

# Smart prepayment for a smarter market: our proposals

## Consultation

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### Overview:

Smart meters can positively transform the experience of prepayment consumers. Customer service can be significantly improved, consumers can enjoy far greater convenience, and the cost of prepayment relative to other payment methods can be reduced.

Smart prepayment was identified as a key focus area for Ofgem's Consumer Empowerment and Protection project. We are now consulting on measures that we think will help achieve the right consumer outcomes for smart prepayment.

We welcome your views on our proposals. This consultation closes on 23 October 2015.

## Context

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Ofgem's Consumer Empowerment and Protection project is seeking to identify and, where necessary, act on risks and opportunities for consumers in a smarter market. It forms part of delivering Ofgem's strategic output of high standards – ensuring results and protection for consumers meet the high standards expected of an essential service – identified in our Forward Work Programme 2015-16. It looks to help achieve the consumer outcomes of better quality of service and lower bills.

In September 2014 we published our updated work programme for the project. Smart prepayment was identified as a priority workstream to be addressed during phase one of the project, which is focused on "getting the basics right" before the mass roll-out of smart meters begins.

We are publishing this smart prepayment consultation following extensive stakeholder engagement.

## Associated documents

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- Ofgem, June 2015, Prepayment Review: understanding supplier charging practices and barriers to switching. <https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>
- Ofgem, 2014-2015. Consumer Empowerment and Protection – Smart prepayment workshop materials: <https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme/consumer-empowerment-and-protection>
- Ofgem, September 2014, Consumer Empowerment and Protection: Updated Work Programme. <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme>
- Ofgem, December 2013, Consumer Empowerment and Protection in Smarter Markets (consultation). <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets>
- Ofgem, July 2013, Consumer Vulnerability Strategy. <https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf>
- Ofgem, September 2011. Modification direction (including guidance on the interpretation of "safe and reasonably practicable in all the circumstances of the case"). <https://www.ofgem.gov.uk/ofgem-publications/57343/modification-direction.pdf>
- Ofgem, June 2011, Spring Package (statutory consultation). <https://www.ofgem.gov.uk/ofgem-publications/57387/smart-metering-consumer-protections-package-statutory-consultation.pdf>
- Ofgem, June 2010, Debt Review report: key principles for taking ability to pay into account. <https://www.ofgem.gov.uk/ofgem-publications/57399/open-letter.pdf>

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## Executive Summary

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Smart meters can positively transform the experience of prepayment consumers. Customer service can be significantly improved, consumers can enjoy far greater convenience, and the cost of prepayment relative to other payment methods can be reduced.

In scoping the Consumer Empowerment and Protection project, we identified prepayment as an area that suppliers needed to get right from the early days of the smart meter roll-out. We are encouraged by the developments we have seen so far, and by the recent emergence of a number of new smart prepayment offerings in the market. We expect to see continuing innovation in the market, helping to support delivery of the significant benefits that smart meters can bring to prepayment consumers.

We are also of the view that the existing regulatory framework, in combination with the technical and functional specifications of the smart metering technology, provides many of the necessary protections. We propose changes in a select few areas only.

### Our proposals

#### **Change of supplier for smart prepayment**

Stakeholders have told us that there is a risk – in very specific scenarios – of a prepayment consumer going off supply upon changing supplier, without the ability to top up and re-enable supply. We consider that the likelihood of this risk materialising should be low. Nevertheless, we consider that the detriment to a consumer could be so great that the risk needs to be mitigated to the greatest extent possible.

We support the solution proposed – and now taken forward – by industry to switch a smart prepayment meter to credit mode at the point of change of supplier. There could be unintended consequences associated with this solution, such as a consumer building up debt if the meter is left in credit mode for some time. We consider that existing supplier obligations, including the need for suppliers to treat their customers fairly, serve to protect consumers against such consequences.

We also consider that this solution should apply to all smart meters which can operate in prepayment mode, irrespective of the type of consumer being served. We see no reason for these arrangements to differ between domestic and non-domestic consumers.

#### **Key smart prepayment functionalities**

Smart metering technology offers and improves upon a number of key functionalities for consumers. For example, it will be possible to offer emergency credit for both electricity and gas; alerts can be sent in case of low credit or high consumption; and a wider range of top-up channels can become available. These functionalities will make prepayment a far more convenient proposition. They can also act as important safeguards against self-disconnection, and will be particularly important for more

vulnerable consumers. We expect suppliers to make use of these functionalities, and we recognise that there is scope for innovation and competitive differentiation in this area.

We are still in the relatively early stages of the smart meter roll-out and many developments around smart prepayment are yet to come. We therefore propose to start monitoring suppliers' use of such functionalities through our existing Social Obligations Reporting (SOR). Monitoring will allow us to understand if consumers have access to these smart prepayment benefits, to identify quickly if there are any issues or concerns, and to act on these as needed.

### **Existing regulatory arrangements**

We consider that the existing regulatory arrangements for prepayment remain largely fit-for-purpose for a smarter market. We also consider that they do not pose any undue barriers to innovation, including in areas which were highlighted by suppliers. For example, our Supply Licence Conditions accommodate consumers actively requesting alternative top-up methods so as not to require cash as a payment option. This is made possible by smart meters, which can be topped up remotely without the need for a consumer to visit a shop or payment outlet.

We propose to update our prepayment Safe and Reasonably Practicable Guidance. This already provides important protection to prepayment consumers, especially those in vulnerable situations. We want to ensure that this evolves in line with positive developments and innovations such as those around top-up methods. Specifically, we want to provide examples of relevant factors to consider when suppliers apply the Safe and Reasonably Practicable test in the case of a smart prepayment consumer specifically asking to pay by alternative top-up methods. We also propose to monitor the number of consumers doing so, to help us understand the developments in this area.

### **Micro-businesses**

The prevalence of prepayment in the micro-businesses market is very low. At this time, we do not propose to extend any of the existing regulatory arrangements to micro-businesses. Our current view is that it may not be proportionate to do so in the absence of substantial growth – or concrete evidence of likely future growth – of prepayment as a payment method in the micro-business market. We also consider that it may not be proportionate to do so without a clear case as to why any of the arrangements need to be extended.

### **Phasing out the traditional prepayment infrastructure**

Stakeholders suggested that we need to consider carefully the implications and risks associated with a future exit from the traditional prepayment infrastructure. This does not fall within the scope of this smart prepayment work. However, we recognise the importance of this issue, and at this stage we would welcome general views from stakeholders on the timelines and management of such a phase-out.



Smart prepayment for a smarter market: our proposals

## **Next steps**

We welcome stakeholders' views on all of our proposals. This consultation will be open for six weeks and will end on 23 October 2015. We will publish our decision, including a summary of responses and details of any further work, this winter.

# 1. Introduction and Background

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## Recap on our smart prepayment objectives

1.1. In 2013 we held early discussions with stakeholders about the risks and opportunities that could arise with smart meters, including in relation to prepayment. These informed our seven high-level objectives for this smart prepayment work, which we consulted on. We published the final list of objectives, with a summary of stakeholders' reactions, in our Updated Work Programme<sup>1</sup> published in September 2014. The objectives are:

1. Safe, easy and proportionate switching between prepayment and credit.
2. Prepayment as a clear and convenient proposition for consumers.
3. Effective use of smart prepayment functionalities to support consumer budget management and debt prevention (e.g. low credit alerts).
4. Consumers protected from top-up failures.
5. Appropriate emergency and friendly credit arrangements.
6. Robust understanding of self-disconnections and considered use of this information to support consumers.
7. Prepayment consumers switching easily between suppliers with accurate and timely credit transfers or refunds.

1.2. As per the Updated Work Programme, we set out to:

- understand if any new arrangements need to be put in place in the context of these objectives
- assess if the existing arrangements around prepayment remain fit-for-purpose for a smarter market.

1.3. To inform our thinking, we also looked at regulatory approaches to traditional and smart prepayment in other jurisdictions. A high-level overview of our findings is set out in Appendix 2.

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<sup>1</sup> Ofgem, September 2013. Consumer Empowerment and Protection in Smarter Markets: Updated Work Programme.  
[https://www.ofgem.gov.uk/sites/default/files/docs/2014/09/consumer\\_empowerment\\_and\\_protection\\_updated\\_work\\_programme.final\\_pdf\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/09/consumer_empowerment_and_protection_updated_work_programme.final_pdf_0.pdf)



## Key topic areas by objective(s)

1.4. Through our stakeholder engagement we identified a number of topic areas to consider in relation to our smart prepayment objectives. We recognised that many of these areas are relevant to more than one of our objectives.

1.5. In terms of new arrangements, this consultation is therefore structured around these topic areas. The table below outlines the topic areas and the objectives they relate to. **In Chapter 2** we set out our views against each of these topic areas, and consider if any new arrangements need to be put in place.

*Table 1: Topic areas and related smart prepayment objective(s)*

Topic area	Smart prepayment objective(s)
Change of supplier for smart prepayment	Objective 7
Key smart prepayment functionalities for consumers	Objectives 2, 3, 4 and 5
Recording of meter location	Objectives 4 and 7
The 'perfect storm' scenario: No WAN and no access	Objectives 2 and 4
Self-disconnections	Objectives 2, 3, 5 and 6
Change of tenancy	Objectives 1, 2 and 7
Customer communications	Objective 2

## The existing prepayment arrangements

1.6. There exists a substantial framework of protections for domestic prepayment consumers. Many of these were originally put in place for traditional prepayment meters, although several have since been adapted for smart metering – primarily through our 'Smart Metering Spring Package' work in 2011<sup>2</sup>.

1.7. The protection framework covers not just Supply Licence Conditions but wider energy legislation, technical specifications, voluntary commitments and a number of industry agreed solutions to smart meter related issues. Directly below we set out some of the most relevant arrangements which we refer to throughout this consultation. This does not constitute a comprehensive overview of all existing prepayment protections.

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<sup>2</sup> Ofgem, February 2011, Smart Metering Spring Package – addressing consumer protection issues (consultation). <https://www.ofgem.gov.uk/ofgem-publications/57389/smart-metering-spring-package-addressing-consumer-protection-issues.pdf>

## Supply Licence Conditions, energy legislation and wider arrangements

1.8. All suppliers with more than 50,000 domestic customers are required to offer these customers a wide choice of payment methods including payment in advance through a prepayment meter and by cash<sup>3</sup>. This includes the requirement on suppliers to offer consumers the ability to top up their prepayment meter by cash payment.

1.9. All suppliers are required to offer domestic customers the facility to pay for charges using a prepayment meter, when the supplier becomes aware or has reason to believe that a customer is having or will have difficulty paying<sup>4</sup>.

1.10. The Department of Energy and Climate Change (DECC) have previously made the decision that all smart meters will need to be able to function in prepayment and credit modes and to remotely switch between modes<sup>5</sup>, reducing the need for a meter exchange and the associated costs.

1.11. The Supply Licence Conditions have been amended to acknowledge that a prepayment meter includes any electricity meter operating in a mode which requires a customer to pay charges in advance<sup>6</sup>. This means that any condition applying to prepayment also applies to a smart meter operating in prepayment mode.

1.12. The Gas Act 1986 and the Electricity Act 1989 stipulate that, following non-payment of charges, a customer must be given at least 28 days to pay their bill and then at least 7 days' notice before the supplier can install a prepayment meter or disconnect the supply.

1.13. The Supply Licence Conditions also require suppliers to take action<sup>7</sup> if they have reason to believe that use of a prepayment meter by a domestic customer is no longer considered safe and reasonably practicable. Suppliers must also have regard to Ofgem's guidance on the interpretation of safe and reasonably practicable. This guidance<sup>8</sup> includes, as likely relevant factor for suppliers to consider, "whether the customer lives quite a distance from any top-up outlets".

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<sup>3</sup> SLC 27.1 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>4</sup> SLC 27.5/6 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>5</sup> DECC, November 2014. Smart Metering Equipment Technical Specifications Version 1.58.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/381535/SMIP\\_E2E\\_SMETS2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/381535/SMIP_E2E_SMETS2.pdf)

<sup>6</sup> SLC 1.3 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>7</sup> SLC 28.1 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>8</sup> Ofgem, September 2011. Modification direction (including guidance on the interpretation of "safe and reasonably practicable in all the circumstances of the case").

