

# Proposals to improve outcomes for prepayment customers

Consultation

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**Response deadline:** 25 February 2016

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## Overview:

We identified in our prepayment meter (PPM) review<sup>1</sup> in June that consumers with PPMs face particular barriers to accessing better deals in the market. In the review we committed to developing proposals to address these barriers. This document sets out the key findings of our review and our proposals. The proposals are designed to:

- help PPM customers to access more competitive tariffs
- address the costs consumers can face, ensuring these do not fall disproportionately on those least able to afford them, and
- ensure that PPM customers are treated fairly by their energy providers.

These proposals complement the wider work undertaken as part of Ofgem's consumer vulnerability strategy. We welcome all views on these proposals by 25 February 2016.

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<sup>1</sup> Ofgem, June 2015, Prepayment review: understanding supplier charging practices and barriers to switching, <https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

## Context

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Ofgem is the Office of Gas and Electricity Markets. We are the independent regulator of the electricity and gas system in Great Britain. Our principal objective is to protect the interests of existing and future energy consumers. We must carry out our work in the way that best furthers this objective, by promoting effective competition where it is right to do so. In carrying out our duties, we must have regard to the interests of consumers who are:

- of pensionable age
- disabled
- chronically sick
- on low incomes, or
- living in rural areas.

We are also able to take into account the needs of other consumer groups.

Consumer vulnerability is a priority area for us. We published our *consumer vulnerability strategy*<sup>2</sup> (CVS) in July 2013. Its overarching aims are to protect and empower consumers in vulnerable situations, so as to reduce the likelihood and impact of vulnerability and ensure all consumers can access market benefits. In 2014, we identified PPM as a priority area for the CVS.

We published our *prepayment review: understanding supplier charging practices and barriers to switching* in June 2015<sup>3</sup>. We identified particular barriers that PPM customers face when trying to access more competitive deals in the market, which are typically available only on credit meters. These barriers include costs to install or remove a PPM and warrant-related costs. These can act as barriers to accessing cheaper deals.

We are now seeking views on our proposals to improve outcomes for consumers using PPMs. These proposals will help to deliver three of Ofgem's strategic outcomes for consumers: better social outcomes, quality of service, and lower bills and costs than would otherwise be the case<sup>4</sup>.

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<sup>2</sup> Ofgem, July 2013, Consumer Vulnerability Strategy,

<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy>

<sup>3</sup> Ofgem, June 2015, Prepayment review: understanding supplier charging practices and barriers to switching, <https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

<sup>4</sup> Ofgem, December 2014, Corporate Strategy

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate\\_strategy\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate_strategy_0.pdf)

## Associated documents

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Addendum to provisional findings, Competition and Markets Authority

[https://assets.digital.cabinet-office.gov.uk/media/56704e99e5274a12c000000f/Addendum\\_and\\_appendices.pdf](https://assets.digital.cabinet-office.gov.uk/media/56704e99e5274a12c000000f/Addendum_and_appendices.pdf)

Consumer Vulnerability Strategy

<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy>

Consumer Vulnerability Strategy Progress Report

<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy-progress-report>

Decision document - Debt Assignment Protocol

<https://www.ofgem.gov.uk/publications-and-updates/decision-make-modifications-gas-and-electricity-supply-licences-reform-switching-process-indebted-prepayment-meter-customers-debt-assignment-protocol>

Decision to make a market investigation reference in respect of the supply and acquisition of energy in Great Britain

<https://www.ofgem.gov.uk/ofgem-publications/88435/stateofthemarket-decisiondocumentinofgemtemplate.pdf>

Domestic Suppliers' Social Obligations: 2014 annual report

<https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

Energy: the debate Ofgem Roundtable Report Payment Differentials

[https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/energy\\_debate\\_-\\_to\\_publish.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/energy_debate_-_to_publish.pdf)

