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Energy consumers and their
representatives, energy
suppliers, third party switching
organisations and other
interested parties

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Date: 18 December 2014

Statutory consultation on proposed modifications to the gas and electricity supply licences to reform the switching process for indebted prepayment meter customers – the Debt Assignment Protocol

This letter comprises a statutory consultation on a proposed licence change to oblige gas and electricity suppliers to increase the monetary threshold at which they must facilitate the transfer of indebted prepayment meter customers from £200 to £500.

Separately, this letter also seeks stakeholders' views on minor consequential changes we are proposing to make to our Social Obligations reporting guidance.

Background

Earlier this year, we reviewed the Debt Assignment Protocol (DAP) – the industry process used to transfer debts between suppliers when indebted prepayment meter (PPM) customers try to switch. Our main finding was that PPM customers in debt face unnecessary barriers and complexity when they try to switch supplier.

When an indebted PPM customer chooses to switch, their existing supplier must facilitate the transfer of their debt to their chosen supplier subject to the level of debt on the account (the debt threshold).¹ This threshold is set at £200 in the gas and electricity supply licences.

The six large suppliers have been applying an increased threshold of £500 voluntarily since 1 November 2012. Some small suppliers have also been applying this higher threshold voluntarily since then, while others began applying the increased threshold from 1 April 2013. Applying this increased threshold provides more indebted PPM customers with the opportunity to switch and potentially move to a cheaper tariff. The debt moves with the customer when they switch and the customer must repay it to their new supplier. The DAP governs this debt transfer process. The DAP process is set out in industry codes and is managed by suppliers.

On 22 September this year, we published an open letter² setting out the results of our review and the next steps needed to address the issues we identified. We said that we would consult on making two changes to improve DAP arrangements. This letter seeks your views on these proposed changes.

¹ Electricity Supply Standard Licence Condition 14.6 and Gas Supplier Standard Licence Condition 14.6.

² <https://www.ofgem.gov.uk/publications-and-updates/review-debt-assignment-protocol-%E2%80%93-open-letter>

Debt threshold

In this consultation we propose clarifying regulatory arrangements by modifying the relevant provision to increase the debt threshold that suppliers are already applying voluntarily in the gas and electricity supply licence conditions (SLC).

Some suppliers have raised concerns that some relatively new market entrants may not be voluntarily applying the £500 DAP threshold. We are conscious that some suppliers will have entered the market since the original commitment to voluntarily increase the threshold was made. If any suppliers are not applying the increased debt threshold, they will be preventing their PPM customers who have a debt of more than £200 but equal to or less than £500 from switching and potentially paying off their debt more quickly.

The effect of the proposed licence modification will be to ensure that all suppliers apply a consistent debt threshold so that customers are clear on their rights when they seek to switch. Modifying the gas and electricity supply licences will ensure that all suppliers must take this consistent approach. As well as giving consumers clarity, it will remove any ambiguity that may exist for suppliers, particularly relatively new entrants.

The drafting for our proposed licence modifications are set out in appendix one to this letter.

Question 1: Do you agree with our proposal to amend SLC 14.6 and increase the Debt Assignment Protocol debt threshold to £500 to reflect the current voluntary practice?

Social Obligations reporting

Suppliers are required to provide us, Citizens Advice and Citizens Advice Scotland with information relating to their dealings with Domestic Customers.³ Suppliers do this by submitting Social Obligation reporting data returns. We have produced a guidance document to help suppliers complete these returns. The current guidance is published at:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Reporting/SoObMonitor/Documents1/Reporting%20Suppliers%20Performance%20Guidance.pdf>

In this consultation we propose requiring suppliers to break down their reporting according to the number of PPM customers with a debt greater than £500, and the number of PPM customers with a debt equal to or less than £500. This will account for the change in the debt threshold from £200 to £500 that suppliers are already voluntarily applying and that we propose formalising in the gas and electricity supply licences. This revised data set can then be used to effectively monitor the number of consumers benefiting from the DAP.

Our proposals will also reduce regulatory burden and simplify arrangements by removing redundant data fields. The current data reporting requires suppliers to break down the numbers of PPM customers entering the DAP process according to a number of debt thresholds below £500. Breaking down the reporting in this way does not correspond to the DAP requirements and we do not see value in continuing to gather data in this way.

We have shared our draft proposed changes with Energy UK who have gathered initial views from suppliers' and we have used this early engagement to inform our proposals.

Our draft proposed changes to the Social Obligations reporting guidance are included in appendix two to this letter.

Question 2: Do you have any comments on the changes we are proposing to make to the Social Obligation reporting requirements?

³ Electricity Supply Standard Licence Condition 32 and Gas Supplier Standard Licence Condition 32.