1.14. Suppliers must also provide appropriate information to prepayment customers, including on the advantages and disadvantages of a prepayment meter and where they may obtain information or assistance if the prepayment meter or the device used to top up is not operating effectively<sup>9</sup>.

1.15. When a prepayment meter is set to recover debt, suppliers must take “all reasonable steps” to ascertain a customer’s ability to pay when calculating repayment amounts. When evaluating a customer’s ability to pay, the supplier must give due consideration to the value of all charges that are to be recovered through a prepayment meter<sup>10</sup>.

1.16. The Supply Licence Conditions also state that a supplier should enable the transfer of an indebted prepayment customer to another supplier, where the debt is less than £500 per fuel<sup>11</sup>. In this case the customer transfer is governed by the industry code known as Debt Assignment Protocol.

1.17. The Smart Meter Installation Code of Practice (SMICoP<sup>12</sup>) provides an important first engagement between suppliers and consumers on smart meters. SMICoP specifically requires suppliers to ensure that, upon installation of the meter, their smart prepayment customers are provided with a demonstration of the prepayment functions and with guidance on getting credit and on the top-up process.

### **Voluntary commitments and industry initiatives surrounding prepayment**

1.18. Energy UKs ‘Safety Net’ is a voluntary industry initiative which commits signatories to helping their customers, in particular their most vulnerable customers, and providing them with the appropriate support they need to manage their energy use. The Safety Net currently has six signatories<sup>13</sup>.

1.19. Industry has previously worked, as part of DECC’s Smart Metering Implementation Programme, on potential issues and solutions as they relate to smart prepayment. This work put forward, for example, proposals and ideas to protect consumers from top-up failures.

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<https://www.ofgem.gov.uk/ofgem-publications/57343/modification-direction.pdf>

<sup>9</sup> SLC 28 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>10</sup> SLC 28 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>11</sup> SLC 14.6 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>12</sup> SMICOP: <http://www.energy-uk.org.uk/policy/smart-meters/smart-metering-installation-code-of-practice.html>

<sup>13</sup> British Gas, EDF Energy, E.ON, npower, Scottish Power and SSE.

1.20. In **Chapter 2** we highlight how some of these existing arrangements apply to specific smart metering scenarios. In **Chapter 3** we explore some of the existing arrangements in more depth, and consider whether there are any compatibility issues with smart prepayment specifically.

### **Micro-businesses**

1.21. Many of the existing arrangements around prepayment, including within the Supply Licence Conditions, are targeted at domestic customers only and do not extend to micro-businesses. For example, suppliers are not required to offer non-domestic consumers prepayment as a payment method.

1.22. While there are no specific prepayment protections, the standards of conduct (SoC<sup>14</sup>) for micro-businesses require suppliers to treat small businesses (including micro-businesses) fairly. The SoC covers prepayment customers where they relate to billing, contracting with, and switching between suppliers. We have also communicated to suppliers that they should adopt and apply good practice in their treatment of business customers in payment difficulty and facing disconnection. Most of the SMICoP provisions, including on prepayment, also apply to micro-business consumers.

1.23. In **Chapter 4**, we set out our views on whether there is a case at present for extending existing regulatory arrangements to cover micro-business prepayment customers.

### **Impact assessment**

1.24. Section 5A of the Utilities Act 2000 places a duty on the Authority to carry out Impact Assessments where the Authority is proposing to do anything for the purposes of, or in connection with, the carrying out of any function exercisable by it under or by virtue of Part 1 of the Gas Act 1986 or Part 1 of the Electricity Act 1989, and it appears to the Authority that the proposal is “important” within the meaning of section 5A.2. We do not believe that our proposals set out in this consultation meet this latter criterion. As such, we do not consider it necessary to conduct an Impact Assessment.

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<sup>14</sup>SLC 7B – Standard conditions of gas/electricity supply licence.  
<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

## 2. New arrangements

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### Chapter Summary

In this chapter we set out our proposals for new arrangements in two topic areas, namely: change of supplier for smart prepayment, and key smart prepayment functionalities for consumers.

We then set out our views on the topic areas where we do not propose any changes at this stage.

We also identify a number of situations which we believe will need careful consideration by suppliers in terms of customer communications. We want to highlight these, as they can help to inform the design of smart prepayment customer journeys.

**Question 1:** Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)? If not, please:

- explain why
- put forward suggested alternative(s) to this solution
- if relevant, suggest and explain any other action we should take

**Question 2:** Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please:

- explain why
- suggest and explain any alternative(s)

**Question 3:** Do you agree with our proposed data points for inclusion in the SOR (on the availability of key smart prepayment functionalities), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- explain why
  - suggest and explain any alternative(s)
- (Also see appendix 3 for detail on proposed changes)

**Question 4:** Do you agree with our assessment on those areas where we do not propose to take any further action. If not, please:

- explain why
- suggest and explain any action we should take

## Areas where we propose changes

### Change of supplier for smart prepayment

#### *Potential risks for smart prepayment customers during change of supplier*

2.1. Stakeholders have told us that there is a risk, in two specific change of supplier (CoS) scenarios, of a consumer going off supply without the ability to top-up and re-enable supply. The first instance could occur when a gaining supplier is not able to access, and put their security credentials on, a meter which was left in prepayment mode at the point of CoS by the losing supplier. Such inability to access the meter could be due to a failure of the Wide Area Network (WAN) communications. In effect, all industry systems will consider the customer switched in such a scenario, yet the meter itself still considers the customer to be with the losing supplier. It will therefore not accept any top-ups (credit) issued by the gaining supplier.

2.2. A second instance of a customer going off supply could occur if, under the interoperability of advanced domestic meter arrangements<sup>15</sup>, a gaining supplier chooses not to operate smart functionalities upon gaining a meter. If a meter is left in prepayment mode at the point of CoS, the gaining supplier will not be able to access the meter as they will not have a communications contract in place. Irrespective of any communications issues, this renders the meter inoperable and could leave the customer at risk of loss of supply<sup>16</sup>. We recognise that this is ultimately a transitional issue, but consider that it adds to the case for action at this stage.

2.3. We consider that the likelihood of this risk materialising should be low. Nevertheless, we consider that the detriment to a consumer could be so great that the risk needs to be mitigated to the greatest extent possible. **We are therefore of the view that further action is required to mitigate this risk.**

#### *How the risk could be mitigated*

2.4. Industry, working together with DECC, have previously considered and developed a solution to this risk. The proposed solution is for suppliers to leave the meter in credit mode at the point of CoS. Many stakeholders have suggested that this is the most fail-safe approach to ensuring continuity of supply, as alternatives – such as large emergency credits or permanent non-disablement – still carry a level of risk. Several parties have also called on Ofgem to ensure this proposed solution is adopted as standard by all suppliers.

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<sup>15</sup> Ofgem, August 2012. Supporting effective switching for domestic customers with smart meters: Modification of supply licence standard conditions.

<https://www.ofgem.gov.uk/ofgem-publications/41868/smart-meters-effective-switching.pdf>

<sup>16</sup> We note that if the gaining supplier gains the customer on a prepayment contract, then the supplier will in any case need to exchange the meter at no cost to the customer. However, if the gaining supplier gains the customer on a credit contract, then this need not be the case.

2.5. We have engaged extensively with stakeholders to understand what would be the most appropriate approach to mitigating the risk. This recognises that there are disadvantages and potential, unintended consequences to the proposed solution. As a main alternative, we considered the merits of a more principles-based approach focused on the outcome of avoiding loss of supply. However, this too has disadvantages associated with it. The table below outlines the advantages and disadvantages of the proposed solution and a more principles-based approach.

*Table 2: Advantages and disadvantages of the proposed solution and principles-based approach*

	Advantages	Disadvantages
Industry solution: adopt a single, consistent solution to leave meter in credit mode.	<ul style="list-style-type: none"> <li>- Developed through industry forums and suggested as most fail-safe solution for all risk scenarios</li> <li>- Ensures consistency of approach:                             <ul style="list-style-type: none"> <li>▪ suppliers will be aware of meter status upon gaining customer</li> <li>▪ consumers cannot be confused by multiple approaches</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Not the ‘smartest’ consumer journey: consumer could be confused if temporarily on credit mode</li> <li>- Doesn’t allow for alternative solutions to be developed and adopted without changing the rules in place</li> </ul>
Alternative considered: focus on the principle of a consumer not going off supply at CoS.	<ul style="list-style-type: none"> <li>- Outcome-focused rather than prescriptive of solution.</li> <li>- Also accommodates proposed industry solution: no change of approach required if industry solution already adopted or planned to be adopted</li> <li>- ‘Futureproofing’ – allows for alternatives to be developed and adopted over time without changing the rules in place</li> </ul>	<ul style="list-style-type: none"> <li>- May not mitigate against the risk of the consumer going off supply to the greatest extent (depending on solution adopted)</li> <li>- Gaining supplier would need to know how the meter was left at CoS → information/data flows would need to be put in place (these do not exist currently).</li> <li>- Consumers may be confused if different suppliers adopt different solutions.</li> </ul>

2.6. Having considered the relative merits of both approaches, **our view is that the solution proposed by industry – to leave the meter in credit mode - is the most appropriate way forward.** Most fundamentally, it should provide the strongest mitigation against the risk of a consumer going off supply. In our June stakeholder workshop<sup>17</sup>, there was also broad support for this solution.

2.7. **We understand that industry is now looking to operationalise this solution by raising modifications to the relevant codes. We also support this as the most appropriate way forward.**

2.8. We recognise that whilst this solution provides the strongest risk mitigation, it may still not be completely fail-safe. It is likely to rely, for example, on the losing supplier sending the relevant mode-switching command to the meter some time in advance of the point of CoS. This would minimise the risk of the losing supplier

<sup>17</sup> Ofgem, June 2015. Smart Prepayment Policy Workshop.  
<https://www.ofgem.gov.uk/publications-and-updates/smart-prepayment-policy-workshop>

suffering from the same communications issues as the gaining supplier. However, the losing supplier may still be at risk depending on the starting point and duration of the communication issues. We understand that industry are therefore also considering such 'worst case' scenarios and the potential solutions, for example by putting in place a backstop mechanism which allows suppliers to exchange Unique Transaction Reference Numbers (UTRNs)<sup>18</sup>. **We welcome such considerations, and expect suppliers to continue developing these ideas.**

2.9. In this context, we also recognise that the proposed solution *may* ultimately not be enduring, particularly when measures to enable faster switching are implemented. The assessment of the risk which this solution is looking to mitigate may also change. This solution may therefore need to be revisited at some point in the future. We will keep this under review, and we also expect industry to consider this at the appropriate time. Nonetheless, we see it as the appropriate solution to take forward at this stage.

2.10. **We consider that these arrangements should apply to all smart meters which can operate in prepayment mode, irrespective of the type of consumer being served by it.** We see no reason for these arrangements to differ between domestic and non-domestic consumers.

2.11. We also note concerns raised by the Health and Safety Executive (HSE) relating to remotely switching gas smart meters from credit to prepayment mode. These relate to the existence of sub-meters which could result in an uncontrolled flow of gas upon re-enablement of the primary meter. The HSE recommend that a site visit is carried out to check for the existence of gas sub-meters before switching meters to prepayment mode. This could affect the viability of the proposed industry solution for gas meters specifically, and **we expect industry to consider and address such concerns as the proposed solution is operationalised.**

*Potential unintended consequences of leaving meter in credit mode at change of supplier*

2.12. There are several additional aspects for suppliers to consider and get right for this solution to work effectively.

2.13. From a smart prepayment consumer's perspective, the notion of temporarily being in credit mode when transitioning between suppliers could be confusing. This will particularly be the case if this situation is sustained over a period of time. Suppliers will need to consider very carefully how this process, and such eventualities, get communicated to a consumer.

