



Bulb's response to the statutory consultation on self-disconnection and self-rationing

24 August 2020

Executive Summary

- Bulb accepts suppliers taking all reasonable steps to identify members who are self-disconnecting. However, we do not think Ofgem's suggestion of using non-vends will yield sufficient insights to identify self-disconnection. Instead, widespread installation of smart prepayment meters will allow us to monitor self-disconnection more accurately.
- We are concerned that Ofgem is requiring suppliers to consider self-rationing when it is identified. As Ofgem acknowledges, there are significant difficulties in identifying self-rationing behaviour with traditional prepayment meters. It is unclear what support that suppliers could offer to members who do not have enough money to pay for their energy. The approach to self-rationing should be reviewed once the smart rollout has progressed much further.
- Bulb takes its members' privacy very seriously. If Ofgem was to consider in future introducing requirements to identify self-rationing, suppliers would require more detail on the privacy impacts of such monitoring.
- Bulb accepts the new requirement to offer emergency and friendly-hours credit. We have consistently sought to offer credit to members when circumstances demanded, as demonstrated by our response to the Covid-19 crisis. Regular use of emergency and friendly-hours credit is unsustainable for our members in the long-term as they build up debt and could mean the member needs financial support from the Government.
- Bulb supports the inclusion of the ability to pay (ATP) principles in the supply licence. Energy suppliers should do what they can to help customers who are unable to pay.
- Bulb is concerned by Ofgem's approach to establishing the costs and benefits of these proposals. The impact assessment published in June 2020 makes questionable assumptions, such as all emergency credit being paid off in 30 days. It is also unclear if Ofgem has factored in higher bad debt costs caused by the current recession in their impact assessment.
- The best way that suppliers and Ofgem can reduce the likelihood of customers self-disconnecting is to keep energy prices low. This means ensuring energy costs, including regulatory costs, are as efficient as possible.

If you have any questions about our response, or need more information, please contact us at policy@bulb.co.uk.

Full response



1. Using all reasonable steps to identify self-disconnection

1.1. We agree that it is important to identify self-disconnecting prepayment members. Identifying self-disconnection is more difficult for traditional prepayment meters (as opposed to smart meters) due to the lack of data and the delay in receiving data. We recognise that Ofgem proposes that suppliers should take “all reasonable steps” to identify self-disconnection. This should mean that Ofgem recognises that installing smart prepayment meters is key to identifying self-disconnection. Owing to the technology differences, suppliers should not be held to the same standard of monitoring for traditional prepayment meters.

1.2 We are concerned that Ofgem is requiring suppliers to consider self-rationing behaviour when it is identified. Ofgem should revisit these proposals once the smart meter roll-out is more advanced. Suppliers should not be required to identify self-rationing behaviour at this point. As Ofgem acknowledges, there are significant difficulties in identifying self-rationing behaviour with traditional prepayment meters. It is unclear what support that suppliers could offer to members who do not have enough money to pay for their energy.

1.3 Ofgem suggests using non-vends on traditional meters to identify self-disconnection. While non-vending is an indicator of self-disconnection, it's not conclusive as non-vends may happen for another reason, such as vacant properties. It also only allows suppliers to identify self-disconnection for traditional prepayment meters up to 24 hours after it has already occurred. In comparison, we get instant notification from smart prepayment meters.

1.4 We encourage sharing of best practice between suppliers via Ofgem, Citizens Advice and Energy UK and would recommend regular monitoring of how suppliers identify self-disconnection.

1.5 We agree that this principle should be applied to all consumers, not just those currently identified as vulnerable. The requirements should apply to all suppliers with more than 50,000 domestic consumers offering prepayment meters.

1.6 Suppliers should roll out smart meters for traditional prepayment customers due to the improved service and greater data and insight provided by these meters. Vulnerable members with traditional prepayment meters should be prioritised for the SMETS2 roll-out when prepayment meters and the DCC infrastructure in the north have been demonstrated to be reliable.

