Protecting energy consumers with prepayment meters

Thank you for the opportunity to comment on Ofgem's proposals to protect energy consumers with prepayment (PPM) meters after the expiry of the PPM charge restriction. This response reflects the views of both E.ON and npower.

Protection for PPM customers

Installation of smart meters is a key part of E.ON's (and, as part of the E.ON Group, npower's) strategy for the future; we perceive the benefits both for consumers and for suppliers and our aim is to complete the smart meter rollout as quickly and efficiently as possible.

There have been consistent and significant delays by third parties in delivering the smart meter programme; these were out of suppliers' control, including RF noise, complex meters, ALT HAN, Dual Bank Communications Hubs. Of particular relevance to PPM customers is the delay in finding a solution for SMETS2 PPM. This has resulted in significant delays to suppliers' ability to deliver their smart rollout plans and, in some instances, unavoidable sunk costs.

Consequently, we accept there continues to be a need to protect PPM customers beyond the end of 2020. However, the lack of progress in installing SMETS2 meters should be the only reason for retaining a price cap for PPM customers. We do not believe that tariff choice for PPM customers will improve significantly until the price cap is removed: despite making significant efficiencies, most suppliers continue to make a loss under the price cap due to its insufficiency and this means their ability to innovate is severely limited. We agree with Ofgem that there is low engagement among PPM customers; however, whilst greater tariff choice may have some impact in improving engagement, we believe that there are significant socio-economic issues that need to be overcome before real improvements will be seen.

Given, therefore, the need to continue to provide assistance to PPM customers, we agree that including PPM customers in the default tariff cap until a significant proportion of PPM meters are SMETS2 is the most pragmatic solution.

Methodology

We agree with Ofgem's proposal to use the default tariff cap methodology (and values) for all cost components except for a payment method uplift and the non-pass-through SMNCC allowance. We also agree with Ofgem's proposal to set the average rollout profile using the 'delayed profile' option. However, as we stated in our response to Ofgem's March consultation[1], we would have preferred for Ofgem to look at the impact of tenure and timing on operating costs; our experience is that, when a smart PPM is first installed there is a transition period where cost to serve remains the same as, or is higher than, for a traditional prepayment customer.

Ofgem states that *"In normal circumstances, suppliers have installed smart meters at a stable rate between 2017 and 2019."* (paragraph 4.18). Installations in those years were less than Government

[1]https://www.ofgem.gov.uk/system/files/docs/2020/03/protecting_energy_consumers_with_prepayment_meters.pdf

and Ofgem expected, and less than suppliers had planned for due to circumstances outside of their control, e.g. resolution of issues such as RF noise, complex meters, ALT HAN, Dual Bank Communications Hubs and, particularly relevant to this consultation, SMETS2 prepayment. In addition, there is some consumer resistance to smart meters. It is disingenuous for Ofgem to claim that because the level of installs was flat, it was as predicted and did not result in sunk costs.

Double counting

We appreciate that it would be unacceptable to double count smart metering costs and therefore, to the extent that costs are duplicated, under the correction mechanism Ofgem is proposing it is appropriate to make an adjustment. We believe, however, that Ofgem overstates the amount of double-counting, as it has not taken into account that some costs are unavoidably fixed.

Annual reviews

We agree with Ofgem's proposal to review the SMNCC allowance every 12 months, assuming that the Secretary of State determines that the price cap should remain in place beyond the end of 2020. It is to be hoped that such reviews would recognise the real efficient costs of the smart meter rollout; in particular, as the rollout progresses, the increasing costs of engaging reluctant consumers that will become even more difficult unless Government removes consumer choice to have a smart meter installed. The reviews will also be able to take account of any further delays in delivery of some of the remaining technical elements of the programme and the consequent, unavoidable, additional costs for suppliers.

We have concerns that Ofgem states it does not *"expect to carry out future reviews with the same level of detail as this consultation."* (paragraph 7.33). This pre-supposes that the future for the rollout is predictable, whereas there are still a number of uncertainties about what technical requirements are capable of being delivered and by when. As part of its consultation at each 12-month period, Ofgem should be open to challenges from stakeholders on what elements of the methodology require a more detailed review.

Ofgem considers, in paragraph 7.2, that: *"Reviews should reduce the risk that customers are overcharged if the net impact of the rollout on operating costs deviates from expectations."* We note there is no concern that suppliers might be short-changed if their costs are not properly accounted for, due to additional costs resulting from further delays to delivery of the programme or consumers being averse to smart metering; we consider these as equally valid reasons to review the non-pass-through SMNCC at regular intervals. This omission could imply partiality on the part of Ofgem, where it should remain neutral in assessing suppliers' efficient costs.

COVID-19

We welcome Ofgem's allowance for sunk costs in 2020 due to the coronavirus pandemic. COVID-19 is an exceptional circumstance, with advice and instructions from the Government making it impossible for suppliers to continue to install smart meters as normal, resulting in significantly higher than normal bad debt costs as businesses have been forced to close and many individuals have lost their incomes. We believe the exceptional nature of this situation does warrant the introduction of a correction mechanism.

Timing and contingency

We agree with Ofgem's proposed timing for introduction of PPMs into the default tariff price cap. This avoids the need to have an additional price change mid-way through a Charge Restriction Period, which would be confusing and disruptive for consumers and would cause additional expense for suppliers. For the same reason, we believe that, should Ofgem be unable to implement its proposals in October 2020, the contingency should be to use the same methodology between 1 January 2021 and 31 March 2021.

Annual Supplier Return question 3.9

As requested in Ofgem's email of 18 June 2020, we can confirm that both E.ON and npower stated question 3.9 (a) and 3.9 (b) correctly for both fuels, excluding meter rental payments and in line with any other guidance provided by BEIS.