2.14. The solution of leaving the meter in temporary credit mode could also lead to wider unintended consequences for the consumer. We have looked at what these

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<sup>18</sup> A UTRN is 20 digit Unique Transaction Reference Number which can be entered by the customer to manually top up their smart meter.



could mean in practice. In doing so we also considered whether the existing regulatory framework provided the necessary protections, or whether further action is required by us. The table below details the potential unintended consequences we considered.

*Table 3: Potential unintended consequences of leaving the meter in temporary credit mode*

Potential unintended consequence	Impact & considerations
1. Gaining supplier could have customer with ppm contract on a meter in credit mode	- Consideration for contractual Terms and Conditions.
2. PPM customer on meter in credit mode could build up (significant) debt with their new supplier if the communications issues endure for some time	- Could be a real issue for consumers, especially vulnerable/low income. - Different approaches can be considered and adopted in terms of (non-)recovery - Existing consumer protections apply; ability to pay needs to be taken into consideration if debt is recovered (SLC27).

2.15. Suppliers should consider the implications, for contractual Terms and Conditions, of a customer with a prepayment contract potentially - and temporarily - being on a meter in credit mode. For example, the Terms and Conditions could make the customer aware of this situation, and set out the consequences of such a scenario. In this context, we note that the Standards of Conduct require suppliers to treat consumers fairly.

2.16. In terms of consumers building up a debt whilst the meter is in temporary credit mode, depending on the duration of the situation and the associated value of the debt, suppliers may consider if such debt needs to be recovered at all. If debt is to be recovered, we do not consider it fair to disconnect a consumer for non-payment while the meter is in credit mode if the customer has asked for a prepayment contract. Suppliers are required by the Supply Licence Conditions<sup>19</sup> to take all reasonable steps to recover these charges before considering disconnection, including through the use of prepayment - as originally agreed with the consumer. The supplier must also ascertain a consumer's ability to pay, and take this into account in calculating instalments<sup>20</sup>. In our 2010 Debt Review<sup>21</sup> we identified a number of key principles that suppliers should take into account to ensure that they are properly and proactively taking account of a customer's ability to pay.

<sup>19</sup> SLC 27 ('Payments, Security Deposits, Disconnections and final Bills'), specifically 27.9, 27.6(a)(iii). <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>20</sup> 27.8 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>21</sup> Ofgem, June 2010. Debt Review report: key Principles for taking ability to pay into account (Open Letter). <https://www.ofgem.gov.uk/ofgem-publications/57399/open-letter.pdf>

*Refunding credit to consumers*

2.17. Losing suppliers will, on change of supplier, need to refund any remaining credit to prepayment consumers. From a consumer's perspective, this too may seem confusing – especially if they are also on a prepayment contract with the gaining supplier. In a traditional prepayment world credit generally remains on the meter, and consumers simply experience a continuation of credit as they change suppliers. They remain unaware of any payment allocation complexities on the industry side.

2.18. We therefore expect both losing and gaining suppliers to consider carefully how they communicate with customers in this context. Suppliers need to be aware that any remaining credit can become temporarily unavailable to the consumer, depending, in part, on the speed with which it is refunded. If a consumer needs to top up a meter while awaiting a refund, they are in effect temporarily paying twice. This could cause difficulties for some consumers, for example those managing a tight budget or those with a larger amount of money on the meter through receipt of a Warm Home Discount.

2.19. In this context, we want to highlight the importance of timely refunds to consumers. The largest suppliers<sup>22</sup> have already agreed to ten common minimum actions to help ensure credit balances from closed domestic accounts are returned to former customers as efficiently as possible. These minimum actions include that where a supplier holds the bank details, address, and name of credit meter customer, it will refund credit balances automatically via direct debit or cheque. In addition, they state that once a supplier holds the full and correct details, refunds will be issued as soon as reasonably practicable and within 14 days of the a final bill or statement (based on an actual meter read). Such actions will be of particular importance to prepayment consumers who may in effect be reliant on this money to top-up again.

2.20. All suppliers will need to consider carefully how they design the customer journey. Losing suppliers can communicate the importance of running down existing balances on the meter, and of avoiding large top-ups immediately in advance of the switch. Gaining suppliers can look to understand if such cash flow issues exist for their prospective customers. Stakeholders have told us that extending emergency credit or issuing additional 'starting credits' on the meter could be considered by the gaining supplier. At our workshop a stakeholder also raised the possibility of partial refunds prior to the switch in instances where the customer had a large amount of credit on the meter. This would be refunded to the customer so that they could receive this before or around the time they needed to top up with their new supplier. **We encourage and expect such active consideration of this issue.**

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<sup>22</sup> See for example: <https://www.eonenergy.com/About-eon/how-we-service-our-customers/~media/PDFs/General-PDFs/10%20Principles%20of%20Good%20Practice.pdf>  
We also note the voluntary minimum standards for Micro Business customers: <http://www.energy-uk.org.uk/publication.html?task=file.download&id=5190>

## **Key smart prepayment functionalities for consumers**

2.21. The introduction of smart meters offers and improves upon a number of key functionalities for consumers. For example, it will be technically possible to offer emergency and friendly credit<sup>23</sup> for both fuels. New and multiple top-up channels can allow consumers to top up remotely, as well as by cash through payment outlets. Low credit alerts, for example through an IHD, which can be placed in a convenient location for a consumer to hear or see, can notify them when they need to top up their meter. Similarly, high consumption alerts can be a useful budget management tool for consumers.

2.22. The availability and use of such functionalities help to improve the customer service suppliers are able to provide, and the convenience consumers can enjoy. We also believe that these functionalities can act as important safeguards against self-disconnection, across many of the causes of self-disconnection<sup>24</sup>, and will be particularly important for vulnerable consumers. The table below sets out the key functionalities and their importance.

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<sup>23</sup> Emergency credit refers to a limited amount of credit provided by the supplier which becomes available when the customer's credit runs out. This generally needs to be repaid when the customer tops up next. Friendly credit refers to periods during which the supply will not be disconnected. This often covers evenings/nights, weekends, or bank holidays. Friendly credit generally needs to be repaid when the customer tops up next.

<sup>24</sup> Many of the potential causes of self-disconnection were detailed in the Citizens Advice (2014) report 'Topping up or dropping out: self-disconnection amongst prepayment meter users': [https://www.citizensadvice.org.uk/global/migrated\\_documents/corporate/topping-up-or-dropping-out.pdf](https://www.citizensadvice.org.uk/global/migrated_documents/corporate/topping-up-or-dropping-out.pdf) (pp 19-23).

Table 4: Key functionalities and their importance

Functionality	Why they are important for us to consider
Emergency Credit (EC) & Friendly credit (FC)	<ul style="list-style-type: none"> <li>- Back-up for consumers when they do not - or are unable to - top-up.</li> <li>- Important safeguard against self-disconnections.</li> <li>- Far greater flexibility due to smart technology.</li> </ul>
Low credit alerts & High consumption alerts	<ul style="list-style-type: none"> <li>- Useful budget management tools for consumers.</li> <li>- Potential safeguards against self-disconnections.</li> <li>- Far greater flexibility due to smart technology.</li> </ul>
Top-up channels	<ul style="list-style-type: none"> <li>- Far greater possibilities to top-up across multiple and non-traditional channels.</li> <li>- Important safeguard against self-disconnections where eg inability to leave the house prevented timely top-up.</li> </ul>
Minimum top-up amounts	<ul style="list-style-type: none"> <li>- Underlying cost structures may be reflected in minimum top-up amounts (potentially varying across channels).</li> <li>- High minimum top-ups may in effect exclude a specific channel being available for those wanting to (regularly) top-up with small amounts – potentially limiting the multi-channel benefit and affecting self-disconnections.</li> </ul>

2.23. Our 2014 Consumer Empowerment and Protection response document noted that we might consider setting minimum standards across relevant smart prepayment functionalities<sup>25</sup>. This could take the form of mandating the general provision of these functionalities, or of setting specific thresholds. At this stage we do not see the need to do so. We expect that suppliers will design their prepayment customer journeys to make appropriate use of the functionalities that smart brings. We are already seeing such developments in the market, and our stakeholder engagement has further highlighted this. We also recognise that there is scope for innovation and competitive differentiation here, and we are mindful not to stifle this.

2.24. We also recognise that we are in the relatively early stages of the smart meter roll-out, with many developments around smart prepayment yet to come. As we are of the view that these functionalities are important areas for consumers, particularly those in vulnerable situations, we propose **to monitor suppliers’ offerings of these functionalities through our Social Obligations Reporting (SOR)**<sup>26</sup>. This covers domestic consumers only. Collecting this data will allow us to understand if

<sup>25</sup> Ofgem, September 2014, Consumer Empowerment and Protection: Updated Work Programme. <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme>

<sup>26</sup> Suppliers are obliged to provide us with data on payment methods, debt, disconnection, and Priority Services Registers (PSRs). We refer to this as the Social Obligations Reporting. The latest version of the SOR guidance is available at <https://www.ofgem.gov.uk/publications-and-updates/directions-issued-gas-and-electricity-markets-authority-pursuant-paragraph-3-standard-licence-condition-32-reporting-performance-electricity-supply-licence-and-gas-supply-licence>. Further information on SOR is available at <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>.

key smart prepayment benefits are opened up to consumers, to identify quickly if there are any issues or concerns, and to act on these as needed. It will also allow us to share good practice through an established reporting mechanism, a benefit of the SOR reporting which has been highlighted by suppliers.

2.25. **Our proposed changes are outlined in detail in Appendix 3.** Our proposal introduces additional questions to be added to the smart metering section of the SOR. We consider that adding these new data points for collection should not be overly burdensome for individual suppliers to provide as there should be little or no additional or complex data processing. These additional data items relate to:

- emergency and friendly credit
- smart prepayment functionalities, and
- top-up channels and minimum top-up amounts.

2.26. The data we currently collect on smart meters as part of SOR is collected at both quarterly and annual frequency. **We propose to collect these additional data items on key smart prepayment functionalities at annual frequency only.** We propose that suppliers should start reporting on 28 January 2017, for the January-December 2016 annual reporting period.

2.27. The new data items should cover Great Britain - no national breakdown will be required. The new questions will be identical for gas and electricity.

## Areas where we don't propose changes

2.28. In the remainder of this chapter we set out our views on those topic areas where we do not propose to take any further action. We explain our rationale, and outline where key existing protections and technical specifications apply.

### Recording meter location

2.29. After smart meters have been rolled out, all meters will have prepayment capabilities. This means that more meters being used in prepayment mode may be in difficult-to-access locations. In addition, suppliers may not immediately know that a meter being switched to prepayment mode is hard to access, as they no longer need to visit the property to physically exchange the meter.

2.30. Meter location is important as suppliers need to understand whether prepayment is safe and reasonably practicable for a customer. With smart meters, and associated technological innovations, many of the existing location issues can be addressed. However, location can still be an important factor depending on the customer's circumstances.

2.31. Some stakeholders suggested that improving the data captured on meter installation could help to identify hard-to-access meter locations more easily. We considered if there is a role for Ofgem in ensuring that this data is updated and improved. In doing so we looked at what data is currently captured and what would need to change or be added. We also considered how such changes would need to be implemented.

2.32. Several stakeholders highlighted that, despite potential improvements, this data may not be fully relied upon when determining whether a meter is difficult to access by the consumer. The appropriateness of a meter location would still need to be individually assessed to determine whether it is safe and reasonably practicable for a customer to be on prepayment. The meter location in itself also does not take account of a consumer's circumstances.

2.33. The burden of changing the installation data in this context is therefore likely to be disproportionate to the benefits gained. Industry may of course instigate further action, but we do not consider that further action is required by Ofgem at this stage.

### **The 'perfect storm' scenario: No WAN and no access**

2.34. With smart meters, in the event of a Wide Area Network (WAN) failure, a top-up message will not reach the meter remotely after a payment transaction – or at least not until the Wide Area Network has been restored.

2.35. The Smart Meter Technical Specifications (SMETS) includes a Unique Transaction Reference Number (UTRN) solution<sup>27</sup> for such scenarios. A consumer can use this UTRN to manually top up the meter in the case of Wide Area Network issues. We understand, through engagement with suppliers, that UTRNs will be issued across payment channels. In the home, the UTRN could be entered in a variety of ways, for example through buttons on the meter, a keypad on the meter, an In-Home Display or a specific Prepayment Meter Interface Device. Where the consumer uses a device to enter the UTRN, this will communicate with the meter via the Home Area Network.

