments on section 4 of the regulations (the agreement) in general and specifically on whether:*

- *the written agreement requires defining further,*
- *the 30 day notice period for termination is sufficient,*
- *the requirement for suppliers to notify in writing but for customers to notify either in writing or orally is appropriate, and;*
- *the requirement for suppliers to include in the agreement the level and frequency of ongoing gas payments.*

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<sup>2</sup> While this is not explicitly stated in the Regulations the Interpretations Act 1978 means that reference to 'notice' means written notice  
Prepayment meters

## **Self disconnection**

- 3.10. A concern raised by respondents to the consultation was that of self disconnection. PPMs are designed to allocate payments in set amounts to ongoing usage and debt repayments. The allocation is generally set with a priority to ongoing usage. However, if a customer does not maintain the agreed payment level and debt builds up, the meter will disconnect the customer from their energy supply. Therefore it is important to ensure that customers understand that they must continue to purchase credit regularly in order to cover their ongoing usage, fixed charges and any debt payments. The Regulations provide that before entering an agreement the supplier must inform the customer of other payment options available to them, provide information on the operation of PPMs and the implications of failing to pay any charges in full or in part.
- 3.11. Where a customer is using an electricity PPM to recover gas charges, it will also be important to ensure suppliers obtain regular meter readings from the gas credit meter and make regular adjustments to the fixed charges to prevent customers falling into debt with their gas usage. The electricity Regulations therefore require that the supplier must make reasonable endeavours to obtain meter readings on a quarterly basis and make adjustments based on the quarterly readings. If available, the supplier would be able to use customer own readings for this purpose.
- 3.12. *Comments are welcomed on these provisions included in the Regulations.*

## **Industry processes**

- 3.13. Industry raised concerns about the potential impact of using one PPM to collect two fuels on industry processes, specifically the arrangements if a customer wanted to switch supplier. These processes need to be examined and clarified for this type of customer. Industry has agreed that a working group, under the guidance of the industry PPM Forum, should work through these processes and clarify the issues associated with this provision and assign responsibilities to the old and new supplier before the Regulations come into operation.

- 3.14. Industry also raised concerns that whilst most PPMs are capable of collecting both ongoing consumption and fixed sums, not all meters would be suitable to collect two fuels through one meter. Suppliers felt that token meters would not be suitable for this option and the most suitable meter would be a suitable Powerkey meter. Suppliers felt that any meter which required a home visit to recalibrate and check the meter would not provide any cost saving. Currently the Regulations do not specify which meters can or cannot be used for Option 2.
- 3.15. *Comments are welcomed on whether the Regulations should specify which meters can be used or whether it is sufficient for suppliers to set out in their individual policies which meters can be used.*

### **Time limiting the ability to recover gas charges through an electricity PPM**

- 3.16. There has been discussion on the merits of a trial to help clarify the concerns mentioned above about a dual fuel PPM and learn any lessons on process issues. Currently the draft electricity Regulations at Annex 2 include a provision in square brackets at regulation 1 (citation and commencement) which would cause the ability to recover gas charges through an electricity PPM to fall away after two years. If the provision was included it would mean that a supplier could not collect gas charges through an electricity PPM after two years unless Regulations were made to amend the time limit in the Regulations.
- 3.17. If the provision in square brackets is not included then the Regulations would remain in place unless further Regulations were made that either revoke or amend them. If this approach were adopted Ofgem would commit to reviewing the Regulations to identify if amendments are required.
- 3.18. To make Regulations which amend or revoke existing Regulations requires the consent of the Secretary of State. While Ofgem can draft and present Regulations to the Secretary of State it cannot guarantee that consent will be given to make the Regulations.
- 3.19. It is also worth noting that there would be nothing to prevent suppliers working together to conduct a trial or a limited roll out to ensure the industry processes and any customer issues are adequately clarified.



3.20. *Ofgem would welcome views on whether the time limited provision should be included or not, specifically what justifications there are for limiting the life of the Regulations. Ofgem would welcome views from industry in particular on plans for monitoring use of the Regulations and keeping Ofgem informed about progress.*

## **Views sought**

3.21. The Regulations are in draft form at Annexes 1 and 2. We would welcome comments on these as well as the issues raised above. Please provide reasoning and justification for any comments provided by 10 February 2006.

