

To: Domestic electricity
suppliers, BEIS, Welsh Assembly,
Citizens Advice, Citizens Advice
Scotland, and other interested
parties

Direct Dial: 020 7901 7000

Email: CDconsultations@ofgem.gov.uk

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Statutory Consultation: Extending protections for non-E7 restricted meter customers (SLC 22G)

1. This is a statutory consultation to make changes to standard licence condition 22G of the electricity supply licence, which relates to protections for customers with certain types of restricted (multi-rate) meters.
2. This letter outlines the background to the statutory notice, explains the proposed changes and sets out the consultation process. This consultation builds on the extensive work the Competition and Market Authority (CMA) undertook through the Energy Market Investigation, which resulted in SLC 22G being inserted into the electricity supply licence.¹
3. We are consulting on changes to SLC 22G to extend the period of time suppliers need to comply with specific provisions of that licence condition in line with the revised smart meter rollout framework. We are also including a provision to allow us to extend these provisions again if necessary.
4. The statutory notice published alongside this letter set out the changes we propose to make to the standard conditions. We are seeking views on these changes by close of business on **2 October 2020**.

¹ CMA (2016) [Energy market investigation](#)

Background

5. Consumers with restricted meters are charged electricity at different rates depending on the time of day that energy is being used (eg a cheaper rate that applies for consumption during the night and a higher rate during the day). Some types of restricted metering systems consist of one meter, whilst others consist of two. Restricted meters are often linked to electric heating systems, which allows that system to take advantage of times when rates are lower. Because of these variations, restricted meter tariffs can be complex.
6. Around 4 million out of a total of 29 million domestic electricity customers in Great Britain have restricted (or “profile class 2”) meters. Electric heating (which is often linked to restricted meter tariffs) is significantly more common in Scotland, with around 11%, or 282,000 households relying on it as their main source of heating.²
7. Profile class 2 encompasses a large number of different meter types and vary across supplier, region and can be bespoke to a few households across GB.³ The majority of restricted meters are Economy 7 meters, which record consumption separately in a 7-hour night time period, during which customers are charged a reduced rate for the electricity they use. Customers with Economy 7 meters do not have the same difficulty switching supplier as those with more complex arrangements. Nearly all suppliers in the market offer E7 tariffs alongside their single rate tariffs.
8. A significant number of customers in profile class 2 have other arrangements, such as Economy 10 meters and dynamic teleswitched (DTS) meters. These are less common and consumers with these tariffs find it more difficult to switch tariffs. We estimate that there are currently under 500,000 customers with non-Economy 7 restricted meters in GB, down from 700,000 in 2015.⁴ This number has decreased significantly over the last few years and we would expect to see a continued decrease overtime as the smart meter rollout progresses.

Our previous work in this area

9. Supporting restricted meter customers has been priority for us for a number of years and remains a priority. We know that many of these customers are particularly disengaged from the market and can struggle with affordability. For

² CAS (2018) [Hard-Wired Problems: Delivering effective support to households with electric heating](#)

³ Ofgem (2019) [Review of Typical Domestic Consumption Values 2019](#)

⁴ CMA (2016) [Appendix 9.5: Restricted meters](#)

example, consumers using electric heating are twice as likely to be in fuel poverty and consumers with DTS meters are more likely to show characteristics of vulnerability.^{5, 6}

10. A number of years ago we published a report setting out the experiences of customers with dynamically teleswitched meters (DTS).⁷ We followed this up with a broader insights paper looking at households with electric heating.⁸ During this time the CMA was investigating the energy market, which including a review of how the market was serving consumers with restricted meters.

CMA investigation, findings and recommendations

11. In 2014, we referred the energy market to the CMA for investigation, as we were concerned that competition was not working well for energy consumers. In June 2016, the CMA published its Final Report and identified a specific competition issue for consumers on non-E7 restricted meters.⁹ The CMA found that these consumers struggled with accessing and assessing information about prices of tariffs available to them, particularly as these tariffs are not supported by price comparison websites. This in turn made it difficult for them to switch tariffs and save on their bills. The CMA did not find the same issues for customers with E7 tariffs as these customers can choose for a wide range of suppliers and tariffs.
12. The CMA calculated the potential cost savings of the relevant cheapest single rate tariff and the resulting customer detriment for consumers should they not be able to access these. The findings suggested that 67% of standard and direct debit customers on restricted meters could save up to £154 a year by switching to the cheapest single rate tariff.^{10, 11} The investigation also found that there was a material number of customers on restricted meters whose usage patterns meant that they did not take advantage of cheaper off-peak electricity. In particular, 15% of customers on restricted meters in the CMA's final sample, in both periods, had less than 20% of annual usage in off-peak times.¹² These customers were therefore very likely to benefit from switching to a single rate tariff.