2.36. However, a 'perfect storm' scenario could arise whereby, for a customer who relies on a device to top up manually, there are issues with the Wide Area Network as well as the Home Area Network or the device. This would in effect leave the consumer unable to top up even if equipped with a UTRN.

2.37. As outlined in the previous section, suppliers are required to adhere to what is safe and reasonably practicable through the SLCs. The accompanying safe and reasonably practicable guidance states that "*Many of these circumstances may be addressed by technological innovations, particularly where a smart meter is installed, or some other form of initiative. Technical innovations addressing the issue of what is*

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<sup>27</sup> The UTRN would be generated and given to the consumer when they top up.

*safe and reasonably practicable should only be adopted where suppliers are confident that the solution will enable them to provide a supply to the customer at all times."*

2.38. Our view is that the existing regulatory framework, in combination with the technical and functional specifications outlined in SMETS<sup>28</sup>, provides the necessary protections for consumers. We consider that suppliers will need to have processes in place to support consumers with topping up their meter during scenarios such as the one described above, in the same way that suppliers currently have processes in place in case a traditional prepayment meter does not accept a top-up. We therefore do not consider that further action by Ofgem is required at this stage.

### **Self-disconnections**

2.39. In November 2014 Ofgem and Citizens Advice co-hosted a workshop to discuss the causes of, and potential solutions to, self-disconnection<sup>29</sup>. At the workshop stakeholders identified that the causes of self-disconnection can be varied, ranging from financial hardship through to a lack of understanding on when the meter is low on credit or an inability to reach a payment outlet in time.

2.40. Our view is that smart technology and functionalities have the potential to address many of these issues, and stakeholders at the workshop highlighted the importance of smart in this context. For example, emergency and friendly credit functionalities, low credit and high consumption alerts, and alternative top-up channels all can serve to mitigate the risk of self-disconnections. As outlined above, we are proposing to monitor supplier offerings in this area.

2.41. Stakeholders at our workshop highlighted that the data gathered through smart meters also present a real opportunity for suppliers to help identify and address self-disconnections. However, suppliers outlined the complexities with analysing and appropriately acting on the data, especially in these relatively early days of smart metering. We recognise this complexity. Once the roll-out has progressed more, we will be keen to understand further from suppliers how the data can be used to the benefit of consumers.

2.42. At this stage we therefore do not consider that further action is required as part of this smart prepayment work. Self-disconnections remain an important consideration for Ofgem, and we will continue to hold debt and disconnection bilateral conversations with suppliers. Citizens Advice also have ongoing work in

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<sup>28</sup> DECC, November 2014. Smart Metering Equipment Technical Specifications Version 1.58.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/381535/SMIP\\_E2E\\_SMETS2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/381535/SMIP_E2E_SMETS2.pdf)

<sup>29</sup> Ofgem/Citizens Advice, Self-disconnection workshop notes: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/self-disconnection\\_note\\_from\\_nov\\_2014.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/self-disconnection_note_from_nov_2014.pdf)

place to monitor self-disconnection cases<sup>30</sup>, and intend to address any issues or areas of concern with suppliers.

### **Change of tenancy**

2.43. The current change of tenancy process has many known issues associated with it. Our view is that many of these issues should be resolved or improved through smart technology. To highlight a few examples:

- *Understanding when tenants have left or entered a property* – messaging through the In-Home Display, as well as monitoring consumption (in particular increased consumption after a period of inactivity), should help address this issue.
- *Customer understanding of who supplies the property* – the supplier name and contact details will be displayed on the meter. This information is displayed prior to the customer entering their PIN if one has been set.
- *Agreeing an opening / closing read with a tenant* – the ability to obtain meter reads remotely should make determining opening and closing meter reads easier.
- *Large amounts of fieldwork generated through exchanging meters* – smart technology allows for a customer to be remotely switched to and from prepayment.
- *Obtaining a new key or customer number* – smart meters no longer rely on a physical key to be inserted for the purposes of topping up. As such, consumers will no longer need to await a new key being sent through the post.

2.44. Although we expect smart meters to improve the current process, some consumers' behaviour will likely remain, particularly in relation to a tenant informing their supplier of their intention to leave or enter a property. Such behaviour is ultimately independent of what the technology itself can offer or change. On this issue supplier communications will continue to be important. We consider that the right incentives are in place for suppliers to engage effectively with their customers on this. We therefore do not consider that further action by Ofgem is required at this stage.

### **Customer communications**

2.45. There are common concerns amongst traditional prepayment users on lack of information and engagement from their suppliers on how to use their meter<sup>31</sup>. Concerns include lack of awareness of how much debt is being taken off (and when), how emergency credit works in practice, who the supplier is or how to contact them.

2.46. Smart metering should help improve this. The smart meter installation process will present a real opportunity for suppliers to provide information to their customers on the use of the meter, and on the benefits of its improved

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<sup>30</sup> Citizens Advice does this through their Consumer Service and Extra Help Unit.

<sup>31</sup> Consumer Focus and Accenture, 2013. Smart Prepayment in Great Britain: Making prepay energy work in a smart world, p. 36. <http://www.consumerfocus.org.uk/publications/smart-prepayment-in-great-britain-making-prepay-energy-work-in-a-smart-world>.



functionalities. In terms of the technology itself, In-Home Displays for example can provide improved information on debt repayments. In addition suppliers have also told us that they are considering alternative ways in which they can communicate with their customers under smart, for example via mobile or online messages.

2.47. Alongside what the technology can do to improve customer communications, existing obligations remain in place which require suppliers to provide appropriate information to the consumer<sup>32</sup>.

2.48. We therefore do not consider that further action by Ofgem is required at this stage. However, through our work we have identified a number of smart-specific scenarios and topics which will require careful consideration in terms of customer communications or the wider customer journey. Some of these reflect preceding sections of this document, for example around the Change of Supplier process. **We feel it would be useful to highlight these scenarios, and urge suppliers to consider these as they design their processes.**

*Table 5: Smart-specific scenarios and topics for suppliers to consider*

	Scenario / topic
1	Change of Tenancy where the consumer has not had the SMICOP experience but is new to a smart meter.
2	Vulnerabilities potentially affecting the operation of the smart meter, for example the use of buttons on the meter.
3	Availability and use of smart prepayment functionalities, for example emergency/friendly credit and top-up channels.
4	Availability and use of Unique Transaction Reference Number (UTRN) across top up channels.
5	The 'perfect storm' scenario: No WAN and no access
6	Debt repayment arrangements on the smart meter.
7	Change of Supply process for both losing and gaining supplier, including what happens if left on credit mode for some time.
8	Availability and operation of Personal Identification Numbers (PIN).

<sup>32</sup> E.g. SLC 28.1 - Standard conditions of gas/electricity supply licence.  
<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

## 3. Existing arrangements

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### Chapter Summary

In this chapter we set out our views on whether existing regulatory arrangements, where they relate to prepayment, remain fit-for-purpose for smart meters.

We highlight specific questions that were raised by stakeholders in this context, and clarify our position on these. These pertain to the 7-day notification period; payment differentials; and offering cash as a payment option.

We also propose to update the Safe and Reasonably Practicable Guidance, to stay in line with developments and innovations around top-up methods.

**Question 5:** Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation? If not, please:

- explain why
- suggest and explain any action we should take

**Question 6:** Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please:

- explain why
- suggest and explain any alternative action we should consider.

**Question 7:** Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please:

- explain why
- suggest and explain any alternative amendments we should consider.

(Also see appendix 4 for detail on proposed changes)

**Question 8:** Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option? If not, please:

- explain why
- suggest and explain any alternative amendments we should consider.

**Question 9:** Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- explain why
- suggest and explain any alternative(s)

(Also see appendix 3 for detail on proposed changes)

**Question 10:** Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.

## Fit-for-purpose

3.1. We reviewed the existing regulatory arrangements where they apply to prepayment customers, including those arrangements that had already been adapted specifically for smart<sup>33</sup>. We set out to test if these remain fit-for-purpose, and asked stakeholders for their views.

3.2. We considered if there are any actual compatibility issues, in that the arrangements are in conflict with the smart metering technology. We found there to be no such issues. We also sought to understand if the existing arrangements posed any undue barriers to innovation around smart prepayment. We consider that they don't. We do propose to update our Safe and Reasonably Practicable Guidance to evolve in line with such innovations.

3.3. Stakeholders also raised a number of questions around specific arrangements. Below we clarify our position on and articulate how we expect these arrangements to interact with smart meters.

## Clarifications

### 7-day notification period

3.4. The Gas Act 1986 and the Electricity Act 1989 require suppliers to give a customer seven days' notice of their intention to install a prepayment meter. As part of the Smart Metering Spring Package<sup>34</sup>, we indicated that this requirement also includes scenarios where suppliers intend remotely to switch a meter to prepayment mode.

3.5. The 7-day notification requirement was raised by suppliers during our stakeholder engagement as a potential barrier to fast switching between payment methods. We note that this requirement only applies where a customer has not, within the requisite period, paid all charges due to a supplier<sup>35</sup>. It does not apply to all scenarios, for example where a consumer does not owe the supplier any unpaid charges for energy and requests to pay for their energy in advance by prepayment meter.

3.6. The notification period therefore provides an important protection to consumers, which recognises a specific consumer circumstance independently of the

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<sup>33</sup>Ofgem, June 2011, Spring Package (statutory consultation).

<https://www.ofgem.gov.uk/ofgem-publications/57387/smart-metering-consumer-protections-package-statutory-consultation.pdf>

<sup>34</sup>Idem

<sup>35</sup>"Requisite period" means the period of 28 days after the making by the supplier of a demand in writing for payment of the charges due.

metering technology by which they are served. Smart can put even greater emphasis on the importance of appropriate notifications and awareness raising, as it is technically possible to remotely switch a smart meter to prepayment mode. This negates the need for a physical meter exchange. We remind suppliers of their obligations around safe and reasonably practicable prepayment, including but not limited to taking steps to identify a consumer's circumstances to ensure it safe and reasonably practicable to operate a meter in prepayment mode.

3.7. Our view is that taken alongside other consumer protections, the 7-day notification requirement therefore remains fit-for-purpose and does not create any undue barriers to innovation for suppliers.

### **Payment differentials**

3.8. Several stakeholders have asked for Ofgem's view on whether there can be differentials between smart and traditional prepayment tariffs, and for clarification on the Supply Licence Conditions in this regard.

3.9. Suppliers can charge differently for different payment methods, where this reflects genuine differences in underlying costs between those payment methods. In doing so, they must comply with other relevant Supply Licence Conditions including, but not limited to, SLC 22B and SLC 27. We will look to understand from suppliers how any differentials between smart and traditional prepayment tariffs are justified.

3.10. We consider that smart metering can transform the experience of prepayment consumers, in terms of both service and cost, and are supportive of appropriate innovations in this area. At the same time, we want to avoid unintended consequences for traditional prepayment consumers who do not yet have access to a smart meter, and expect suppliers to think about what is right for all consumers as they structure their tariffs.

3.11. This is a complex area, and we recognise that any risks around differentials may become more pronounced as the traditional prepayment infrastructure gets phased out (see Chapter 5). We therefore welcome stakeholder views on the risks and merits of differentials between smart and traditional prepayment tariffs. We also welcome views on any actions that could be taken by parties, including by Ofgem, to mitigate any perceived risks.

## Clarification and proposed update to the Safe and Reasonably Practicable Guidance

### Cash as a payment method for smart prepayment customers

#### *The obligations*

3.12. Suppliers<sup>36</sup> are required under their Supply Licence Conditions<sup>37</sup> to offer a wide choice of payment methods, including the ability to pay by cash where a customer pays in advance using a prepayment meter. Suppliers do not have to offer a wide choice of payment methods if a consumer asks to use a particular payment method for paying energy charges and the supplier offers that payment method<sup>38</sup>.