# Annex 1 Draft Regulations: Gas

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## DRAFT STATUTORY INSTRUMENTS

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**2006 No.**

### The Gas (Prepayment Meter) Regulations 2006

*Made* - - - - \*\*\*

*Coming into force* - - - - \*\*\*

The Gas and Electricity Markets Authority<sup>1</sup>, in exercise of the powers conferred upon it by paragraph 6A of Schedule 2B to the Gas Act 1986<sup>2</sup> and by section 47 of that Act, and after consultation with representative organisations in accordance with paragraph 6A (4) of Schedule 2B to that Act, and with the approval of the Secretary of State in accordance with paragraph 6A (5) of Schedule 2B to that Act, hereby makes the following Regulations:

#### **Citation and commencement**

1.— These Regulations may be cited as the Gas (Prepayment Meter) Regulations 2006 and shall come into force on [ \*\*\*\* 2006].

#### **Interpretation**

2.— In these Regulations —

“agreement” means the written agreement required under regulation 4 (1);

“repayment amount” means the amount of each instalment to be paid towards the repayment of sum(s) owed under regulation 3;

“repayment rate” means the frequency at which instalments are to be paid towards the repayment of the sum(s) owed under regulation 3; and

“prepayment meter” means a gas prepayment meter installed by an authorised supplier through which the customer takes his supply of gas.

#### **Recovery of a sum owed for gas**

3.—(1) A prepayment meter may be used to recover a sum owed to a gas supplier by a customer in respect of one or both of the following—

- (a) the supply of gas to any premises previously owned or occupied by the customer; and
- (b) the provision of a gas meter at any premises previously owned or occupied by the customer

where no part of the sum is being recovered through other methods.

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<sup>1</sup> The Gas and Electricity Markets Authority was established by section 1 of the Utilities Act 2000, c.27

<sup>2</sup> 1986 c.44, paragraph 6A of Schedule B of the Gas Act was inserted by section 181 of the Energy Act 2004, c.20.

(2) Any sum recoverable through a prepayment meter by virtue of paragraph 6A(1)(a) of Schedule 2B to the Gas Act 1986 may be consolidated with a sum specified in regulation 3 and recovered under these Regulations.

### **The Agreement**

4.—(1) A gas supplier may not recover the sum specified in regulation 3 by means of a prepayment meter unless it has previously entered into a written agreement with the customer which complies with paragraphs (2) and (4).

(2) The agreement must state—

- (a) the name(s) of the customer;
- (b) any fixed charges that will be incurred;
- (c) each element of the sum(s) owed as specified in regulation 3 and to what it relates;
- (d) the repayment rate and repayment amount;
- (e) the date at which the sum(s) owed would be fully repaid if each repayment amount is made at the repayment rate; and
- (f) that the gas supplier warrants that he has provided the customer with details as required under paragraph (3).

(3) The details required by this paragraph are—

- (a) other means of payment available to the customer;
- (b) the operation of the prepayment meter, particularly as regards the recovery of debt;
- (c) an estimate of on-going consumption charges that are expected to be incurred; and
- (d) the implications of failing to make any payments in full or in part when they fall due under the agreement.

(4) The agreement must include terms to the following effect—

- (a) the agreement comes into force seven working days after receipt by the customer of the agreement, unless the customer notifies the gas supplier that the customer does not wish to implement the agreement;
- (b) notification under sub-paragraph (a) can be made orally or in writing and must be given within seven working days of receipt of the agreement by the customer;
- (c) that the repayment rate and repayment amount has been calculated by the supplier to take into account the customer's ability to pay the total of all charges to be recovered through the prepayment meter;
- (d) that the customer has agreed to the repayment rate and repayment amount;
- (e) that the repayment rate and repayment amount can be varied—
  - (i) at the customer's request; and
  - (ii) if agreed by the gas supplier;
- (f) the gas supplier can terminate the agreement on provision of 30 days notice; and
- (g) the customer can terminate the agreement on provision of 30 days oral or written notice.

## **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations permit a gas supplier to recover sums, owed by a customer which arose from the supply of gas to a customer's previous premises and where applicable the provision of the meter at those premises, through a prepayment meter installed by an authorised supplier.

