**Self-disconnection and self-rationing final proposals statutory consultation**

**Executive summary**

E.ON welcomes the opportunity to comment on the final proposals for self-disconnection and self-rationing. This response also covers npower, which as you will be aware, E.ON now owns and is in the process of integrating both companies' operations. Although we are pleased that Ofgem has listened to suppliers' views and decided not to proceed with the introduction of the impracticable proposal for suppliers to proactively identify customers who are self-rationing, we do have significant concerns with the remaining proposals including the draft legal text and assumptions used in the draft impact assessment.

Suppliers or their customers (via cross-subsidisation) should not bear the burden of providing ongoing assistance, financial or otherwise, of supporting customers who are struggling financially. These customers are likely to be struggling to pay all their bills, not just those for energy, and providing overall assistance assistance is a Government role, not one for private companies to undertake. Even before the financial impact of COVID-19 is fully realised, there is already low profitability within the energy market (-0.7% combined domestic and non-domestic EBIT margin across larger suppliers in 2019[1]). It is unreasonable therefore, that Ofgem assumes that suppliers are able to absorb these costs, particularly those suppliers who have a larger PPM customer base. E.ON has consistently argued that it costs more to service PPM and vulnerable customers and that Government and Ofgem should look to introduce some form of levelisation to share these extra costs around the industry, currently newer entrants to the market are able to target those customers that are cheaper to service, these self-disconnection proposals will simply exacerbate this situation.

We have serious concerns about the current definition for self-disconnection. The current definition will capture all instances of a customer going off-supply, regardless of whether this was for a few minutes or for a number of hours. Those short-term self-disconnections are likely to be unintentional (for example, a customer has simply forgotten to put credit on their meter, rather than being unable to do so because of a lack of income) and do not require further intervention. Our own smart PAYG data for May 2020 shows that out of a total of 35,511 disconnections 23% were back on supply within one minute, with 69% within the hour. We urge that these short-term disconnections are excluded from the definition of self-disconnection. Ofgem could follow the precedence it itself has set in the COVID-19 reporting from suppliers which only sought information on disconnections of more than three hours. Even then, this will be difficult to obtain from classic PPMs.

Should the definition for self-disconnection remain the same, the obligation to offer additional support credit *on each and every occasion* that a supplier identifies a customer in a vulnerable situation has self-disconnected/self-rationed, will be unduly onerous. This will waste a lot of resources attempting to contact customers who do not require any assistance; the corollary being it taking longer to get support to those that do. To address this, suppliers should retain discretion, set out clearly within their policies, about when and where to offer additional support credit. For example, if a customer was to disconnect one fuel and not the other, suppliers should be able to make

[1] Based on the 2019 Consolidated Segmental Statements of British Gas, EDF, E.ON, npower and ScottishPower

a judgement call based on their knowledge of the customer and their previous behaviour as to whether the customer is in difficulty or making a lifestyle choice.

Ofgem has significantly underestimated the amount of time it takes to monitor self-disconnections and contact customers. Even as an average across the industry, an assumption of three hours every two weeks is far too low; it is imperative that Ofgem share how this has been calculated to allow suppliers to assess its validity, it is therefore very disappointing that this was not outlined in the impact assessment as a matter of course as we would have expected it to be. E.ON has an average of twelve employees working our stopped vend case load, and this is only for those customers who have already been identified as being vulnerable.

General comments

We would like to be able to understand what is meant by a credit not being "easily accessible" in relation to the definition of self-disconnection and how a supplier would identify that a credit is not easily accessible. We are concerned about how this could be measured and acted upon, what is "easy" for one customer is not necessarily so for another.

We also acknowledge that Ofgem has clarified suppliers are not required to consider a customer's ability to pay when offering Emergency Credit, but we are concerned that Standard Licence Condition ("**SLC**") 27A.4 requires suppliers to take a customer's ability to pay into account when repaying the emergency credit. Emergency credit is paid back in full prior to the customer re-gaining supply and any gas or electricity used during friendly hours will need to be paid back when the customer next tops up. If the customer is struggling to pay either of these elements back, we encourage them to contact us to discuss and where appropriate we will provide them with additional credit support. To add this amount to the customer's account on an individual basis to pay back in instalments is placing the customer further in debt, we are concerned that this could be considered irresponsible lending.