Impact Assessment Guidance

<https://www.ofgem.gov.uk/publications-and-updates/impact-assessment-guidance>

Ofgem Consumer First Panel, Year 6, first workshops: Affordability, environmental and social schemes

<https://www.ofgem.gov.uk/ofgem-publications/90489/panelreportaffordabilityfinal2.pdf>

Ofgem Corporate Strategy

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate\\_strategy\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate_strategy_0.pdf)

Prepayment review: understanding supplier charging practices and barriers to switching

<https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

## Proposals to improve outcomes for prepayment customers

Second supplemental notice of possible remedies, Competition and Markets Authority  
[https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second\\_supplemental\\_notice\\_of\\_possible\\_remedies.pdf](https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second_supplemental_notice_of_possible_remedies.pdf)

Supplementary document for electricity supply licence standard conditions – Appendix 10  
<https://www.ofgem.gov.uk/ofgem-publications/38821/appendix-10-slr-supplementary-document-electricity-final.pdf>

Supplementary document for gas supply licence standard conditions – Appendix 11  
<https://www.ofgem.gov.uk/ofgem-publications/38822/appendix-11-slr-supplementary-document-gas-final.pdf>

Supplier Licence conditions (SLC)  
<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

Supplier objections – call for evidence  
<https://www.ofgem.gov.uk/publications-and-updates/supplier-objections-call-evidence-0>

Supplier performance on social obligations  
<https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>

# Contents

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<b>Executive Summary .....</b>	<b>6</b>
<b>1. Introduction .....</b>	<b>8</b>
Good practice .....	11
Our proposals .....	12
Ensuring prepayment is appropriate for consumers .....	13
Development of these proposals .....	13
Current practice relating to security deposits for switches to credit meters .....	14
Next steps .....	16
<b>2. Installations carried out under warrant.....</b>	<b>17</b>
Current practice.....	17
Our concerns.....	19
Consumer outcomes.....	22
Proposals for warrant charges .....	23
<b>3. Installation (non-warrant related) and removal charges.....</b>	<b>26</b>
Current practice.....	28
Next steps .....	29
<b>Appendices .....</b>	<b>30</b>
<b>Appendix 1 – Consultation response and questions.....</b>	<b>31</b>
<b>Appendix 2 – Initial assessment of impacts .....</b>	<b>32</b>
<b>Appendix 3 – Defining vulnerability.....</b>	<b>38</b>
<b>Appendix 4 – Related areas of work .....</b>	<b>41</b>
<b>Appendix 5 – Prepayment roundtable.....</b>	<b>43</b>
<b>Appendix 6 – Feedback Questionnaire.....</b>	<b>45</b>

## Executive Summary

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Currently 16% of consumers in the domestic retail energy market have prepayment meters (PPMs)<sup>5</sup>. Our research in this area shows that these consumers can suffer detriment due to the charges they face, the service they receive from their energy suppliers and/or a lack of competitive tariffs. Overall this results in poor consumer outcomes and barriers to engagement, particularly for consumers in vulnerable situations.

Following the findings of our PPM review report in June 2015, we are now consulting on proposals to deliver improved consumer outcomes by:

- helping PPM customers to access more competitive tariffs
- ensuring costs do not fall disproportionately on those least able to afford them, and
- ensuring that PPM customers are treated fairly by their energy providers.

There has been a rising trend in the number of customers using PPMs to pay for their energy bills. The number of PPMs installed continued to grow in 2014<sup>6</sup>. There has also been an increase in the number of installations carried out under warrant. Tariffs for PPM customers are typically more expensive than tariffs for credit customers. Moving from a standard variable PPM tariff to the cheapest fixed direct debit (DD) tariff could result in savings of as much as £300 per year<sup>7</sup>. Yet, switching rates from PPM to credit meters are very low, with only around 3% of PPM consumers switching to credit compared with 13% switching between PPM tariffs.

These trends concern us and we have examined these in detail in this consultation along with proposals for next steps. We recognise that a number of these issues will be addressed by smart meters in terms of customer profile, costs and service quality.