# Annex 2 Draft Regulations: Electricity

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DRAFT STATUTORY INSTRUMENT

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**2006 No.**

## **ELECTRICITY**

### **The Electricity (Prepayment Meter) Regulations 2006**

*Made* - - - - - \*\*\*

*Coming into force* - - - - - \*\*\*

The Gas and Electricity Markets Authority<sup>1</sup>, in exercise of the powers conferred upon it by paragraph 12 of Schedule 7 to the Electricity Act 1989<sup>2</sup> and by section 106 of that Act, and after consultation with representative organisations in accordance with paragraph 12(5) of Schedule 7 to that Act, and with the consent of the Secretary of State, hereby makes the following Regulations:

#### **Citation and commencement**

1.—(1) These Regulations may be cited as the Electricity (Prepayment Meter) Regulations 2006 and shall come into force on [\*\*\*\* 2006].

(2)[Regulation 3 (1)(a)(i), (iii), (b) and (c) will cease to have effect on {xxxx2008}.

#### **Interpretation**

2.— In these Regulations —

“agreement” means the written agreement required under regulation 4(1);

“gas supplier” means the holder of a licence under 7A(1)(a) of the Gas Act 1986<sup>3</sup> except where the holder is acting otherwise than for purposes connected with the carrying on of activities authorised by the licence;

“repayment amount” means the amount of each instalment to be paid towards the repayment of the sum owed;

“repayment rate” means the frequency at which instalments are to be paid towards the repayment of the sum owed;

“sum owed” means the aggregate of sums specified under regulation 3(1)(a) and (b); and

“prepayment meter” means an electricity prepayment meter installed by an authorised supplier through which the customer takes his supply of electricity.

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<sup>1</sup> The Gas and Electricity Markets Authority was established by section 1 of the Utilities Act 2000, c.27

<sup>2</sup> 1989 c.29, paragraph 12 of Schedule 7 of the Electricity Act was inserted by section 181 of the Energy Act 2004 c.20

<sup>3</sup> 1986 c.44.

### **Recovery of sums owed for electricity and gas**

**3.—**(1) A prepayment meter may be used to recover a sum that is owed to a gas supplier or an electricity supplier by a customer in respect of any one or more of the following—

- (a) at any premises previously owned or occupied by the customer—
  - (i) the supply of gas;
  - (ii) the supply of electricity;
  - (iii) the provision of a gas meter; and
  - (iv) the provision of an electricity meter;
- (b) the provision of a gas meter at the premises on which the prepayment meter is installed; and
- (c) the supply of gas to the premises on which the prepayment meter is installed

where no part of the sum is being recovered through other methods.

(2) Any sum recoverable through a prepayment meter under paragraph 12(2)(a) of Schedule 7 to the Electricity Act 1989 may be consolidated with a sum specified in regulation 3(1) and recovered under these Regulations.

### **The Agreement**

**4.—**(1) An electricity supplier may not recover sums specified in regulation 3 by means of a prepayment meter unless it has previously entered into a written agreement with the customer which complies with paragraphs (2) and (4), and where applicable regulations 5 and 6.

(2) The agreement must state—

- (a) the name(s) of the customer;
- (b) any fixed charges that will be incurred; and
- (c) that the electricity supplier warrants that he has provided the customer with details as required under paragraph (3).

(3) The details required by this paragraph are—

- (a) other means of payment available to the customer;
- (b) the operation of the prepayment meter, particularly as regards the recovery of debt;
- (c) an estimate of on-going consumption charges for electricity that are expected to be incurred; and
- (d) the implications of failing to make any payments in full or in part when they fall due under the agreement.

(4) The agreement must include terms to the following effect—

- (a) the agreement comes into force seven working days after receipt by the customer of the agreement, unless the customer notifies the electricity supplier that the customer does not wish to implement the agreement;
- (b) notification under sub-paragraph (a) can be made orally or in writing and must be given within seven working days of receipt of the agreement by the customer;
- (c) the electricity supplier can terminate the agreement on provision of 30 days notice; and
- (d) the customer can terminate the agreement on provision of 30 days oral or written notice.