⁵ CAS (2018) [Hard-Wired Problems: Delivering effective support to households with electric heating](#)

⁶ Ofgem (2014) [Dynamically Teleswitched meters and tariffs – Research into consumer experience](#)

⁷ Ofgem (2014) [Dynamically Teleswitched meters and tariffs – Research into consumer experience](#)

⁸ Ofgem (2015) [Insights paper on households with electric and other non-gas heating](#)

⁹ CMA (2016) [Energy Market Investigation, Final Report](#)

¹⁰ See CMA (2016) [Appendix 9.5: Restricted meters](#). Based on Q2 2015 tariff data.

¹¹ This was an increase on Q2 2014, where 50% of standard credit and direct debit customers would have had lower bills and these customers could have saved an amount equivalent to around 14% of their bill (equivalent to around £120 a year).

¹² CMA (2016) [Appendix 9.5: Restricted meters](#)

13. The CMA decided to address the issues through the Energy Market Investigation (Restricted Meters) Order 2016 (the Order).¹³ This Order introduced a new Standard Licence Condition (SLC) 22G into the electricity supply licence and required all suppliers with over 50,000 electricity customers to:
- make all their single-rate tariffs available to domestic customers on restricted meters, without making switching to these tariffs conditional on replacement of the restricted meter;
 - ensure that domestic customers on restricted meters have access to information on the switching options available to them; and
 - The Order also stated that consumer bodies (Citizens Advice and Citizens Advice Scotland) would play a specific role and were given the power to request information from suppliers.
14. At the time that the Order came into force, it was a time-limited solution. The expectation was that the smart meter rollout would remove the barriers these customers face, as, once they had a smart meter, they would no longer need to change their meter to change the tariff. Therefore, SLC22G has a sunset clause, and ends on 31 December 2020, as, at the time of the CMA Order, the smart meter rollout was projected to be completed by the end of 2020.
15. As the smart meter rollout will not be completed by the end of 2020, we engaged with the CMA on the options to extend the sunset clause. The CMA subsequently wrote to Ofgem in August 2020 to recommend that we consider whether it is appropriate to either extend the duration of the relevant sections in SLC 22G or take such other steps to protect customers on restricted meters until the rollout of smart meters is complete.¹⁴

Progress on the rollout of smart meters since the CMA market investigation

16. The rollout has not progressed in line with the initial projections on which the sunset clause in the Order was premised.¹⁵ In June 2020, the government published its response to the 2019 consultation on the introduction of a new regulatory framework for energy suppliers to complete the smart meter rollout post-2020.¹⁶ After a 6-month extension to the existing obligation, a new 4-year framework will be implemented from July 2021, which will set minimum annual installation targets for energy suppliers, subject to an annual tolerance level, to reach market-wide

¹³ CMA (2020) [The Energy Market Investigation \(Restricted Meters\) Order 2016](#)

¹⁴ CMA (2020) [Energy Market Investigation \(Restricted Meters\) Order 2016 – Letter to Ofgem](#)

¹⁵ BEIS (2020) [Smart meters in Great Britain, quarterly update March 2020](#)

¹⁶ BEIS (2020) [Smart meter policy framework post 2020](#)

coverage of smart meters. The sunset clause was premised on the completion of the rollout by the original end-date of 31 December 2020.

17. The CMA made the link with the smart meter rollout, as consumers should be able to take on any tariff they wish when they have a technically capable smart meter and therefore, there would be no barrier to switching. In the accompanying Explanatory Note to the Order,¹⁷ the CMA included a provision in the event of a change in the smart meter framework, which states:

'In the event that such roll-out were materially ahead of (or behind) schedule, the CMA will consider whether to revoke the Order early (or recommend that GEMA consider introducing further measures until the roll-out is substantially completed)'

18. Suppliers have been working with manufacturers to develop meter variants to replace existing legacy meter types. The time frames for these vary; however, we expect they should become available within the government's proposed post-2020 rollout framework.
19. We believe that the CMA's substantive evidence collected at the time of the market investigation remains relevant. If these the protections would lapse, in the absence of suitable meters being available, these consumers would lose their ability to switch to a single rate tariffs (without having their meter replaced) with the potential to save on their bills.