Nonetheless, until then, we are interested in how PPM customers can access the best deals, whether by switching to a credit meter or staying on PPM. We want to make sure that suppliers' charging policies do not penalise and cause further harm to those in vulnerable situations. This consultation focusses on two areas:

- (i) use of the warrant process to install a PPM, and
- (ii) installation (non-warrant related) and removal of a PPM.

### **Our proposals**

We have seen good progress since publishing our prepayment review in June 2015. Ofgem's CEO Dermot Nolan wrote to suppliers seeking an end to charges for

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<sup>5</sup> Ofgem, September 2015, Domestic Suppliers' Social Obligations: 2014 annual report, <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

<sup>6</sup> Ibid. There were 4.5 million electricity PPM accounts and 3.4 million gas PPM accounts at the end of 2014, respectively 2% and 4% more than at the end of 2013.

<sup>7</sup> Ofgem, June 2015, Prepayment review: understanding supplier charging practices and barriers to switching [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment\\_report\\_june\\_2015\\_finalforpublication.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf)

installing and removing PPMs. As a result, very few consumers now incur these charges. This is an example of suppliers responding effectively to our challenge to deliver positive outcomes for consumers. However, we think industry can do more to improve the quality service and products available for PPM customers. We have engaged extensively with industry and consumer groups, including a roundtable led by our CEO in October 2015. We have developed measures which aim to provide speedy and proportionate solutions:

- **Installation charges (warrant related)** - we set out measures that could reduce or remove costs for consumers in vulnerable situations who may go through the warrant process. This includes improved identification of vulnerability and/or capping charges.
- **Installation (non-warrant related) and removal charges** - since June a further six suppliers have ended these charges. An additional four suppliers are reviewing their policy in this area. We think all suppliers should keep their approach under review to deliver fair treatment to PPM customers.

PPM tariff constraints and use of security deposits for switching to credit were originally in the scope of our review. We note that the Competition and Markets Authority (CMA) has recently published<sup>8</sup> an addendum to its provisional findings relating specifically to the prepayment segment, as well as a further notice of possible remedies – and that among these possible remedies are measures relating specifically to tariff constraints and security deposits. We will work with the CMA on these issues. We consider the proposals in this consultation complementary to the wider concerns and remedies proposed by the CMA in respect of the PPM market as part of its on-going market investigation.

Ofgem's consumer vulnerability strategy aims to protect and empower consumers in vulnerable situations and to enable access to market benefits as much as possible. While not all PPM customers are financially vulnerable, they are more likely to be on a low income, in fuel poverty, in debt or disabled. Some measures, such as an end to installation and removal charges and improving supplier practice when using the warrant process, would potentially benefit all 4.5 million PPM customers<sup>9</sup>.

As part of these measures we aim to encourage industry to share and adopt good practices to deliver positive consumer outcomes. We are also engaging with stakeholders to support our transition to an increased reliance on principles in the domestic retail market. We have taken this into account in developing our proposed measures. We would like to remind suppliers of the consideration of fairness in treatment of their customers as set out in the Standards of Conduct (SoC) supply licence condition. If we find that PPM customers are suffering detriment we will consider taking further steps to protect them.

### **Next steps**

We welcome feedback on these issues and proposals along with relevant evidence and data by 25 February 2016. In finalising our next steps we will consider any relevant remedies that the CMA sets out for PPM customers as part of the on-going market investigation.

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<sup>8</sup> CMA, December 2015, Addendum to provisional findings, [https://assets.digital.cabinet-office.gov.uk/media/56704e99e5274a12c000000f/Addendum\\_and\\_appendices.pdf](https://assets.digital.cabinet-office.gov.uk/media/56704e99e5274a12c000000f/Addendum_and_appendices.pdf)

<sup>9</sup> Ibid. footnote 6.