### **Collection of the sum owed**

5. Where the prepayment meter is being used to recover a sum owed the agreement must include—

- (a) each element of the sum owed and to what it relates;
- (b) the repayment rate and repayment amount;
- (c) the date at which the sum owed will be fully repaid if the repayment amount is paid at the repayment rate;
- (d) a term that the repayment rate and repayment amount has been calculated by the supplier to take into account the customer's ability to pay the total of all charges to be recovered through the prepayment meter;
- (e) a term that the customer has agreed to the repayment rate and repayment amount; and
- (f) a term that the repayment rate and repayment amount can be varied—
  - (i) at the customer's request; and
  - (ii) if agreed by the electricity supplier.

### **Collection for on-going gas consumption**

6.—Where the prepayment meter is being used to recover a sum that is owed under regulation 3(c) the agreement must include:

- (a) the level and frequency of payments required for on-going gas consumption;
- (b) a term that the supplier will make reasonable endeavours to obtain quarterly gas meter readings; and
- (c) a term that the supplier will adjust the level and frequency of payments required for on-going gas consumption to reflect the gas meter readings obtained, after consultation with the customer.

### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

To be written.

## Annex 3 Summary of responses

- 3.1 Ofgem is grateful for all the views and suggestions made by respondents. The text below aims to summarise the responses highlighting a selection of points made and is not intended to be exhaustive. All of the full responses are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) in the Social Action Plan area of work.
- 3.2 Ofgem received 16 responses. 6 responses were from suppliers (eon, BGT, RWE npower, SSE, EDF Energy, Scottish Power), 6 were from consumer organisations (energywatch, Citizens Advice, Eaga partnership, FPAG, NEA and Energy Action Scotland) and 4 were from metering businesses (NGT, Landis and Gyr, Siemens Energy Services and the UK Metering Forum).

### ***General overview***

- 3.3 Overall the majority of respondents were in favour of option 1 and roughly half of the respondents were supportive of options 2 and 3 as either a longer term option or if suitable restrictions were in place to safeguard customers and industry. energywatch and Citizens Advice did not support any of the options at this time but stated they would reconsider if further evidence and clarification was provided. Following further discussions with energywatch, they have given their conditional support to taking this work forward.
- 3.4 Option 2 was supported equally by suppliers and consumer organisations. Concerns regarding options 2 included the need for changes to industry processes and concerns over customer confusion. The benefits of option 2 included reducing disconnections in gas if charges were recovered through an electricity PPM, customers enjoy benefits of payments smoothed over a year (as do direct debit customers) due to the less seasonal nature of electricity demand and overall costs for customers would reduce if they only had an electricity PPM.
- 3.5 Option 3 was supported by suppliers but not by consumer organisations. Concerns regarding option 3 included the possibility of more customers rationing their fuel or self disconnecting in order to pay off debts which did not relate to fuel consumption. There was also concern that some customers who



were eligible for free energy efficiency measures could end up paying for measures.

- 3.6 No respondents proposed any other options for consideration although a proposal was made to broaden option 2.

### **Suppliers**

- 3.7 All suppliers supported option 1. The majority of suppliers mentioned that there was already demand for this option by customers and it could be introduced without any major industry changes.
- 3.8 For option 2 all suppliers saw the benefits of the option and some supported the option fully. However, some had concerns over the industry changes required to implement it and the possible complexity of administering the option. Those expressing caution considered that the option should be trialled or taken as a longer term objective.
- 3.9 All suppliers supported option 3. Three suppliers acknowledged that there would be problems associated with this option which would need to be overcome such as consumer safeguards. Again, some suppliers felt this option should be taken forward as a longer term objective.

### **Metering industry view**

- 3.10 The majority of respondents supported option 1, half supported option 2 in principle or as a longer term objective and half fully supported option 3. One respondent did not provide comments on the options.

### **Consumer organisation view (including energywatch)**

- 3.11 Half the respondents supported option 1 and two respondents were not in favour of any options at this time but stated that they would reconsider if clarification on issues such as those set out below were provided:
- customer agreement would be needed in all cases;
  - the repayment rate for debts should be reasonable and take account of ability to pay;

- suppliers should continue to give payment method advice to the customer, and;
  - use of a PPM should not become the automatic default option.
- 3.12 Two respondents supported option 2 with one respondent commenting that the industry processes could be changed to facilitate this option. Other respondents supported aspects of the option or stated they did not support it at this stage but were open to discussion if further clarification on the policy detail was provided.
- 3.13 One respondent supported option 3. The majority of respondents felt that the potential problems for this option outweighed any customer benefit and therefore did not support this option.