3.13. The Supply Licence Conditions also require suppliers to take action<sup>39</sup> if they have reason to believe that use of a prepayment meter by a domestic customer is no longer considered safe & reasonably practicable. Suppliers must also have regard to Ofgem's Safe & Reasonably Practicable Guidance<sup>40</sup>. This Guidance includes, as likely relevant factor for suppliers to consider, "whether the customer lives quite a distance from any top-up outlets".

#### *The smart context*

3.14. Prepayment consumers traditionally top up by visiting a shop or a payment outlet, as credit needs to be physically added to a prepayment meter key. This in effect means that traditional prepayment consumers are able to pay by cash whenever they top up, as this is a form of payment accepted in shops.

3.15. Smart meters are not reliant on a physical device such as a key, token or card. They can be topped up remotely, through messages sent by the supplier. Payment could still be taken in a shop, but alternative methods such as payment online or by phone become viable alternatives. This means that a visit to a payment outlet is no longer an absolute necessity, and that top-ups are no longer inevitably associated with payment by cash.

3.16. In this context, some suppliers questioned how the existing obligations interact with a scenario where the supplier is unable to offer cash as a top-up option

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<sup>36</sup> Domestic suppliers with a customer base greater than 50,000 domestic customers.

<sup>37</sup> SLC 27.1 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>38</sup> SLC 27.2 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>39</sup> SLC 28.1 – Standard conditions of gas/electricity supply licence.

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

<sup>40</sup> Ofgem, September 2011. Modification direction (including guidance on the interpretation of "safe and reasonably practicable in all the circumstances of the case").

<https://www.ofgem.gov.uk/ofgem-publications/57343/modification-direction.pdf>

in a way that meets the Safe and Reasonably Practicable Guidance, but the consumer is able and willing to use alternative top-up methods.

*Our view and proposals*

3.17. We expect cash to remain an important method of payment for some consumers. The ability for prepayment consumers to pay by cash therefore constitutes an important protection, and we intend for this obligation to remain in place.

3.18. At the same time, it is not our intention to prevent consumers from accessing the benefits of smart prepayment or to prevent suppliers from innovating and improving services to consumers. The potential for new ways of topping up, for example over the phone, online or via a smart phone app, constitutes one of the well-known benefits of smart prepayment. This can increase the attractiveness and convenience of prepayment to consumers.

3.19. The Supply Licence Conditions already accommodate the scenario described by suppliers. As referenced above, if a prepayment consumer asks for an alternative payment method other than cash, and the supplier is able to offer this, then the wide choice of payment methods – including payment by cash – need no longer be offered to the consumer by the supplier.

3.20. We emphasise that this exemption to offering cash as a top-up option only applies where the consumer actively requests to pay for the energy using alternative, non-cash top-up methods. It needs to be driven by consumer need and demand, and suppliers must not recommend non-cash top-up methods when it is not in the best interest of the consumer to adopt these. We expect suppliers to ensure that consumers make their choice based on the relevant information, including on advantages or disadvantages associated with such a request.

3.21. Suppliers must also ensure that it remains safe and reasonably practicable for a consumer to use a smart meter in prepayment mode and to pay by alternative non-cash methods. As our existing Safe and Reasonably Practicable Guidance states: “[...] *technical innovations addressing the issue of what is safe and reasonably practicable should only be adopted where suppliers are confident that the solution will enable them to provide a supply to the customer at all times*”.

3.22. There can be risks specifically associated with alternative top-up methods, for example around their reliability. We expect suppliers to consider consumers’ requests with due caution. **We also propose to amend our guidance on the interpretation of “safe and reasonably practicable in all the circumstances of the case”**, specifically to address the scenario where a consumer actively asks to pay by an alternative top-up method. This can help to ensure that the consumer protections evolve in line with the positive developments and innovations around top-up methods.

3.23. **The full amendments to the Guidance we are proposing can be found in Appendix 4.** We want to provide examples of the relevant factors which we would

expect suppliers to consider when applying the safe and reasonably practicable test to a customer's request to pay by non-cash top-up methods. These examples, which are not intended to be fully exhaustive, include:

- Whether the customer has access to a bank account and whether such access is needed to make use of alternative top-up methods
- The reliability with which the customer can access alternative top-up methods, including the extent to which reliable access to their top-up device is not under threat from their inability to pay. For example, a customer who intends to pay by their mobile phone will be reliant on having reliable access to this service, and needs to be able to afford any charges associated with accessing the top-up service; or a customer who pays online via a desktop may be dependent on having continued access to electricity.
- Whether the customer seems to need more than one alternative, non-cash way of topping up to ensure they are able to do so.

3.24. Prepayment needs at all times to be safe and reasonably practicable for consumers by taking into account their individual circumstances. As the current guidance states: "*Suppliers should assess each case on its individual merit.*" We consider that this approach helps to avoid undue barriers to the realisation of smart prepayment benefits by ensuring consumers need not necessarily all be treated in the same way.

3.25. **We also propose to monitor the number of customers who have actively asked for alternative top-up methods so as not to require cash as a payment option. We propose to also monitor this through our Social Obligations Reporting (SOR)<sup>41</sup>.** This would help us to understand the extent to which consumers are making such requests, and to allow us to target our conversations with suppliers around their experiences in this context. To make this data more meaningful, **we also propose to collect the number of smart meter customers on prepayment. Our proposed changes to SOR are outlined in detail in Appendix 3.**

3.26. The data we currently collect on smart meters as part of SOR is collected at both quarterly and annual frequency. **We propose to collect data on the number of smart meter customers using prepayment and credit modes at both quarterly and annual frequency.** This will help to align the new data with the existing data on the total number of smart meter customers collected via data item Q8.1 ("Total number of smart meter customers at the end of this reporting period"). It will also allow us to better monitor trends in smart meter use and compare them with those for traditional prepayment meters, the data on which is available at quarterly frequency. **We propose to collect the number of customers who have actively asked for alternative top-up methods so as not to require cash as a payment option item at annual frequency only.**

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<sup>41</sup> This covers domestic consumers only.

3.27. We propose that suppliers should start reporting on the new data as follows:

- number of smart meter customers using prepayment and credit mode – on **28 July 2016** for quarter 2 (April-June) 2016
- number of customers who have actively asked for alternative top-up methods so as not to require cash as a payment option – on **28 January 2017**, for the January-December 2016 annual reporting period.

3.28. The new data items should cover Great Britain - no national breakdown will be required. The new questions will be identical for gas and electricity.

3.29. Finally, we would also expect available cash payment channels to remain accessible to consumers, even if they have actively opted for alternative payment methods. If at any point such a consumer wants to use a payment outlet used by the supplier, then we see no reason why they should not be able to do so.



## 4. Micro-businesses

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### Chapter Summary

This chapter considers smart prepayment in the context of the micro-business sector. This includes setting out what we know about the size of the prepayment market for micro-businesses. The chapter also sets out our current position on whether existing prepayment arrangements should be extended to micro-businesses.

**Question 11:** Do you agree with our proposed approach to micro-businesses? If not, please:

- explain why
- provide any evidence to support your position
- provide details on which existing arrangements we should consider extending to micro-business consumers, and why

4.1. In our Updated Work Programme<sup>42</sup>, we indicated that smart prepayment was an area of relevance for micro-businesses. We indicated that we would consider micro-businesses in parallel to domestic consumers.

4.2. During our stakeholder engagement, we sought to understand suppliers' views on rolling out smart prepayment to micro-businesses and to understand the relevance and applicability of extending both existing and new arrangements to micro-businesses. We sought to gain some understanding of the current or potential demand for prepayment among micro-businesses, as well as any existing evidence of expected demand for smart prepayment.

### Context

4.3. The prevalence of prepayment in the micro-businesses market is very low. We do not have a fully robust estimate for the number of prepayment meter points among micro-businesses. However, a survey of micro-business payment methods suggested that 1% of micro-businesses paid for their energy with prepayment.

4.4. We note that a number of micro-businesses use a property with a domestic energy contract as their main business premise. A 2014 survey commissioned by Ofgem found that 10 % of micro and small businesses were on a domestic contract<sup>43</sup>. A subset of these may be on prepayment, but we do not have visibility of the size of this particular consumer segment. Nor do we have a view on whether

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<sup>42</sup> Ofgem, September 2014, Consumer Empowerment and Protection: Updated Work Programme. <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme>

<sup>43</sup> Ofgem (2015), Research report: Micro and Small Business Engagement in Energy Markets, pg. 82. [https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/non\\_dom\\_quant\\_final\\_v4\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/non_dom_quant_final_v4_0.pdf)

the prepayment contract is mainly driven by such consumers' domestic or business considerations.

4.5. Information gained from suppliers suggests some very limited growth in prepayment installations in the last three years<sup>44</sup>. The information request showed that the number of electricity prepayment meters installed has been increasing since 2012, from 727 per year to 1,804 per year in 2014<sup>45</sup>. The number of gas prepayment meter installations was significantly smaller.

4.6. In terms of smart, there exists no research demonstrating the likely future growth of prepayment. However, anecdotal evidence suggests that smart prepayment could be an attractive proposition for both suppliers and micro-business consumers. We understand that small businesses could be attracted by the flexibility offered from prepayment and the ability to gain tighter control of their energy use.

4.7. In terms of existing arrangements, current prepayment protections extend largely to domestic consumers only<sup>46</sup>. As stated above, the prepayment market is very small in the context of micro-businesses, and historically the micro-business segment has been identified as having several different characteristics to the domestic consumer segment.

4.8. We have also not been made aware of any specific issues around prepayment in the context of micro-business consumers.

## **CMA investigation**

4.9. The CMA, in their investigation of the energy market, identified that a combination of features of the markets for the retail supply of gas and electricity to SMEs in Great Britain give rise to adverse effects on competition (AEC)<sup>47</sup>. The CMA cited concerns over a lack of engagement and weak consumer response from micro-businesses.

4.10. Ofgem will work with the CMA to develop and implement the CMA's final remedies, where they fall within our jurisdiction, to deliver a more competitive market for consumers. We will consider any next steps for smart prepayment and micro-businesses in this context.

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<sup>44</sup> Ofgem, 2013 – 2015, Microbusiness Disconnection Information Request (Quarterly)

<sup>45</sup> The information request was not issued to all suppliers and provides data from the big 6 suppliers only. Additionally, the information request did not include data on prepayment meter removals. Removals could in practice outstrip installations.

<sup>46</sup> By definition including those micro-businesses using a property with a domestic energy contract.

<sup>47</sup> Competition & Markets Authority, July 2015. Energy market investigation: Summary of provisional findings report. [https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI\\_PFs\\_Summary.pdf](https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf)

## Current view

4.11. **Our current view is that it may not be proportionate to extend existing regulatory arrangements to micro-businesses in the absence of substantial growth - or concrete evidence of likely future growth - of prepayment as a payment method in the micro-business market. We also consider that it may not be proportionate to do so without a clear case as to why any of the arrangements need to be extended.** In the context of smart specifically, such a case may relate to appropriate protections against risks or to the facilitation of benefits.

4.12. We welcome stakeholders' views on our current position. For example, one stakeholder has suggested that a lack of protections may in itself be a barrier to a prepayment market taking off for micro-businesses, including one enabled by smart meters. We are particularly interested in receiving any evidence to support this view, and understanding which arrangements would need to be extended, and why, to remove any such barriers.

4.13. We see the logic in the idea that smart prepayment may be attractive to suppliers and consumers alike, but would welcome any evidence that suggest likely growth in the provision of or demand for smart prepayment for micro-businesses.

4.14. As noted above in Chapter 2, we do consider that the new Change of Supplier arrangements should apply to all smart meters which can operate in prepayment mode, irrespective of the type of consumer being served. **We see no reason for these arrangements to differ between domestic and non-domestic consumers.** Such arrangements would therefore cover any micro-business customer on a prepayment contract and served by a smart meter.

## 5. The scope of our work

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### Chapter Summary

This chapter clarifies work areas which are of relevance to (smart) prepayment, but which do not fall within the scope of this Consumer Empowerment & Protection smart prepayment work.