The impact of SLC 22G

20. After SLC 22G was introduced, Citizens Advice published a good practice guide for suppliers in 2017 to support implementation of the new obligations.¹⁸ This highlighted existing good practice and recommendations that suppliers could implement such as clear and timely information about the new licence condition and providing additional customer service support for restricted meter customers.
21. In 2018, Citizens Advice Scotland (CAS) published a report outlining the experiences of restricted meter consumers and the challenges of providing support to this subset of consumers. The key findings of the report highlighted the ongoing challenges faced by consumers with restricted meters including; higher costs, disengagement due to the complex nature of the tariff market and a lack of knowledge and perceived barriers to delivering support as part of the licence condition.¹⁹

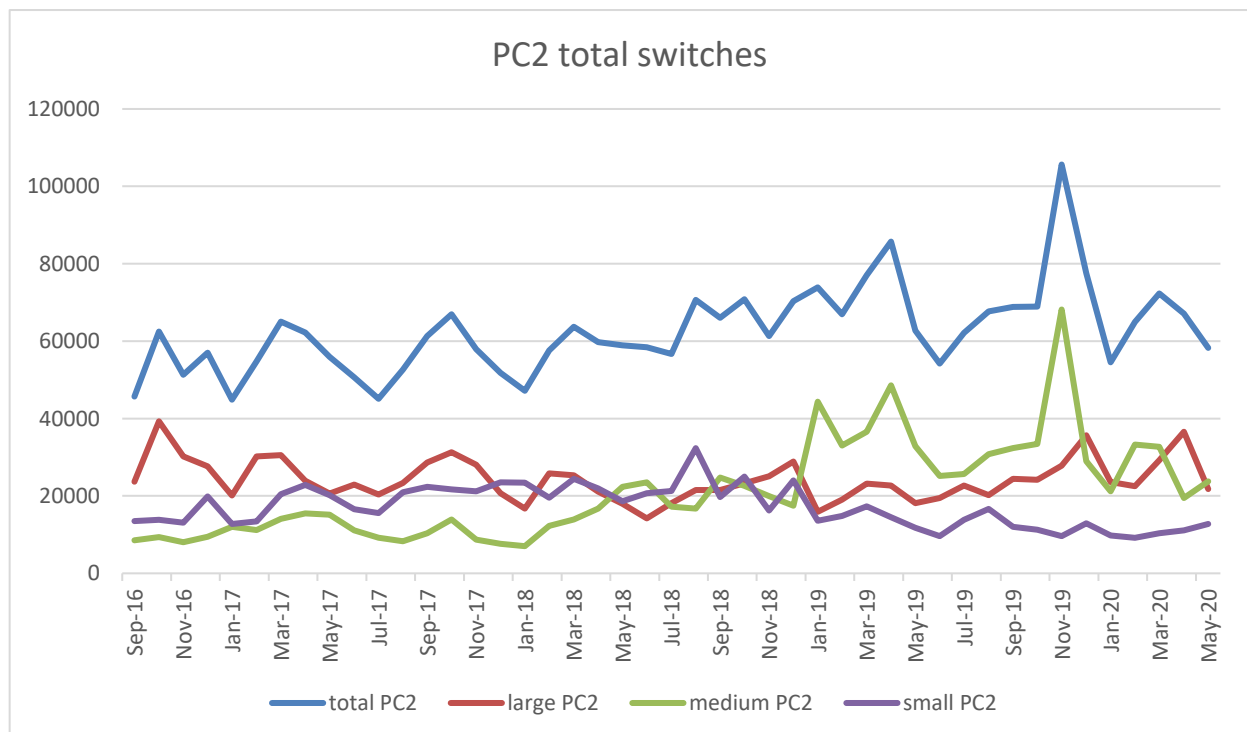
¹⁷ CMA (2016) [Restricted meters order explanatory note](#)

¹⁸ Citizens Advice (2017) [Good practice guide: supporting customers with restricted meters](#)

¹⁹ CAS (2018) [Hard-Wired Problems: Delivering effective support to households with electric heating](#)

22. In our Consumer Vulnerability Strategy 2025, we highlighted concerns raised by consumer groups on restricted meter customers, particularly the lack of affordable tariffs in the market. We committed to taking any appropriate actions from evidence provided to us.²⁰ Ofgem’s recent compliance engagement around SLC 22G has also raised concerns in this area (see sections 28-30 for more detail).
23. To assess the impact of the licence condition, we have engaged a number of consumer stakeholders and analysed existing data. The main aim of SLC 22G was to make the switching process simpler for households that use non-Economy 7 restricted meters, and to give those customers access to more tariffs. We analysed profile class 2 (PC2) switching data, which suggests that there has not been a noticeable increase in switching for customers on these meter types, with the trend remaining relatively stable since 2016, a year before the Order’s introduction.^{21 22}
24. Figure 1 below shows total switching gains for PC2 meter types, the spike in Medium PC2 switches in November 2019 is a result of supplier merger and acquisition activity. As noted above, the PC2 switching data includes Economy 7 tariff switches.