Next steps

Responses to this statutory consultation on the proposed licence modifications and the consultation on proposed changes to the Social Obligations reporting guidance should be sent to jonathan.blagrove@ofgem.gov.uk **by close on 13 February 2015.**

Pending consultation responses, we expect to make modifications to the gas and electricity supply licence (see appendix one) in March 2015 and for the changes to take effect **from 1 June 2015.**⁴

Pending consultation response, we expect to make changes to the Social Obligation reporting arrangements (see appendix two) that will take effect **from 1 April 2015.** This will mean that suppliers will need to submit revised data returns for quarter two 2015 onwards.

Yours faithfully,

Jonathan Blagrove
Senior Manager – Consumer Policy and Insight

⁴ This will allow for the proposed modifications to take effect not less than 56 days after the modification decision is published.

Appendix One – Proposed electricity and gas supply licence modifications

To: All holders of an electricity supply licence

NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the Authority) hereby gives Notice pursuant to section 11A(2) of the Electricity Act 1989 (the Act) as follows:

1. The Authority proposes to modify all electricity supply licences granted or treated as granted under section 6(1)(d) of the Act by amending standard licence condition 14.6.
2. The reason(s) why the Authority proposes to make this licence modification are described in the letter preceding this appendix and noted here.
3. *Some suppliers have raised concerns that some relatively new market entrants may not be voluntarily applying the £500 DAP threshold. We are conscious that some suppliers will have entered the market since the original commitment to voluntarily increase the threshold was made. If any suppliers are not applying the increased debt threshold, they will be preventing their PPM customers who have a debt of more than £200 but equal to or less than £500 from switching and potentially paying off their debt more quickly.*
4. The effects of the proposed modification(s) are described in the letter preceding this appendix and noted here.
5. *The effect of the proposed licence modification will be to ensure that all suppliers apply a consistent debt threshold so that customers are clear on their rights when they seek to switch. Modifying the gas and electricity supply licences will ensure that all suppliers must take this consistent approach. As well as giving consumers clarity, it will remove any ambiguity that may exist for suppliers, particularly relatively new entrants.*
6. A copy of the proposed modification and other documents referred to in this Notice have been published alongside this Notice and are available on the Ofgem website (www.ofgem.gov.uk).
7. Any representations with respect to the proposed licence modifications must be made on or before 13 February 2015 to: Jonathan Blagrove, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to jonathan.blagrove@ofgem.gov.uk.
8. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
9. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Philip Cullum
Duly authorized on behalf of the
Gas and Electricity Markets Authority

18 December 2014

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Schedule 1

Proposed modification to the electricity supply licence

14. Customer transfer blocking

14.6 The licensee shall ensure that Outstanding Charges of amounts equal to or less than ~~£200~~£500 are capable of being assigned by the licensee to a new Electricity Supplier in accordance with the Protocol.

To: All holders of a gas supply licence

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 23(2) of the Gas Act 1986 (the Act) as follows:

1. The Authority proposes to modify all gas supply licences granted or treated as granted under section 7A(1) of the Act by amending licence condition 14.6.
2. The reason(s) why the Authority proposes to make this licence modification are set out in the letter preceding this appendix and noted here.
3. *Some suppliers have raised concerns that some relatively new market entrants may not be voluntarily applying the £500 DAP threshold. We are conscious that some suppliers will have entered the market since the original commitment to voluntarily increase the threshold was made. If any suppliers are not applying the increased debt threshold, they will be preventing their PPM customers who have a debt of more than £200 but equal to or less than £500 from switching and potentially paying off their debt more quickly.*
4. The effects of the proposed modification(s) are described in the letter preceding this appendix and noted here.
5. *The effect of the proposed licence modification will be to ensure that all suppliers apply a consistent debt threshold so that customers are clear on their rights when they seek to switch. Modifying the gas and electricity supply licences will ensure that all suppliers must take this consistent approach. As well as giving consumers clarity, it will remove any ambiguity that may exist for suppliers, particularly relatively new entrants.*
6. A copy of the proposed modification(s) and other documents referred to in this Notice have been published alongside this Notice and are available on the Ofgem website (www.ofgem.gov.uk).
7. Any representations with respect to the proposed licence modifications must be made on or before 13 February 2015 to: Jonathan Blagrove, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to jonathan.blagrove@ofgem.gov.uk.
8. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
9. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Philip Cullum
Duly authorised on behalf of the
Gas and Electricity Markets Authority

18 December 2014

Schedule 2

Proposed modification to the gas supply licence

14. Customer transfer blocking

14.6 The licensee shall ensure that Outstanding Charges of amounts equal to or less than ~~£200~~£500 are capable of being assigned by the licensee to a new Gas Supplier in accordance with the Protocol.

Appendix Two – Proposed changes to Social Obligation reporting guidance

These are the changes we propose making to the Social Obligations reporting guidance.