1.7 We would welcome confirmation from Ofgem that they have liaised with the Information Commissioner's Office (ICO) about these proposals and the possible impact on prepayment members' privacy. Suppliers should respect members who object to the supplier using their data to monitor the account in this way. It would be helpful if Ofgem could publish guidance on whether suppliers can rely on their legitimate interests (rather than the licence conditions) to process this data, what is proportionate and any steps they'd recommend suppliers take to balance monitoring self-disconnection and respecting members' privacy.



2. Provision of Emergency Credit and Friendly-hours Credit

2.1 We agree with the requirements for suppliers to offer emergency credit and friendly-hours credit unless there is a technical reason which prevents this. Since the beginning of 2020, 21% of Bulb's members have accessed their emergency credit per week. The average value of this use was £4.02.

2.2 Where friendly credit is unavailable, it is reasonable to offer alternative methods of support. Members should be aware that this is debt that will be added to the meter and needs to be repaid. Regular use of emergency and friendly-hours credit is unsustainable for our members in the long-term as they build up debt and could mean the member needs financial support from the Government.

2.3 Until smart prepayment meters cover a majority of prepayment consumers, we do not think that suppliers should rely on regular use of emergency or friendly credit as an indicator of self-rationing. Ofgem should review this position once this smart meter roll-out milestone has been achieved. Regular use of friendly credit may not be a reliable indicator of self-rationing due to the complexity of reasons for its use that do not relate to financial vulnerability, such as a member forgetting to top up or varying their routine. Should Ofgem in future wish to require suppliers to identify and respond to members who are self-rationing, Bulb has found that regular use of additional support credit is a more reliable indicator of self-rationing than regular use of emergency or friendly credit, and that top up amounts consistently below a certain threshold - for example £10 - may indicate self-rationing.

2.4 We agree that suppliers should consider installing a smart meter in prepayment mode, for instance where customers have a traditional meter that does not support friendly credit. This requires a successful SMETS2 infrastructure across both the North and South regions. Increasing the smart prepayment portfolio will make it easier for suppliers to meet many of the requirements outlined in this proposal. Smart prepayment makes it easier to ensure:

- customers have information regarding their credit amount and when they will run out of credit,
- where consent is given, suppliers have access to information about a customer's top-up habits and reliance on credit functions, and
- access to friendly credit.

2.5 To deliver a successful SMETS2 prepayment roll-out requires significant improvements in the reliability of the DCC network in the North and improved smart prepayment switching between suppliers. The energy sector cannot repeat the mistakes of last winter, where smart prepayment meters were not reconfigured to credit mode before switching. This is the responsibility of the losing supplier. Last winter, we saw a number of prepayment members have poor switching experiences and we conducted hundreds of emergency meter exchanges. We have paused SMETS1 prepayment switches while we await changes to the MRA that make clear the responsibility for the meter switching in credit mode rests with the losing supplier.



Provision of additional support credit

2.6 We accept the requirement to consider members' ability to pay when repaying emergency and friendly-hours credit when a member has disclosed financial vulnerability or shown reliance on additional support credit. We agree with section 3.39 of the consultation which states that a unique repayment rate should not be set each time for each member. Instead, suppliers should consider an individual member's situation when they have disclosed vulnerability or shown reliance on additional support credit.

2.7 Suppliers should use their discretion to determine when a member would benefit from short-term repayment flexibility, or when a member would benefit from seeking out a more sustainable approach to making energy payments instead (as per section 4.20 of the consultation).

3. Ability to Pay (ATP)

3.1 We agree with the proposal to incorporate the ATP principles within the supply licence conditions. We have called for Ofgem to introduce these principles into the licence. This should improve outcomes for energy customers and provide more certainty to all suppliers.

3.2 Bulb encourages our members to contact us if they are facing any financial difficulty. This is particularly important at the moment due to economic uncertainty caused by Covid-19. We encourage members to talk with us about financial difficulty during chat and phone, on our website, in Bulb Account and through our debt collection communications. We offer breathing space for members undergoing an income and expenditure evaluation with a third party (aside from with our open banking partner Tully). We use a multi-channel approach - chat, email and telephony - to aid disclosure.