Figure 1: Total PC2 switching gains September 2016 – May 2020



Source: DNO data submissions, see annex 1 for the data table

²⁰ Ofgem (2019) [Consumer Vulnerability Strategy 2025](#)

²¹ Switching data provided by DNOs

²² We did not have access to more granular data which broke down non-Economy 7 tariff switching. However, the barriers to switching are lower for Economy 7 tariffs as they are widely available, so any trend is likely to be less strong for non-Economy 7 tariffs.

25. A precondition to switching is general consumer awareness with respect to the consumer protection. We have recently engaged with a number of consumer groups (CAS, Changeworks, Citizens Advice, Citrus Energy, South Seeds) to better understand the impact of SLC 22G. In summary, there appears to be some limited awareness, but SLC 22G is not widely known to consumers or advisors. Anecdotal evidence suggests that there may be more than one driver for this lack of awareness, as a result of some consumers not engaging with messaging about the protections, this messaging not being clear or consistent enough to allow consumers to understand how to benefit from the licence condition, through to non-compliance with the requirements.
26. This is confirmed by a recent report from Changeworks into Total Heat Total Control tariffs (prevalent in the north of Scotland), which is based on interviews with consumers and consumer groups. While most of the advisers they interviewed were aware of the licence condition, the consumers they interviewed were in general not aware. They believe that the Restricted Meters protections need to be better publicised among consumers, support providers and energy suppliers.²³ They believe that more information needs to be made readily available for those on restricted meter tariffs in order to facilitate easier comparisons with single-rate tariffs. Clear guidance should be made available to both households and advisers to allow an informed decision.
27. The consumer groups we spoke to were supportive of extending this protection, given it is the only protection currently available to consumers on these meter types before the smart meter rollout is complete.²⁴ Unfortunately it appears to us, that the licence condition is not widely known about by consumers. This does not diminish the importance of the protections, rather it is a call to action to raise awareness. We will consider how we can encourage this, if we decide to extend the protections. Anecdotally, we have heard from consumer bodies that there are cases where the protections have provided positive consumer outcomes and from our compliance work we know that consumers have used the opportunity to switch to a single rate tariff. This could particularly be the case for the relatively large group of consumers identified by the CMA who have restricted meter tariffs, but who are not using their heating effectively to benefit from the tariff.

²³ Changeworks (2020) [Supporting consumers on restricted meters in Northern Scotland](#)

²⁴ CAS, Changeworks, Citizens Advice, Citrus Energy, South Seeds

Compliance engagement

28. We have taken compliance action for breaches of this SLC. In March 2020, we closed compliance engagement with EDF Energy, relating to how it charged 27 customers with a Restricted Meter. EDF Energy reported that it had overcharged customers due to a technical fault and reimbursed affected customers.²⁵
29. In August 2020, we closed compliance engagement with Bulb, including in relation to them charging restricted meter customers multiple standing charges when they shouldn't have.²⁶
30. These compliance breaches of SLC 22G indicate the continued risk of restricted meter customers struggling to engage with the market. It shows a clear need for this protection to be retained as the smart meter rollout continues. It also indicates a potential wider lack of awareness in some areas of the market, which aligns with what a number of consumer groups have told us.

Our proposal:

31. As set out in the sections above, we believe that **extending these protections to align with the new smart meter rollout framework is appropriate to protect consumers with non-E7 restricted meters.**
32. Our primary consideration when extending the protections is the state of the smart meter rollout. With government now implementing a post 2020 framework, we propose to extend the protections currently in place whilst the barriers that were identified through the CMA Energy Market Investigation remain.²⁷ We also propose to include a provision to allow us to extend the protections further if necessary.
33. The proposed changes are outlined in the table below.