Section of reporting return	Location in guidance	Current definition/wording	Proposed new definition/wording
5	Throughout the guidance where it refers to the section title	Debt Assignment Protocol (DAP)	Debt Assignment Protocol (DAP) – Switching for Indebted PPM Consumers ⁵
5	Page 15, para 2.41	Data items Q5.1 – Q5.4 use the definitions set out in the MRA Agreed Procedure for the Assignment of Debt in Relation to Prepayment Meters and suppliers should use this guidance alongside the Procedure document accordingly. This can be found at http://www.mrasco.com/admin/documents/MAP13%20v1.4%20-%20Procedure%20for%20the%20Assignment%20of%20Debt%20in%20Relation%20to%20Prepayment%20Meters.pdf	Data items Q5.1 – Q5.4 use the definitions set out in the MRA 'Agreed Procedure for the Assignment of Debt in Relation to Prepayment Meters. MAP 13' and Supply Point Administration Agreement (SPAA) Schedule 9. Suppliers should use this guidance alongside the Procedure document and SPAA Schedule 9 document accordingly. These can be found at http://www.mrasco.com/mra-products/mra-agreed-procedures and http://www.spaa.co.uk/documents/spaa-current-version .
5	Page 15, para 2.42	Data item Q5.1 asks the number of Supply Point Objections (objections placed on the grounds of debt) raised during the reporting period. This figure should be reported as the 'losing' supplier.	Data item Q5.1 asks whether supplier followed the point of acquisition (POA) model ⁶ at the start of this reporting period (Yes/No).

⁵ Wording added to clarify that the DAP only applies to indebted PPM customers, and not to other customers.

⁶ Some suppliers have agreed to adopt a "point of acquisition model". Using this model, these suppliers will provide customers with information about data sharing at the point of acquisition and ask customers to confirm that they are content for details of their debt to be shared between the incoming and outgoing supplier. These suppliers will not then ask customers for consent to data sharing later in the switching process as they do at present. Removing the requirement to provide consent for data sharing partway through the process will remove a barrier to switching and should help increase the volume of completed switches. Visit this link to our previous open letter for additional information.

<https://www.ofgem.gov.uk/publications-and-updates/review-debt-assignment-protocol-%E2%80%93-open-letter>

Section of reporting return	Location in guidance	Current definition/wording	Proposed new definition/wording
5	Page 15, para 2.43	Data item Q5.2 asks for the number of G0306 records (request for debt information upon agreement from customer) received during the reporting period. It should be reported as the 'losing' supplier.	Data item Q5.2 asks for the number of unique indebted PPM customer accounts entering the switching process in this reporting period. These figures should be provided broken down into the following categories: ≤£500, >£500 and Total. These figures should be reported by the losing supplier.
5	<i>Not currently in the guidance</i>	<i>Not currently in the guidance</i>	Data items 5.3-5.4 refer only to customer accounts reported in 5.2 where debt was ≤£500
5	Page 15, para 2.44	Data item Q5.3 asks for the number of G0307 records (provision of debt information) received during the reporting period. It should be reported as the 'gaining' supplier.	Data item 5.3: For those customer accounts reported in 5.2, where debt was ≤£500, the number of customer accounts where a Complex Debt process was applied in this reporting period. These figures should be provided by the losing supplier, broken down into the following categories: Complex Debt, Not Complex Debt, and Total. For a definition of Complex Debt see MRA 'Agreed Procedure for the Assignment of Debt in Relation to Prepayment Meters. MAP 13' at http://www.mrasco.com/mra-products/mra-agreed-procedures .
5	Page 15, para 2.45	Data item Q5.4 asks for the number of G0309 records (confirmation of amount of debt to be assigned) received during the reporting period. It should be reported as the 'gaining' supplier. These figures should be provided broken down into the following categories: <£150, £150-£300, >£300, and 'Complex Debt.' For a definition of 'Complex Debt', please see the MRA Agreed Procedure for the Assignment of Debt in Relation to Prepayment Meters at http://www.mrasco.com/admin/documents/MAP	Data item 5.4: For those customer accounts reported in 5.2, where debt was ≤£500, the number of customer accounts completing the switching process in the reporting period, split by the type of debt. These figures should be provided by the losing supplier broken down into the following categories: Complex Debt, Not Complex Debt, and Total.

Section of reporting return	Location in guidance	Current definition/wording	Proposed new definition/wording
		13%20v1.4%20-%20Procedure%20for%20the%20Assignment%20of%20Debt%20in%20Relation%20to%20Pre payment%20Meters.pdf	
Throughout the reporting return	Throughout the guidance	ERA	EUK ⁷ .
Throughout the reporting return	Throughout the guidance	Consumer Council	Citizens Advice Service/Citizens Advice Scotland ⁸

⁷ The Energy Retail Association has been abolished and superseded by Energy UK since this reference was last updated.

⁸ The Consumer Council has been abolished and superseded by the Citizens Advice Service/Citizens Advice Scotland since this reference was last updated, with its functions transferring to the Citizens Advice Service/Citizens Advice Scotland.