



Making a positive difference
for energy consumers

To: **All domestic suppliers**

Email: PPM.PriceCap@ofgem.gov.uk
Date: 15 December 2016

Prepayment Charge Restriction – Update & information about trial run

From 1 April 2017 the amount suppliers can charge a domestic prepayment customer will be subject to a transitional cap – the Prepayment Charge Restriction (or prepayment price cap). The cap is brought into effect by the Competition and Markets Authority's (CMA) Energy Market Investigation (Prepayment Charge Restriction) Order 2016, available on the CMA's [website](#).

Ofgem will be responsible for administering the cap. This letter summarises the key dates leading up to the first charge restriction period in April 2017, and confirms suppliers' obligations in relation to providing assumed consumption splits and sending any price increase notifications to prepayment customers. It also describes our plan to carry out a trial-run of the process of updating the price cap in January. We are asking that any supplier interested in participating in this trial-run contact us by **Friday 6 January**.

Responses and questions with regard to this letter and all matters relating to our administration of the price cap should be sent to the dedicated prepayment price cap mailbox, PPM.PriceCap@ofgem.gov.uk.

Background

In its [Final Report](#), published in June 2016, the CMA found that prepayment customers have suffered particularly high levels of detriment. These customers have not been able to benefit from competitive prices in the same way as other customers, and unlike for other customers, where prepayment customers pay too high a price, the detriment may be felt in abruptly curtailed consumption.

The CMA has proposed a package of remedies to address issues facing prepayment customers and wider problems in the retail energy market. As part of this package of remedies the CMA has decided that a transitional price cap should apply to domestic customers on prepayment meters. The cap will apply from 1 April 2017 to 31 December 2020, by which point the smart rollout is due to be substantially complete (removing many of the additional barriers that prepayment customers currently face). This period will be split into eight Charge Restriction Periods, each lasting six months, except a final three month period.

The price cap does not apply to customers with smart meters which meet the SMETS 2 technical specification or are otherwise fully interoperable. The restriction shall also not

apply to fixed term supply contracts which were entered into on or prior to the publication of the CMA’s Final Report on 24 June 2016.

Key dates for setting the first price cap

Ofgem is responsible for calculating and publishing the level of the cap. Separate levels of the cap will be published for each metering arrangement (electricity – single rate; electricity – multi-register; and gas) and for each region.

The table below summarises the key dates for setting the cap for the first charge restriction period.

TABLE 1: Key dates for charge restriction period starting 1 April 2017

1 January 2017 (see below for public holiday)	Suppliers due to submit to Ofgem assumed consumption splits and associated evidence
9-16 January 2017	‘Trial-run’ of the update process (further details below)
7 February 2017	Level of price cap published, along with any directions for suppliers to use an alternative consumption split
1 April 2017	Prepayment charge restriction takes effect
7 April 2017	Suppliers due to submit first compliance report to Ofgem

Assumed Consumption Splits

Where a multi-register prepayment tariff other than Economy 7 is offered, suppliers must provide us with the assumed consumption split between each rate to allow compliance to be assessed for that tariff. This must be accompanied by historic consumption data or, in the absence of historic data, evidence of the basis on which the assumed consumption split has been calculated.

This information must be provided to us no less than three months before the relevant Charge Restriction Period. **However, in view of the public holidays in England, Wales and Scotland over the New Year period, we are content for energy companies to submit this information on the first working day of 2017.** Where we require suppliers to use an alternative assumed consumption split, we aim to provide such a direction by the fifth working day in February - although in such circumstances, we would anticipate contacting relevant suppliers in advance of this date, to seek representations and possibly further evidence.

January 2017 trial-run of the update process

In order to reduce any uncertainty as to how the CMA's methodology will be applied in practice, and to provide an opportunity for Ofgem to check its own internal processes for updating the level of the cap, we are planning to carry out a trial-run in January 2017. Our proposal is as follows:

TABLE 2: Proposal for trial-run of the update process

6 January 2017	Suppliers to indicate if they would like to be involved in the trial run, by emailing PPM.PriceCap@ofgem.gov.uk
9 January 2017	Participating suppliers to receive list of inputs to be used in the trial run. In particular, while some of the information required to set the final level of the cap for 1 April will be available at this time (for example some network charging information and the Office of Budget Responsibility's table of environmental levies), other information will not be available until later in January. We will notify participating suppliers what information we intend to substitute for unavailable data for the purposes of the trial (for example, draft network charges, and wholesale price data going up to a specified date), so that they are able to replicate the update process in parallel.
12 January 2017	Participating suppliers to receive details of the mock prepayment price cap levels for the different meter types and regions, along with details of the calculations that have been carried out.
16 January 2017	Deadline for any submissions from participating suppliers regarding the mock levels of the price cap, identifying any areas where differences exist and further clarification is sought.

SLC23 - Price increase notifications

Under Standard Licence Condition 23, suppliers are required to provide their customers with 30 days' notice when they increase charges (i.e. standing charge and/or unit rate(s)/ time of use rates) or make a unilateral variation to the terms of their contract that is disadvantageous to customers. A number of suppliers have queried whether this provision will still apply in light of the prepayment price cap, noting the limited time this would leave for them to determine their pricing strategy given that the level of the caps will not be published until approximately 7 weeks prior to the start of the charge restriction period.

In our view, it is crucial that prepayment customers continue to get the same opportunities and prompts to switch as other customers. We note that because the methodology for setting the price cap and data sources are public, suppliers should have a significant degree of insight into the level at which the cap will be set in advance of 7 February. In any event, the cap sets an upper bound on prices – and suppliers are not required to increase their prices at the start of any charge restriction period. For these reasons, we are not intending to amend the rules relating to price increase notifications in light of the introduction of the prepayment price cap.

Compliance report

Under the new licence condition, suppliers must provide us with a report no more than five working days after the start of each Charge Restriction Period which demonstrates the compliance of each prepayment tariff that they offer. The first such report will therefore be due on 7 April 2017 for the charge restriction period commencing 1 April 2017. The required content of the report is specified in standard licence condition 28A.29, and we have attached a draft reporting template alongside this email (an updated version of the CMA's original draft). We would be grateful for any comments on this template by 7 February 2017.

Yours faithfully

Meghna Tewari
Head of Consumer Vulnerability Strategy