**Question 12:** Please provide any general views on phasing out the traditional prepayment infrastructure.

### Key scope considerations

#### Phasing out of traditional prepayment infrastructure

5.1. A number of stakeholders have raised concerns over the future of the traditional prepayment infrastructure once smart meters become the norm. Stakeholders raised the need to consider carefully the implications and issues associated with an exit from the traditional prepayment infrastructure. One key concern raised by stakeholders is that, once a significant majority of meters are smart meters, it may become commercially unsustainable for some parties to operate the traditional prepayment infrastructure. This may have an impact on other parties reliant on that infrastructure.

5.2. This area does not fall within scope of this smart prepayment work. However, we recognise that this is an important issue. Whilst the relevant obligations around the provision of prepayment as a payment method remain, we understand there are potential risks for consumers remaining on traditional prepayment meters. We also acknowledge the potential interaction between phasing out the traditional prepayment infrastructure and any payment differentials between smart and traditional prepayment tariffs.

5.3. We will therefore consider the steps we need to take, if any, to ensure traditional prepayment consumers are protected. At this stage, we would welcome general views from stakeholders on this issue, including on the key risks to all parties and especially to consumers. Similarly we welcome any views on the timelines and management of such a phase-out, including which parties or forums would be best placed to consider and manage this transition.

## Consumers without smart meters

5.4. As outlined in our 2013 consultation<sup>48</sup>, there may remain a number of consumers without smart meters beyond the end of mass roll-out. This may include consumers prevented from getting smart meters due to logistical or technical constraints, as well as consumers who choose not to accept smart meters.

5.5. Our 2014 updated work programme<sup>49</sup> highlighted that we will pick this up as part of phase three of the Consumer Empowerment and Protection Project. Phase three will run across the latter part of the mass roll out, at which point we will have a clearer idea of the number of consumers without smart meters, and where to target our protections where necessary. We recognise the potential interaction with the exit from the traditional prepayment infrastructure.

## Interactions of this work with other areas

### Competition and Markets Authority (CMA)

5.6. On 7 July 2015, the CMA published their provisional findings and notice of possible remedies from their market investigation into the energy sector<sup>50</sup>. The respective reports identify the features that the CMA provisionally find give rise to adverse effects to competition (AEC) in the energy markets; and the possible actions the CMA may recommend/take to rectify, mitigate or prevent the AECs or any resulting detrimental effect on consumers.

5.7. The CMA's provisional remedies include a focus on the speed of delivering smart prepayment. We are supportive of prepayment consumers receiving smart meters as soon as feasible. However, speed of delivery does not fall within the scope of this smart prepayment workstream. It is focused on the operation of prepayment within a smart market.

### Prepayment review

5.8. In June 2015 we published the findings of our prepayment review<sup>51</sup> along with our proposed next steps. The review was prompted by concerns that prepayment

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<sup>48</sup> Ofgem, December 2013, Consumer Empowerment and Protection in Smarter Markets (Consultation).

<sup>49</sup> Ofgem, September 2014, Consumer Empowerment and Protection: Updated Work Programme. [https://www.ofgem.gov.uk/sites/default/files/docs/2014/09/consumer\\_empowerment\\_and\\_protection\\_updated\\_work\\_programme.final\\_pdf\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/09/consumer_empowerment_and_protection_updated_work_programme.final_pdf_0.pdf)

<sup>50</sup> On 26 June 2014, Ofgem made a reference to the Competition and Markets Authority (CMA) for an investigation into the supply and acquisition of energy in Great Britain. The scope of the investigation was on any competition issue connected with the supply or acquisition of gas and electricity in Great Britain, including both retail and wholesale markets, except that, in the case of retail markets, only the retail supply of households and micro-businesses are included within the reference. <https://www.gov.uk/government/news/energy-market-referred-to-cma>

<sup>51</sup> Ofgem, June 2015, Prepayment Review: understanding supplier charging practices and

customers can face particular barriers when trying to access competitively priced deals; notably fewer tariff choices, charges for installing and removing a prepayment meter (including when installed under warrant), and upfront security deposits. Our social obligations monitoring indicates that prepayment customers have very low switching rates from prepayment to credit. Our prepayment work aims to ensure that prepayment consumers can switch easily, are treated fairly and costs do not fall disproportionately on those least able to afford them.

5.9. The review found wide variation in suppliers' treatment of prepayment customers, particularly with respect to the cost of installing and removing traditional prepayment meters. We are now seeking agreement from suppliers to abolish these costs to make switching easier for prepayment consumers. We are also working with suppliers to tackle lack of tariff choice and to ensure prepayment customers are treated fairly. Finally, we intend to consult on strengthening consumer protections with respect to security deposits and installation and removal of prepayment meters under warrant.

5.10. As the review states, smart meters should reduce the relative costs of prepayment and facilitate greater innovation and choice of tariffs for prepayment consumers<sup>52</sup>. In the report, we also acknowledged that smart meters will enable remote switching between prepayment and credit modes (and vice versa) without needing an operator to physically exchange the meter. We noted that the majority of suppliers have already indicated they would not charge consumers for a remote switch between payment modes due to the cost savings from remote switching. We agree that suppliers should not charge customers for a remote switch. We see this as being an important element of enabling safe, easy and proportionate switching between prepayment and credit modes, one of our objectives for this smart prepayment work.

### **Raising awareness of consumer prepayment protections**

5.11. Ofgem is undertaking a project to improve the awareness of protections afforded to prepayment customers – primarily for front-line advisors but which will also be useful for prepayment consumers, industry, and other interested stakeholders. We aim to produce a Prepayment Protections Guide that will outline the protections that are in place for prepayment consumers, through Supply Licence Conditions and voluntary industry agreed principles. This guide will provide accurate,

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barriers to switching. <https://www.ofgem.gov.uk//publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

<sup>52</sup>Ofgem, June 2015, Prepayment Review: understanding supplier charging practices and barriers to switching, p.g. 21. <https://www.ofgem.gov.uk//publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

reliable and transparent data that will be communicated to consumer facing advisors, prepayment consumers and wider audiences in a way that is useful to them.

5.12. We are expecting for this Prepayment Protections Guide to be published by March 2016, which we have committed to in our Forward Work Programme<sup>53</sup>.

### **Switching programme**

5.13. In February 2015 we published our decision on moving to reliable next day switching<sup>54</sup>. In this document we set out our proposal to lead a work programme to implement reliable next-day switching on a centralised registration service (CRS), governed by the Smart Energy Code (SEC), and managed and operated by the Data and Communications Company (DCC).

5.14. Alongside our decision document we also consulted on a target operating model (TOM) that will support our programme of work<sup>55</sup>. The TOM describes, at a high level, how new business arrangements to support reliable next-day switching using a new CRS are expected to operate. It also describes the delivery approach. This document will act as a reference and guide as we move through the design and implementation of the programme and will be maintained as the more detailed arrangements are developed. Following further consultation with industry on their responses to the TOM consultation over the Summer, we aim to publish an updated TOM in the second half of 2015, in advance of starting the industry workgroups that will develop the reform proposals.

5.15. We will continue to engage with this programme of work, in particular as industry move to implement the Change of Supplier solution for smart prepayment consumers, defined earlier in this document,.

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<sup>53</sup> Ofgem Forward Work Programme 2015-16: <https://www.ofgem.gov.uk/ofgem-publications/94196/forwardworkprogramme2015-1625march2015-pdf>

<sup>54</sup> Ofgem, February 2015. Moving to reliable next-day switching. [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast\\_and\\_reliable\\_switching\\_decision\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf)

<sup>55</sup> Ofgem, February 2015. Moving to reliable next-day switching: Consultation on a target operating model (Open letter). [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/consultation\\_cover\\_letter\\_on\\_tom\\_final\\_2.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/consultation_cover_letter_on_tom_final_2.pdf)

## Appendices

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## Appendix 1 – Consultation Response and Questions

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1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 23 October 2015, and should be sent to:

Bart Schoonbaert, Senior Manager  
Consumers and Sustainability  
Ofgem, 9 Millbank, London, SW1P 3GE

[bart.schoonbaert@ofgem.gov.uk](mailto:bart.schoonbaert@ofgem.gov.uk)

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to publish a summary of responses and details of any further work this winter. Any questions on this document should, in the first instance, be directed to:

Bart Schoonbaert, Senior Manager  
Consumers and Sustainability  
Ofgem, 9 Millbank, London, SW1P 3GE  
0203 263 2769

[bart.schoonbaert@ofgem.gov.uk](mailto:bart.schoonbaert@ofgem.gov.uk)

## Questions

### Chapter: Two

- Question 1:** Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)? If not, please:
- explain why
  - put forward suggested alternative(s) to this solution
  - if relevant, suggest and explain any other action we should take
- Question 2:** Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please:
- explain why
  - suggest and explain any alternative(s)
- Question 3:** Do you agree with our proposed data points for inclusion in the SOR (on the availability of key smart prepayment functionalities), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:
- explain why
  - suggest and explain any alternative(s)
- (Also see appendix 3 for detail on proposed changes)
- Question 4:** Do you agree with our assessment on those areas where we do not propose to take any further action. If not, please:
- explain why
  - suggest and explain any action we should take

### Chapter: Three

- Question 5:** Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation? If not, please:
- explain why
  - suggest and explain any action we should take
- Question 6:** Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please:
- explain why
  - suggest and explain any alternative action we should consider.
- Question 7:** Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please:
- explain why
  - suggest and explain any alternative amendments we should consider.
- (Also see appendix 4 for detail on proposed changes)
- Question 8:** Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option? If not, please:
- explain why
  - suggest and explain any alternative amendments we should consider.

**Question 9:** Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- explain why
- suggest and explain any alternative(s)

(Also see appendix 3 for detail on proposed changes)

**Question 10:** Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.

#### **Chapter: Four**

**Question 11:** Do you agree with our proposed approach to micro-businesses? If not, please:

- explain why
- provide any evidence to support your position
- provide details on which existing arrangements we should consider extending to micro-business consumers, and why

#### **Chapter: Five**

**Question 12:** Please provide any general views on phasing out the traditional prepayment infrastructure

## Appendix 2 – Approaches to smart prepayment in other jurisdictions

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1.1. As part of our background research for the project and to help inform our thinking, we looked for evidence of the approaches taken to prepayment by regulators in the majority of other jurisdictions that have rolled out smart meters, or are in the process of doing so. This research involved analysis of documents in the public domain and bilateral contacts with some of the regulatory bodies.

1.2. We researched jurisdictions for current or planned protections on traditional and smart prepayment. Very few places have smart prepayment in place as yet, and protections therefore focused mainly on traditional prepayment. In one instance we found there to be no protections in place for traditional or smart prepayment consumers<sup>56</sup>. In the case of Ireland we found that they were currently in the process of updating their protections to reflect the roll out of smart meters<sup>57</sup>.

1.3. Texas<sup>58</sup> and South Australia (which includes Tasmania)<sup>59</sup> have protections in place facilitating easy and proportionate switching between prepayment and credit. In these jurisdictions a consumer must not be charged for switching from prepayment to credit. In the case of Texas, this also extends to a customer who wishes to switch from one supplier to another.

1.4. A few jurisdictions had relatively prescriptive protections in place relating to the provision of information on prepayment. Examples include South Australia<sup>60</sup> and South Africa<sup>61</sup>.

1.5. Several jurisdictions have certain minimum standards in place relating to emergency and friendly credit arrangements. South Australia specifies that the prepayment meter system must provide an amount of emergency credit not less than \$10 for electricity, and \$5 for gas. In addition, their protections specify that the prepayment system must not disconnect supply to a consumer other than between the hours of 10am and 3pm on a weekday<sup>62</sup>. Pennsylvania also specifies certain minimum standards for emergency credit. Their protections specify that a supplier must provide a customer with emergency credits for additional usage of at least 5

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<sup>56</sup>Italy does not have any protections in place for prepayment customers due to the limited uptake of prepayment amongst domestic consumers.

