



SLR Steering Group

Supply Licensees

Interested Parties

Consumer Groups

Your Ref:

Our Ref:

Direct Dial: 020 7901 7118

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Date: 26 April 2007

Dear Colleague,

Supply Licence Review: Further consultation on licence drafting for the obligation to reset prepayment meters following a price change

This letter seeks views on Ofgem's intention to amend the proposed licence drafting for the prepayment meter (PPM) recalibration obligation¹, set out in our "Supply Licence Review – Further Proposals" consultation document issued in December 2006 ("the December consultation paper")². We intend to make amendments to clarify the effect of this obligation.

A draft of the proposed licence obligation, showing the amendments Ofgem intends to make, is attached as an annex to this letter along with the relevant extract from the draft supplementary guidance, also amended.

The changes are intended to make it clear that, under the licence condition, suppliers must, from the date at which the supply licences are modified (estimated to be July 2007³) onwards, act to recalibrate PPMs which do not reflect current prices – both where a price is changed post July 2007 and where the price has been changed prior to July 2007 and the meter has not yet been reset.

Background

In the December consultation paper (pages 25 to 27) we set out our proposals regarding the obligation on suppliers to take steps to reset a PPM following a change in price.

In most cases a PPM will be reset remotely by the supplier to reflect a change in price (or a change in instalments, for example for past debts, being collected through the PPM). However in the case of electricity token PPMs the supplier will need to visit the customer's house in order to reset the meter. Some suppliers do not apply these increased prices until they have reset the meter, thus there is no risk of debt build up. In other cases suppliers do apply new prices immediately and where delays in resetting the PPM are lengthy substantial debts can build up.

¹ Condition 28.2 of draft gas and electricity supply licence conditions.

² http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/16507-217_06.pdf

³ For the purposes of this letter and the draft amended condition 28.2 the date July 2007 is used. Should this modification be made to the supply licences, this date will need to reflect the date of implementation of the modification. This date may change depending on the timetable for the Supply Licence Review.

In our December consultation paper we set out our plans for tackling this issue and included draft licence conditions which obliged the licensee to "take all reasonable steps to ensure that the meter is reset within a reasonable period of time after...any change is made in the charges for the supply". In doing so we recognised that the licence changes would not be made until the following year and heralded further action we were taking directly with suppliers to tackle the specific issue of debt build up on electricity token PPMs in the interim period.

We continue to monitor suppliers' progress against our best practice statement⁴ and their additional commitments and published our first update in March 2007⁵. A further update is planned shortly. We have made it clear that we will not hesitate to take further action if we consider it to be necessary.

Ofgem's revised proposals

Having considered the responses to the December consultation paper we continue to consider that it is appropriate to put in place specific licence obligations requiring suppliers to take all reasonable steps to reset meters within a reasonable period of time when there has been a price variation. This issue remains equally important in a time of falling prices.

While this issue is of particular concern in relation to electricity token PPMs it is important that all customers pay amounts that reflect the prices they are actually being charged and as such this obligation will be applied to both electricity and gas PPMs.

In reviewing the finer details of the licence drafting which will deliver these proposals we have concluded that it would be preferable to amend the drafting to make it clear what the effect of the obligation will be. The obligation to take all reasonable steps to reset the meter will apply where there has been a price change, even where the price change occurred before the new obligation is in place. However, the 'reasonable period of time' in which all reasonable steps has to be taken does not begin until the licence modification is made.

This drafting is not intended to create a retrospective obligation. A supplier would not be in breach of this condition for any failures "to take all reasonable steps" prior to the licence condition being modified.

Without amending the drafting in this way there is a risk that a supplier who has changed his price before the SLR proposals are introduced will not be subject to this obligation in respect of those price changes. This is not in line with our policy objective, to reduce the build up of debt to customers because of a failure to reset meters where the tariff on the meter does not match the current price being charged to the customer.

In view of our intention to issue our decision document and statutory licence modification proposals in mid May we are seeking any views and comments on the above issue by 5pm on Thursday 3rd May 2007.

Please send comments to Michael Knowles at michael.knowles@ofgem.gov.uk or send to Michael Knowles, Head of Licensing, Ofgem, 9 Millbank, London, SW1P 3GE. Your comments will, in part, inform our decision on whether to make these amendments.

⁴ http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/16521-218_06.pdf

⁵ http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/19084_21_march_final_january_letter.pdf

If you have any queries on this issue or will have difficulty in responding in these timescales please contact Michael Knowles on 020 7901 7118.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael Knowles", written in a cursive style.

Michael Knowles
Head of Licensing

Annex

Draft licence obligation

- 28.2 Where a Domestic Customer pays Charges for the Supply of Electricity / Gas through a prepayment meter, the licensee must take all reasonable steps to ensure that the meter is reset within a reasonable period of time after:
- (a) [x July 2007], where changes have been made to Charges for the Supply of Electricity / Gas before that date and the meter has not been reset;
 - (b) any change is made in the Charges for the Supply of Electricity / Gas; or
 - (c) where payments are made by instalments using the prepayment meter, any change is made to the amount of those instalments or instalments are no longer required.

Extract of draft supplementary guidance

28.2: This obligation applies whether the change to the electricity / gas prices occurred before or after [x July 2007]. Where prices were changed before [x July 2007] and the prepayment meter was not reset by [x July 2007] the licensee should take all reasonable steps to do so, from [x July 2007] onwards. The steps required to be taken will depend on all the circumstances of the case, including whether access to the prepayment meter is required to reset it and whether price changes were made before or after [x July 2007]. In cases where access to the prepayment meter is required, the licensee is likely to be required to promptly and proactively contact the Domestic Customer to arrange for the meter to be reset at a time convenient to him. This communication is likely to be required to include written communication as well as cyclical visits by meter operators. It is likely that the written communication should explain that the prepayment meter needs to be reset, ask the customer to contact the licensee to arrange to do so, and explain the consequences of a failure to reset the prepayment meter, in particular the likely build up of debt. If a customer makes contact requesting an appointment to reset the meter, an appointment is likely to be required to be given within a reasonable period of time. That period will depend on all the circumstances of the case but is unlikely to be longer than one month.