We understand that the principle behind friendly- hours credit is to protect customers from going off supply when they may not be able to top up because shops are closed, or the supplier is not on hand to provide support. We absolutely agree with Ofgem's intention to provide consistency and a minimum standard for the industry. However, despite Ofgem acknowledging that suppliers are best placed to assess suitable time for friendly-hours, it has then been prescribed that this must be overnight, at weekends and public holidays. Many suppliers already classify a Saturday as a working day and there is no preclusion to suppliers extending call centre opening hours to include Sundays and public holidays. With many shops also open on Sundays and public holidays and smart meters providing the ability to top up via app or online, we believe the obligation to provide friendly - hours credit should be flexible so that suppliers are only required to provide this service outside of their call centre opening hours.

In regard to the new requirement to re-engage customers following a failed payment arrangement, we would welcome clarity on the timescales Ofgem is expecting this to happen within. We would, in most circumstances wait a short period of time before contacting the customers in order to give the customer a chance to rectify the situation. Suppliers can then make reasonable attempts to re-engage customers using a variety of channels, but success is then down to the customer's propensity to respond and engage with their supplier.

We would also welcome clarity from Ofgem on how it envisages the new obligations will work alongside the new Breathing Space Regulations (*the Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium*) (*England and Wales) Regulations 2020*) when this comes into effect in May 2021; particularly should there be any conflict between the two, in which case we would expect the legislation to take primacy.

Legal drafting

The proposed new Licence Conditions are over-complicated and repetitive; often reiterating obligations that are already contained elsewhere in the Licence. They are also too prescriptive to allow suppliers to build processes for individual customers which we find disappointing considering the intent to move to principles-based regulation wherever possible.

Please see below, specific examples of the repetition:

- 27.8B(C)(ii) providing appropriate channels for customers to quickly and easily raise concerns is already covered under Standards of Conduct principle 0.3(c)(i) make it easy for a customer to contact the supplier
- 27.8B(C)(iv) exploring payment amounts and payment methods is already covered under 27.6
- 27.8B(e)(i) ensuring the customer understands the arrangement is a repeat of obligations in The Electricity/Gas (Prepayment Meter) Regulations 2006
- SLC 27A.7 when additional support credit is not in the interest of the customer. We suggest this could be significantly shortened and covered under 27A.5.
- The requirements of SLC 27A.8 could be covered by an amendment to SLC 28.1 to expand the circumstances when suppliers need to provide information.

We believe that there is a typographical error in the drafting on 27A1. (b). This references Standard Licence Condition 28.7 rather than to Standard Licence Condition 27.8.

We would suggest that the definition for "additional support credit" should be the same as for friendly-hours credit and be where the customer's prepayment meter credit runs low or runs out. If the customer waits until the credit has run out, they would be off supply unnecessarily.

We think for 27.8B(d)(iii) it should be made clear that this only applies to disconnections for non-payment of debt and not to other types of disconnection.

Draft impact assessment

We find the fact Ofgem has not included the costs to suppliers when writing-off debts where suppliers are unable to recover payment of additional support credit unacceptable. The more credit functions are promoted, the greater the uptake and the subsequent increase in bad debt. Suppliers cannot be expected to fund support to customers, particularly if they are unwilling or unable to pay this back. This is particularly relevant in the current market where suppliers were already facing significant financial pressures even before the effects of COVID-19 are taken into account, we expect the latter to magnify as Government support to employers and households begins to be withdrawn.

Ofgem has estimated that the level of self-disconnections will improve to be only 5% of prepayment customers by 2025. We are unclear how Ofgem has determined this and how it has decided that 5% is a realistic level?

In addition, how has Ofgem arrived at the assumption that customers will contact suppliers less as a result of a greater awareness of credit provisions?

As we explain in the executive summary, Ofgem has grossly underestimated the resource required for the monitoring of self-disconnections (three hours every two weeks by one member of staff) and also the amount of time it takes to contact customers (5 mins to contact and have a conversation). Our data shows that this is more like an average of 14.5 minutes.