²⁵ Ofgem (2020) [Ofgem closes compliance engagement with EDF in relation to how it charged some customers with a Restricted Meter](#)

²⁶ Ofgem (2020) [Ofgem closes compliance engagement with Bulb](#)

²⁷ BEIS (2020) [Delivering a Smart System: Response to a Consultation on Smart Meter Policy Framework Post-2020](#)

Table 1: Summary of revisions to SLC 22G

Proposed change	Proposed revised draft supply licence conditions
Amend 22G.7 end date to 30 June 2025 and give ourselves the power to extend further if necessary.	The Relevant Licensee must comply with paragraphs 22G.1 and 22G.2 from 1 September 2017 until 31 December 2020 <u>30 June 2025, unless the Authority specifies a later date by publishing a statement in Writing.</u>
Amend 22G.12 end date to 30 June 2025, and give ourselves the power to extend further if necessary.	The Relevant Licensee must comply with paragraph 22G.9 from 1 September 2017 until 31 December 2020 <u>30 June 2025, unless the Authority specifies a later date by publishing a statement in Writing.</u>
Amend 22G.13 end date to 30 June 2025 and give ourselves the power to extend further if necessary.	The licensee must comply with paragraphs 22G.10 and 22G.11 from 15 December 2016 until 31 December 2020 <u>30 June 2025, unless the Authority specifies a later date by publishing a statement in Writing.</u>
Include a new section 22G.13A that allows us to extend the protections by setting this out in writing.	<u>The power to specify a later date in paragraph 22G.7, 22G.12 and 22G.13 may be exercised by the Authority on more than one occasion (before, or on, the expiry of any later date specified by the Authority).</u>

Impact assessment

34. We have decided not to carry out an impact assessment for the purposes of section 5A of the Utilities Act 2000. We have reached this view primarily because this is an extension of an already existing protection. When the CMA consulted on the Order in 2016, the main concerns from suppliers related to implementation costs. As implementation costs are one-off costs and have been incurred by suppliers already, we do not consider that extending the protections would result in a significant cost for industry participants whilst retaining an important consumer protection.

Responses to this consultation

35. We would like to hear the views of anyone interested in the issues in this document. Please respond with your views on this consultation and the effect of the draft licence modifications by close of business on **2 October 2020** to: CDconsultations@ofgem.gov.uk.

Your response, data and confidentiality

36. You can request to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
37. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which we would be minded to publish and ask for reasons why you consider the information to be confidential.
38. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our [Privacy Notice](#) on consultations.
39. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

Yours faithfully,

Anna Rossington
Deputy Director, Retail Directorate

Annex 1: Data table for graphs

Figure 1: Total PC2 switching gains September 2016 – May 2020

Month	Total PC2	Large PC2	Medium PC2	Small PC2	Total switches
Sep-16	45692	23645	8529	13518	349203
Oct-16	62501	39288	9381	13832	486859
Nov-16	51327	30208	8022	13097	386585
Dec-16	56989	27662	9484	19843	423068
Jan-17	44876	20127	12007	12742	319503
Feb-17	54775	30182	11177	13416	398150
Mar-17	65010	30509	14046	20455	512855
Apr-17	62251	23960	15452	22839	449463
May-17	55950	20625	15133	20192	414285
Jun-17	50642	22964	11088	16590	379345
Jul-17	45109	20390	9162	15557	350660
Aug-17	52632	23325	8328	20979	414308
Sep-17	61359	28635	10366	22358	518906
Oct-17	66925	31294	13933	21698	534746
Nov-17	57947	28073	8699	21175	440757
Dec-17	51815	20676	7593	23546	385060
Jan-18	47180	16753	7024	23403	321560
Feb-18	57599	25834	12241	19524	425147
Mar-18	63723	25367	13935	24421	443326
Apr-18	59710	21085	16691	21934	446547
May-18	58943	17975	22363	18605	464753
Jun-18	58391	14197	23838	20356	455194
Jul-18	56657	18112	17460	21085	442406
Aug-18	70656	21561	16868	32227	466898
Sep-18	66018	21557	24788	19673	525216
Oct-18	70873	23279	22636	24958	558583
Nov-18	61304	25112	19992	16200	462137
Dec-18	70345	28879	17463	24003	390540
Jan-19	73886	15900	44396	13590	360286
Feb-19	66929	19045	33200	14684	436164
Mar-19	77017	23142	36615	17260	585775
Apr-19	85756	22692	48579	14485	638176
May-19	62764	18100	32488	12176	470219
Jun-19	54187	19440	24751	9996	422945
Jul-19	62172	22692	25116	14364	488217
Aug-19	67687	20225	30400	17062	498301
Sep-19	68820	24441	32171	12208	545937
Oct-19	68912	24524	33279	11109	526805
Nov-19	105650	27900	67974	9776	474812
Dec-19	77558	35659	28945	12954	498615
Jan-20	54554	23562	21215	9777	425229
Feb-20	64988	22519	33291	9178	430155
Mar-20	72318	29285	32705	10328	564014
Apr-20	67133	36589	19468	11076	428260
May-20	58223	21750	23762	12711	428717