3.3 Ofgem has proposed that suppliers link staff incentives to successful customer outcomes other than the value of repayment rates. One of the metrics our Energy Specialists look at is the number of members who use Tully, or are added to the PSR. To avoid being overly prescriptive in licence drafting, we recommend that Ofgem amends the licence drafting of SLC 27.8B(ii) to state that:

Having appropriate credit management policies and guidelines, which includes ... (ii) Linking staff incentives to successful customer outcomes not solely the value of repayment rates.

3.4 Ofgem should introduce an additional licence condition that requires suppliers to "have regard to any guidance on this licence condition, which, following consultation, the Authority may issue and may from time to time revise". What constitutes ability to pay may change over time and Ofgem should consult on any changes in their interpretation. This is consistent with other principles, including those proposed through Ofgem's Supplier Licensing Review.

Repayment rates

3.5 With regards to default amounts for debt repayments when there is insufficient



information about a prepayment member, there is scope for Ofgem to set a maximum acceptable default repayment rate that suppliers should not exceed unless a member requests or agrees to this higher amount. Bulb's repayment rate for prepayment meters is currently £3 per week for electricity meters and £5 per week for gas meters.

Customer understanding

3.7 We agree that suppliers need to ensure all members understand their repayment rates and how debt will be repaid. The requirements should apply to all suppliers with more than 50,000 domestic consumers offering prepayment meters.

Monitoring of arrangements

3.8 We accept improved monitoring arrangements, but suggest that these be determined by suppliers to allow flexibility. If a Bulb member has agreed a repayment plan with an external debt advice charity, we receive updates from the third party if they break the payment plan. If a member arranges a payment plan directly with us, they will fall into our normal debt collection or payment review processes if payments are reduced or missed. We have provided Ofgem and Citizens Advice with the details of our repayment management and debt collection process. We want to work with Ofgem and the rest of the industry to ensure that all suppliers adopt a fair approach to debt management.

3.9 Bulb's Energy Specialists are not divided into departments, and are instead trained to deal with every concern a member may have. We have rigorous policies and procedures in place to ensure a standardised approach to identifying financial vulnerability and offering payment support.

Re-engagement

3.10 Ofgem has proposed that suppliers re-engage with the customer after an initial occurrence of a failed repayment arrangement to ensure the plan is in fact affordable. We currently include open repayment plans as part of a member's recommended payment. This means we only contact them through debt collection or payment review if issues in repayment come up. This is an appropriate balance between allowing the member to manage their agreed repayments and ensuring those who need additional support receive it.

4. Calculating the costs

4.1 Bulb is concerned by Ofgem's approach to establishing the costs and benefits of these proposals. The impact assessment published in June 2020 makes some questionable assumptions, such as all emergency credit being paid off in 30 days.

4.2 It is unclear if Ofgem has considered the higher bad debt costs caused by the current recession in their impact assessment. We expect more members to use emergency credit and friendly credit over the next 12 months. While we want to support members and keep them supplied with energy where possible, we also want to avoid them building up



debt that they cannot repay. Ofgem's impact assessment is overly optimistic about customers being able to pay off the debt they build up.

4.3 Ofgem should ensure that any milestone assessment introduced as part of its Supplier Licensing Review apply to suppliers reaching 50,000 customers and who need to start offering prepayment. Ofgem should ensure that these suppliers understand their obligations around monitoring and offering credit facilities and are able to finance this.

4.4 It is concerning that Ofgem's impact assessment only references "competition" or "competitiveness" twice (and on page 69) and provides no analysis on how the proposals will affect new entry or supplier growth.

4.5 Energy suppliers cannot be held responsible for societal problems relating to income. The best way for the energy sector to reduce the likelihood of people self-disconnecting is to keep costs as efficient as possible.