<sup>57</sup>See: <http://www.cer.ie/electricity-gas/smart-metering/cer-papers>

<sup>58</sup>See: <http://www.puc.texas.gov/agency/ruleslaws/subrules/electric/25.498/25.498.pdf>

<sup>59</sup>See: [http://www.escosa.sa.gov.au/library/130905-PrepaymentMeterSystemCode\\_PMSC02.pdf](http://www.escosa.sa.gov.au/library/130905-PrepaymentMeterSystemCode_PMSC02.pdf)

<sup>60</sup>Ibid, pp. 3-4.

<sup>61</sup>See:

<http://www.nersa.org.za/Admin/Document/Editor/file/Electricity/IndustryStandards/NRS047%20part%201.pdf>, p. 14.

<sup>62</sup>See: [http://www.escosa.sa.gov.au/library/130905-PrepaymentMeterSystemCode\\_PMSC02.pdf](http://www.escosa.sa.gov.au/library/130905-PrepaymentMeterSystemCode_PMSC02.pdf), pp 7-8.

days<sup>63</sup>. In Ireland the protections specify that suppliers must not disconnect a customer on a Friday, weekend day, eve of a public holiday or public holiday, and provide emergency credit to cover a minimum of two days<sup>64</sup>.

1.6. In some jurisdictions we found protections to exist for consumers topping up by cash. For example South Australia regulations specify that a customer must be able to top up by cash, at a minimum of two locations which are open between 9am and 5pm on any day of the week, by a telephone service via card that is available 24/7, or via another service that has been mutually agreed by both parties and is open 24/7<sup>65</sup>.

1.7. In South Africa a customer should be able to top up at a facility that is open on a weekend day between 8am and 12 noon. In addition to this, their protections specify that where practical, a top-up facility should be within 5km for that customer, and that there should be at least one top-up station for every 2000 customers<sup>66</sup>. In Ireland the protections specify that a customer should be able to access a top-up location within 1.6km of their residence<sup>67</sup>.

1.8. There appear to be very few specific protections in place in relation to self-disconnections. South Australia is an exception, with prescriptive protections in place. These specify that the prepayment meter system must be capable of identifying every instance in which a customer has self-disconnected, and the duration of that disconnection. The protections further specify that if a customer has self-disconnected three or more times in any three month period for longer than 240 minutes, on each occasion, the retailer must contact the customer to offer assistance, for example by providing information about and referral to State Government assistance programmes<sup>68</sup>.

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<sup>63</sup>See: <http://www.pacode.com/secure/data/052/chapter56/chap56toc.html>

<sup>64</sup>See: [http://www.cer.ie/docs/000236/cer10012\(a\).pdf](http://www.cer.ie/docs/000236/cer10012(a).pdf)

<sup>65</sup>See: [http://www.escosa.sa.gov.au/library/130905-PrepaymentMeterSystemCode\\_PMSC02.pdf](http://www.escosa.sa.gov.au/library/130905-PrepaymentMeterSystemCode_PMSC02.pdf), p.9.

<sup>66</sup>See: <http://www.nersa.org.za/Admin/Document/Editor/file/Electricity/IndustryStandards/NRS047%20part%201.pdf>, p. 14.

<sup>67</sup>See: [http://www.cer.ie/docs/000236/cer10012\(a\).pdf](http://www.cer.ie/docs/000236/cer10012(a).pdf), p.24.

<sup>68</sup>Ibid, p.8.

## Appendix 3 – Proposed changes to the Social Obligations Reporting guidance

We welcome comments on these proposed changes to the Social Obligations Reporting guidance and answer format as it will be shown in the SOR database; please refer to the relevant questions in Chapters 2 & 3.

Social Obligations Reporting guidance				Answer format
Location in the guidance	Section of reporting return	Current wording	Proposed new wording	
<b>Quarterly returns</b>				
Chapter 2 "Guidance on completing quarterly returns"	8	Not currently in the guidance. To be inserted after para. 2.64, p. 24	<b>Data item 8.2</b> asks the number of smart meter customers on prepayment at the end of this reporting period.	Integer input
Chapter 2 "Guidance on completing quarterly returns"	8	Not currently in the guidance. To be inserted after para. 2.64, p. 24	<b>Data item 8.3</b> asks the number of smart meter customers on credit at the end of this reporting period. The system will calculate this data point automatically, by subtracting the new data point 8.2 from the existing data point 8.1.	Integer input
Throughout Chapter 2 "Guidance on completing quarterly returns"	8	-	Replace question numbers 8.2-8.10 with corresponding new question numbers 8.4-8.12.	N/A

Social Obligations Reporting guidance				Answer format
Location in the guidance	Section of reporting return	Current wording	Proposed new wording	
<b>Annual returns</b>				
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted before para. 3.34, p. 28	<b>Data item A8.2</b> asks the number of smart meter customers on prepayment at the end of this reporting period.	Integer input
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted before para. 3.34, p. 28	<b>Data item A8.3</b> asks the number of smart meter customers on credit at the end of this reporting period. The system will calculate this data point automatically, by subtracting the new data point A8.2 from the existing data point A8.1.	Integer input
Chapter 3 "Guidance on completing annual returns"	8	3.34. Data items A8.2-A8.8 are automatically generated by the database. Suppliers only need to check these figures.	3.34. <b>Data items A8.4-A8.12</b> are automatically generated by the database. Suppliers only need to check these figures.	N/A
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.13:</b> Were you offering emergency credit to any customers at the end of this reporting period?	A dropdown list of options: <ul style="list-style-type: none"> <li>• Yes – fixed amount</li> <li>• Yes – flexible amount (customer choice – options could be prescribed)</li> <li>• No</li> </ul>
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.14:</b> If you offered fixed emergency credit at the end of this reporting period, please enter the amount.	Decimal input (eg £0.00)
Chapter 3 "Guidance on completing"	8	Not currently in the guidance. To be inserted after para.	<b>Data item A8.15:</b> If you offered flexible emergency credit at the end of this reporting period, please specify options or range (if any	Text box

Social Obligations Reporting guidance				Answer format
Location in the guidance	Section of reporting return	Current wording	Proposed new wording	
annual returns"		3.34, p. 28	restrictions) (eg choice of £0, £5, £10, £15; or, any amount between £5 and £15).	
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.16:</b> Do all customers have the same choice of emergency credit arrangements? If not, please explain any differences and the rationale for these.	Dropdown list: • Yes • No Textbox: if you answered "No", please provide details
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.17:</b> Were you offering friendly credit hours to any customers at the end of this reporting period?	A dropdown list of options: • Yes – fixed times/days • Yes – flexible times/days (customer choice – options could be prescribed) • No
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.18:</b> If you offered fixed friendly credit hours at the end of this reporting period, please specify available options.	List with tick boxes. Please tick all that apply: Evenings/ nights Weekends Bank Holidays Other – please specify (text box)
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.19:</b> If you offered flexible friendly credit hours at the end of this reporting period, please specify available options (eg choice of evenings/ nights, weekends, Bank Holidays).	Text box.
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.20:</b> Do all customers have the same choice over friendly credit arrangements? If not, please explain any differences and the rationale for these.	Dropdown list: • Yes • No Textbox: if you answered "No", please provide details
Chapter 3	8	Not currently in the	<b>Data item A8.21:</b> Were you offering smart	List with tick boxes. Please



Social Obligations Reporting guidance				Answer format
Location in the guidance	Section of reporting return	Current wording	Proposed new wording	
"Guidance on completing annual returns"		guidance. To be inserted after para. 3.34, p. 28	prepayment functionalities to any customers at the end of this reporting period?	tick all that apply: Yes – fixed low credit alerts Yes – fixed high consumption alerts Yes – flexible low credit alerts (customer choice) Yes – flexible high consumption alerts (customer choice) No
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.22:</b> If you offered low credit alerts at the end of this reporting period, please specify which channels you offered them through.	List with tick boxes. Please tick all that apply: Email alerts Text alerts IHD/PPMID alerts Other, please specify (text box)
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.23:</b> If you offered high consumption alerts at the end of this reporting period, please specify which channels you offered them through.	List with tick boxes. Please tick all that apply: Email alerts Text alerts IHD/PPMID alerts Other, please specify (text box)
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.24:</b> At the end of this reporting period, did you offer any of the following top up channels?	List with tick boxes. Please tick all that apply: Cash payment outlet Online Mobile app Telephone (including automated telephone line)

Social Obligations Reporting guidance				Answer format
Location in the guidance	Section of reporting return	Current wording	Proposed new wording	
				Text Other, please specify (text box)
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.25:</b> For the top up channels you offered at the end of this reporting period, please enter the minimum amount that the customer needed to top up by.	List with decimal input (eg £0.00): Cash payment outlet Online Mobile app Telephone (including automated telephone line) Text Other, please specify channel and amount (text box)
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.26:</b> For the top up channels you offered at the end of this reporting period, please enter the maximum amount that the customer could top up by.	List with decimal input (eg £0.00): Cash payment outlet Online Mobile app Telephone (including automated telephone line) Text Other, please specify channel and amount (text box)
Chapter 3 "Guidance on completing annual returns"	8	Not currently in the guidance. To be inserted after para. 3.34, p. 28	<b>Data item A8.27:</b> In this reporting period, how many of your smart prepayment customers had asked to use a particular payment method so as not to require being offered cash as a payment option?	Integer input

Social Obligations Reporting guidance				Answer format
Location in the guidance	Section of reporting return	Current wording	Proposed new wording	
<b>Appendix 2</b>				
Appendix 2 – Monitoring return forms  Monitoring company performance for domestic customers: quarterly return form	8	p. 37	<ul style="list-style-type: none"> <li>• Insert new data items 8.2 and 8.3</li> <li>• Replace question numbers 8.2-8.10 with corresponding new question numbers 8.4-8.12.</li> </ul>	N/A
Appendix 2 – Monitoring return forms  Monitoring company performance for domestic customers: annual return form	8	p. 41	<ul style="list-style-type: none"> <li>• Insert new data items A8.2-A8.3 and A8.13-A8.27.</li> <li>• Replace question numbers A8.2-A8.10 with corresponding new question numbers A8.4-A8.12.</li> </ul>	N/A

# Appendix 4 – Proposed amendment to the Safe & Reasonably Practicable Guidance

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The existing Guidance can be found in the footnote link<sup>69</sup>.

We welcome comments on these proposed amendments; please refer to the relevant questions in Chapter 3.

What follows directly below is the full Guidance as it currently stands, with any proposed amendments very clearly delineated. These are *underlined, in italics and in red.*

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## **Prepayment only where safe and reasonably practicable**

The intention is that this guidance would apply in circumstances where the supplier offers a Prepayment Meter to a customer. It also applies where the supplier becomes aware that it is no longer safe and reasonably practicable for the customer to use a Prepayment Meter.

Suppliers are reminded that, in addition to having regard to this guidance, they should comply with other obligations under their licences and in other legislation and guidance. For example, suppliers are reminded of the need to ensure that communications materials are appropriate to the needs of customers<sup>1</sup>, referring where applicable to relevant legislation such as the Equality Act 2010. Suppliers are reminded to act properly and proactively when considering a customer's ability to pay by taking into account the "Key principles for ability to pay".<sup>2</sup> Suppliers are also reminded that they cannot install a Prepayment Meter for any unpaid charges which are genuinely in dispute.

This guidance is not intended to be exhaustive, nor does it imply that these steps must be taken in each and every case, and it is ultimately for suppliers to determine the steps they need to take to meet their supply licence conditions. Suppliers should assess each individual case on its merit. These steps provide important protections, particularly for vulnerable consumers. Ofgem will take compliance with these very seriously and is likely to consider enforcement action to be a proportionate response to a single case of breach.

What is safe and reasonably practicable should be considered from the Domestic Customer's perspective. Relevant factors are likely to include:

- whether the customer is able to understand and operate the Prepayment Meter and visit top-up points (*where needed*) to add more credit. (For example whether

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<sup>69</sup> The existing guidance can be found on p11-13 in the following URL:  
<https://www.ofgem.gov.uk/ofgem-publications/57343/modification-direction.pdf>

the customer has a physical or mental disability that prevents them from being able to appropriately use a Prepayment Meter.)

