



Protecting energy consumers with prepayment meters

Thank you for the opportunity to comment on Ofgem's proposals on protecting consumers with prepayment meters. This response is sent on behalf of both E.ON and npower.

Whilst we believe that the energy industry should return to a fully competitive market at the earliest opportunity, there is a perception that this should only happen for prepayment customers when the smart meter rollout has largely been achieved. We accept, therefore, that, given the delay to the smart meter rollout, protection for prepayment customers is likely to extend beyond the end of 2020, regardless of whether the default tariff cap continues into 2021.

We agree with Ofgem's proposal to achieve this by including all prepayment customers on default tariffs in the default tariff cap. In that way, should the Secretary of State decide to continue protection for customers on default tariffs beyond the end of 2020, suppliers can operate under a single cap, minimising administration and reducing any confusion arising from having two separate caps.

We agree with Ofgem's proposals to maintain the current price differential between the cap levels for Direct Debit and prepayment, and to leave the operating cost allowance and other allowances unadjusted.

Whilst we appreciate that it is necessary to calculate a non-pass-through SMNCC specifically for prepayment customers, we need to fully understand Ofgem's analysis and calculations. We are pleased that Ofgem will make its model available alongside the statutory consultation it is planning to release in May; however, it is essential that Ofgem also provides sufficient detail behind this to allow stakeholders to carry out their own analysis to confirm its validity. It is essential that Ofgem is totally transparent and discloses, albeit under tight conditions, full information of its analysis. For example, stakeholders will need to have details of the installation profile used; we believe that Ofgem should not use the same curve as for credit meters; it must look at the impact of tenure and timing on operating costs. It is our experience that, when a smart prepayment meter is first installed, there is a transition period where cost to serve remains the same as, or is higher than, for a traditional prepayment meter customer. Ofgem must take into account the specific costs of supporting smart prepayment customers through the transition to smart, and make proper allowance for the interplay of traditional prepayment to smart prepayment installation volumes, the tenure of smart prepayment customers and the cost to serve of those customers. We believe Ofgem needs to issue a request for information to establish whether our experience is borne out by other suppliers, and where we can provide evidence of these impacts.

Given the additional analysis and consultation period necessary for the non-pass-through SMNCC allowance, we accept that it will be necessary to put in place a contingency for Charge Restriction Period 5 of the default tariff cap (starting 1 October 2020). However, we disagree with Ofgem's proposal to set the proposed contingency non-pass-through SMNCC for prepayment customers at zero. We propose that it should be set to the same level as for the credit meter default tariff cap non-pass-through SMNCC until a fair level can be agreed through proper scrutiny and consultation. E.ON smears all smart costs across all customers, and we suspect other suppliers do the same. Therefore, the non-pass-through SMNCC costs should be the same for both prepayment and credit meter customers.



With respect to Ofgem's three options for the timing of expiry:

- *Introduce changes to the default tariff cap with effect from 1 January 2021.*
This would be the most costly option for suppliers, as they would need to write to both credit meter customers on a default tariff and prepayment meter customers prior to the price change for 1 October 2020, and would then need to write to prepayment customers again prior to the price change for 1 January 2021. We would therefore not want Ofgem to proceed with this option.
- *Introduce changes to the default tariff cap with effect from 1 October 2020.*
This would still require a letter to all credit meter customers on a default tariff and all prepayment customers prior to the 1 October 2020 price changes. It would also be necessary to write to all prepayment customers again to advise of a change in their prices as the prepayment cap ends and they move to the default tariff cap.
- *Apply to the CMA to end the prepayment cap as at 1 October 2020 and introduce changes to the default tariff cap from the same date.*
Of the three options Ofgem has proposed, this would be our preferred option.
- We believe, however, that there is a fourth option Ofgem could consider. Following the expiry of the prepayment price cap on 31 December 2020, Ofgem could choose to continue with the CMA methodology until 31 March 2021 to provide continuity for prepayment customers. The changes needed to include prepayment customers in the default tariff cap could then be implemented from 1 April 2021. This would have the benefit of allowing Ofgem to complete its analysis and consultation for non-pass-through SMNCC allowance for prepayment customers and avoid the need for a contingency. In addition, suppliers would only need to communicate a price change with customers in respect of 1 October 2020 and 1 April 2021 prices changes, with no additional customer communications required for 1 January 2021.