- whether the customer lives quite a distance from any top-up outlets. (*This would not apply if a customer does not want or need to top up by cash, and has actively asked to pay by alternative top-up methods.* What constitutes 'quite a distance' is likely to vary depending on the customer's circumstances. For example it may not be reasonably practicable to provide a Prepayment Meter if a Domestic Customer needs to travel over two miles to top up the credit and does not have a car.)
- whether the customer requires a continuous supply for health reasons, such as dependency on medical equipment requiring an electricity supply
- whether the Prepayment Meter is situated in a position (such as high on a wall) that means the customer could not operate the Prepayment Meter
- whether the Prepayment Meter would have to be situated outside or in a room to which the household does not have continuous access
- any advice/guidance received from the Health and Safety Executive (HSE).

Many of these circumstances may be addressed by technological innovations, particularly where a smart meter is installed, or some other form of initiative. Technical innovations addressing the issue of what is safe and reasonably practicable should only be adopted where suppliers are confident that the solution will enable them to provide a supply to the customer at all times. It is also possible that adults, other than the customer living in the premises, may be in a position to understand and operate the Prepayment Meter.

*Smart meters allow alternative ways of topping up for prepayment customers that do not require a visit to a top-up outlet. Customers can actively ask for alternative top-up methods so as not to require cash as a payment option. We expect suppliers to ensure that consumers make their choice based on the relevant information, including on advantages or disadvantages associated with such a request. We also expect suppliers to give due consideration to a range of factors when applying the safe and reasonably practicable test to a consumer's request to pay by non-cash top-up methods only. These factors may include:*

- 
- *Whether the customer has access to a bank account and whether such access is needed to make use of alternative top-up methods*
- *The reliability with which the customer can access alternative top-up methods, including the extent to which reliable access to their top-up device is not under threat from their inability to pay. For example, a customer who intends to pay by their mobile phone will be reliant on having reliable access to this service, and needs to be able to afford any charges associated with accessing the top-up service; or a customer who pays online via a desktop may be dependent on having continued access to electricity.*
- *Whether the customer seems to need more than one alternative, non-cash way of topping up to ensure they are able to do so.*

An example where it may be considered safe and reasonably practicable to switch the customer to prepayment mode even if the meter is inaccessible to the customer would be if the In Home Display unit or some additional device is accessible and allows all the necessary features of a Prepayment Meter to be easily accessed by the customer, including the ability to re-enable supply.

Suppliers should also consider their obligation not to disconnect unless they have first taken all reasonable steps to recover charges through a Prepayment Meter. Given this requirement, in some circumstances it may be reasonable for measures to be taken which ensure it is safe and reasonably practicable for the customer to use the Prepayment Meter where the alternative is disconnection.

What is safe and reasonably practicable can also be considered from the supplier's perspective. However, there are likely to be limited circumstances where we considered it was not safe and reasonably practicable from the supplier's perspective, particularly where the alternative for the customer is disconnection. An example of such a circumstance may be where the customer has had a history of theft of gas or electricity or meter tampering.

### **Identification of customers' circumstances**

The sort of proactive steps that we would generally expect suppliers to consider in order to identify whether it is safe and reasonably practicable in all the circumstances of the case to offer a Prepayment Meter to a customer include:

- recording the location of the meter when installed or inspected
- reviewing appropriate notes on the customer's accounts to ascertain whether any vulnerability which would mean it was not safe and reasonably practicable for the customer to have a Prepayment Meter is recorded
- making multiple attempts to contact the customer by various means and at various times of day to discuss the option of paying through a Prepayment Meter
- where a discussion with the customer had not been possible or, if following discussion, there was still uncertainty about whether it would be safe and reasonably practicable for the customer to pay through a Prepayment Meter, the supplier should take reasonable steps to visit the customer at their premises, which could include making visits at various times of day
- checking whether there has been a change of occupancy
- attempting to check with any appropriate advice or other agency such as local authority or housing association
- obtaining authorisation of an appropriate seniority prior to moving a customer to a Prepayment Meter.

### **Post installation of a Prepayment Meter**

The sort of proactive steps that we would generally expect suppliers to follow after putting a customer on a Prepayment Meter in order to ensure it is safe and reasonably practicable for the customer include:

- where technically feasible, monitoring whether the customer is self-disconnecting
- where it is identified that the customer is self-disconnecting, making multiple attempts to contact the customer by various means and at various times of day to understand the reasons for this.

Where it becomes apparent that the reason for self-disconnection is that it is not safe and reasonably practicable for the customer to use a Prepayment Meter, then the supplier should make alternative arrangements.

## **Identifying the status of customers prior to disconnection**

The intention is that this guidance would apply with regard to taking all reasonable steps to ascertain whether the Domestic Customer or occupants of affected premises are of Pensionable Age, disabled or chronically sick prior to disconnection.

Suppliers are reminded that, in addition to having regard to this guidance, they should comply with other obligations under their licences and in other legislation and guidance. For example, suppliers are reminded of the need to ensure that communications materials are appropriate to the needs of customers<sup>3</sup>, referring where applicable to relevant legislation such as the Equality Act 2010. Suppliers are reminded to act properly and proactively when considering a customer's ability to pay by taking into account the "Key Principles for ability to pay".<sup>4</sup> Suppliers are also reminded that they cannot disconnect premises for any unpaid charges which are genuinely in dispute.

This guidance is not intended to be exhaustive nor does it imply that these steps must be taken in each case and it is ultimately for suppliers to determine the steps they need to take to meet their supply licence conditions. Suppliers should assess each individual case on its merit. These steps provide important protections, particularly for vulnerable consumers. Ofgem will take compliance with these very seriously and is likely to consider enforcement action to be a proportionate response to a single case of breach.

The sort of proactive steps that we would generally expect suppliers to consider to identify the status of customers and occupants include:

- reviewing appropriate notes on the customer's accounts to ascertain whether any vulnerability is recorded with regard to the customer or occupants at the premises
- reviewing written contact with customers struggling to pay to ensure that it is in plain English and that the customer is encouraged to ask for help and is also directed towards independent sources of help
- making multiple attempts to make personal contact with the customer by various means and at various times of day
- undertaking personal visits to the property which is at risk of being disconnected at various times of day and completing a visual check of the premises looking for signs of vulnerability<sup>5</sup> of the customer or occupants at the premises.
- checking whether a property appears to be temporarily or permanently unoccupied
- checking whether there has been a change of occupancy
- attempting to check with any appropriate advice or other agency such as local authority or housing association
- obtaining senior management authorisation prior to any disconnection being carried out.

## Appendix 5 – Glossary

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### C

#### Change of Supplier (CoS)

Process used by industry to transfer a customer from one supplier to another.

#### Competition and Markets Authority (CMA)

The Competition and Markets Authority (CMA) is a non-ministerial government department in the United Kingdom, responsible for strengthening business competition and preventing and reducing anti-competitive activities.

#### Credit Mode

A mode of operation whereby consumers are generally billed for their energy use retrospectively.

### D

#### Data Communications Company (DCC)

The Data and Communications Company (DCC) is a central communications body appointed to provide the communications and data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies. The DCC will deliver data and communications services for smart meters through its external providers.

### E

#### Emergency credit

Emergency credit refers to a limited amount of credit provided by the supplier which becomes available when the customer's credit runs out. This generally needs to be repaid when the customer tops up next.

### F

#### Friendly credit

Friendly credit refers to periods during which the supply will not be disconnected. This often covers evenings/nights, weekends, or bank holidays. Friendly credit generally needs to be repaid when the customer tops up next.

### H

#### High consumption alert



A threshold consumption amount which when reached activates an alert to the customer.

### Home Area Network (HAN)

The Home Area Network is the means by which communication between Smart Meters, In Home Displays and other smart metering devices in premises is affected.

## I

### Industry Codes

Industry codes and agreements underpin the gas and electricity markets and set out detailed rules for the gas and electricity markets that govern market operation and the terms of connection and access to the energy networks. The codes are contracts between signatories and provide a level playing field for services provided by central/monopoly providers, and contain interoperability requirements between competitors.

### In-Home Display

An electronic device, linked to Smart Metering System, which provides information on a consumer's energy consumption and ambient feedback.

## M

### Micro-business

A non-domestic consumer is defined as a micro-business if they meet one of the following criteria:

- Employs fewer than 10 employees (or their full time equivalent) and has an annual turnover or balance sheet no greater than €2 million, or
- Consumes not more than 100,000 kWh of electricity per year, or
- Consumers not more than 293,000 kWh of gas per year.

## L

### Low credit alert

A threshold credit value which when reached activates an alert to the customer to remind them to top up.

## O

### Ofgem

Ofgem is the Office of Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority (GEMA), the body established by section 1 of the Utilities Act 2000 to regulate the gas and electricity markets in Great Britain. It does this by promoting competition, wherever appropriate, and regulating the monopoly companies that run the gas and electricity networks.

## **P**

### Prepayment meter

A prepayment meter includes any Electricity Meter operating in a mode which requires a customer to pay charges in advance.

### Prepayment Meter Interface Device (PPMID)

A prepayment meter user interface separate from, but connected to, the meter via the HAN.

### Priority Services Register

The standard Supply Licence Conditions require suppliers to establish a list (the Priority Services Register) of domestic customers that are of pensionable age, disabled or chronically sick. Eligible customers can ask to be added to their supplier's list. These customers are then eligible for certain free services specified in the Supply Licence Conditions.

## **S**

### Self-disconnection

An interruption to electricity or gas supply by consumers using prepayment meters because meter has not been topped up.

### Smart meter

For the purposes of this document, smart meter refers to all meters operating via or intended to operate via remote communications.

### Smart Energy Code

The Smart Energy Code (SEC) came into force on 23 September 2013, when the Data Communication Company's (DCC) licence was granted. The SEC is a multiparty contract which sets out the terms for the provision of the DCC's services and specifies other provisions to govern the end-to-end management of smart metering in gas and electricity.

### SMETS

The technical specification for smart metering equipment set out by the Smart Metering Programme.

### Social Obligations Reporting

Suppliers are obliged to provide us with data on payment methods, debt, disconnection, and Priority Services Registers (PSRs). We refer to this as the Social Obligations Reporting.

### Switching Programme

This programme concerns the process used by industry to transfer a consumer from one supplier to another. Smart metering presents an opportunity to improve this process. Ofgem's ambition is for a fast, reliable and cost-effective process that facilitates competition and builds consumer confidence.

## U

### Unique Transactions Reference Number (UTRN)

A UTRN is 20 digit unique reference number which can be entered by the customer to manually top up their smart meter.

## W

### Warm Home Discount (WHD)

The Warm Home Discount scheme mandates domestic energy suppliers to provide approximately £1.45 billion of direct and indirect support arrangements to fuel poor customers over five years from April 2011.

### Wide Area Network (WAN)

The network that is used for two way communication between smart metering systems and the DCC or suppliers.

## Appendix 6 – Update on RMR for time-of-use tariffs work

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1.1. The Consumer Empowerment and Protection project, of which smart prepayment forms a part, also includes “Retail Market Review (RMR) for time-of-use tariffs” as a Phase 1 work area. In our Updated Work Programme, we noted that we would look to initiate and scope this work in 2015 with a view to finalising our position by the end of the year.<sup>70</sup>

1.2. The CMA as part of their Provisional Findings have suggested that elements of the RMR “simpler tariff” rules may act as a barrier to innovation, and to competition between third party intermediaries such as price comparison websites (PCWs). These rules were put in place on a transitional basis in order to reduce complexity and make it easier for consumers to compare suppliers. We are working with the CMA to identify where changes may be beneficial to encourage greater competition between PCWs. We will consider what further actions may be necessary as the CMA refines and finalises its package of remedies, and will consider any next steps for the “RMR for time-of-use” work area in this context.

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<sup>70</sup> Ofgem, Consumer Empowerment and Protection in Smarter Markets: Updated Work Programme, pp.26-27.

## Appendix 7 – Feedback Questionnaire

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1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand? Could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments

1.2. Please send your comments to:

**Andrew MacFaul**

Consultation Co-ordinator

Ofgem

9 Millbank

London

SW1P 3GE

[andrew.macfaul@ofgem.gov.uk](mailto:andrew.macfaul@ofgem.gov.uk)