# 1. Introduction

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There has already been substantial progress in some areas. This chapter sets out the case for building on this and taking action to improve outcomes for PPM customers. We discuss the poor outcomes experienced by many PPM customers and explain our policy objectives and approach to developing our proposals.

1.1. There has been a consistent increase in the number of consumers using PPMs to pay for their energy bills (see Figure 1). Much of this increase has been due to debt. Our Social Obligations Reporting (SOR) data shows that approximately 60% of PPMs (175,841 electricity PPMs and 195,841 gas PPMs) were installed because of debt in 2014<sup>10</sup>. Of these, around 30% were installed under warrant<sup>11</sup>. Overall, the number of PPM installations carried out under warrant has increased over the last six years<sup>12</sup>. It is therefore particularly important that PPM customers who are struggling to afford their energy can access competitively-priced deals, the support available to them, and are treated fairly by suppliers in terms of service level and costs.

1.2. To ensure that consumers do not continue to suffer detriment, we have identified speedy and efficient ways to address these problems. Dermot Nolan, Ofgem's CEO, wrote to suppliers seeking an end to installation and removal charges. As a result very few consumers – around just 4% might have to pay these charges. But there is still more that can be done. In this document we set out our understanding of the issues that remain and the steps we think need to be taken to improve consumer outcomes.

1.3. We note that as part of the on-going energy market investigation, the CMA has recently published<sup>13</sup> its consultation on proposed remedies for the prepayment segment of the market. The CMA consultation touches upon some of the areas that we identified in our PPM review, such as, security deposits and limited number of 'tariff pages' which are needed to offer unique tariffs. The remedies relevant to this consultation are set out below:

- 20 (a) Prohibit the charging of a security deposit in circumstances when a customer is not in debt and has not incurred any fines, charges or interest for late payment in the last six months

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<sup>10</sup> Ofgem, September 2015, Domestic Suppliers' Social Obligations: 2014 annual report, <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

<sup>11</sup> Ibid.

<sup>12</sup> Ibid. The data shows that the number of PPMs installed for debt on a warrant visit increased by 35% and 88% for electricity and gas respectively since 2009. However, the growth reversed in 2014, when 10% less electricity PPMs and 13% less gas PPMs were installed on a warrant visit compared to 2013.

<sup>13</sup> Second supplemental notice of possible remedies, Competition and Markets Authority, 2015 [https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second\\_supplemental\\_notice\\_of\\_possible\\_remedies.pdf](https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second_supplemental_notice_of_possible_remedies.pdf)



20 (b) Suppliers are prohibited from charging customers upfront for the cost of a new meter when switching away from prepayment

1.4. We will support the CMA on these issues as well as on the issue of 'tariff pages'. We see proposals in this consultation to be complementary to the wider concerns and remedies proposed by the CMA in respect of the PPM market.

### **Our concerns about prepayment**

1.5. We outlined our concerns in detail in the PPM review in June 2015. Our market data and consumer research has reflected a number of poor outcomes which are summarised below:

- We are concerned about the high costs that some PPM customers face. This includes charges to install and remove a PPM, and charges when a PPM is installed under warrant. These costs can increase indebtedness, increase vulnerability and may act as barriers to engagement and switching.
- We are particularly concerned that some consumers in acutely vulnerable situations go through the warrant process. These can be consumers who do not engage because of the nature of their vulnerability, for example, consumer groups gave evidence of a man who was in hospital while a PPM was installed under warrant. These consumers can face particular harm primarily through the additional costs added to their existing debt.
- We are concerned about barriers to switching. 59% of PPM customers report having never switched their gas or electricity supplier compared to 42% of DD customers<sup>14</sup>. Some consumers face particular barriers when trying to access more competitive tariffs<sup>15</sup>. The better value tariffs are often fixed deals, and are generally not available for PPM customers. The difference in price between standard variable PPM tariffs and the best credit tariffs can be as much as £300 per year<sup>16</sup>.

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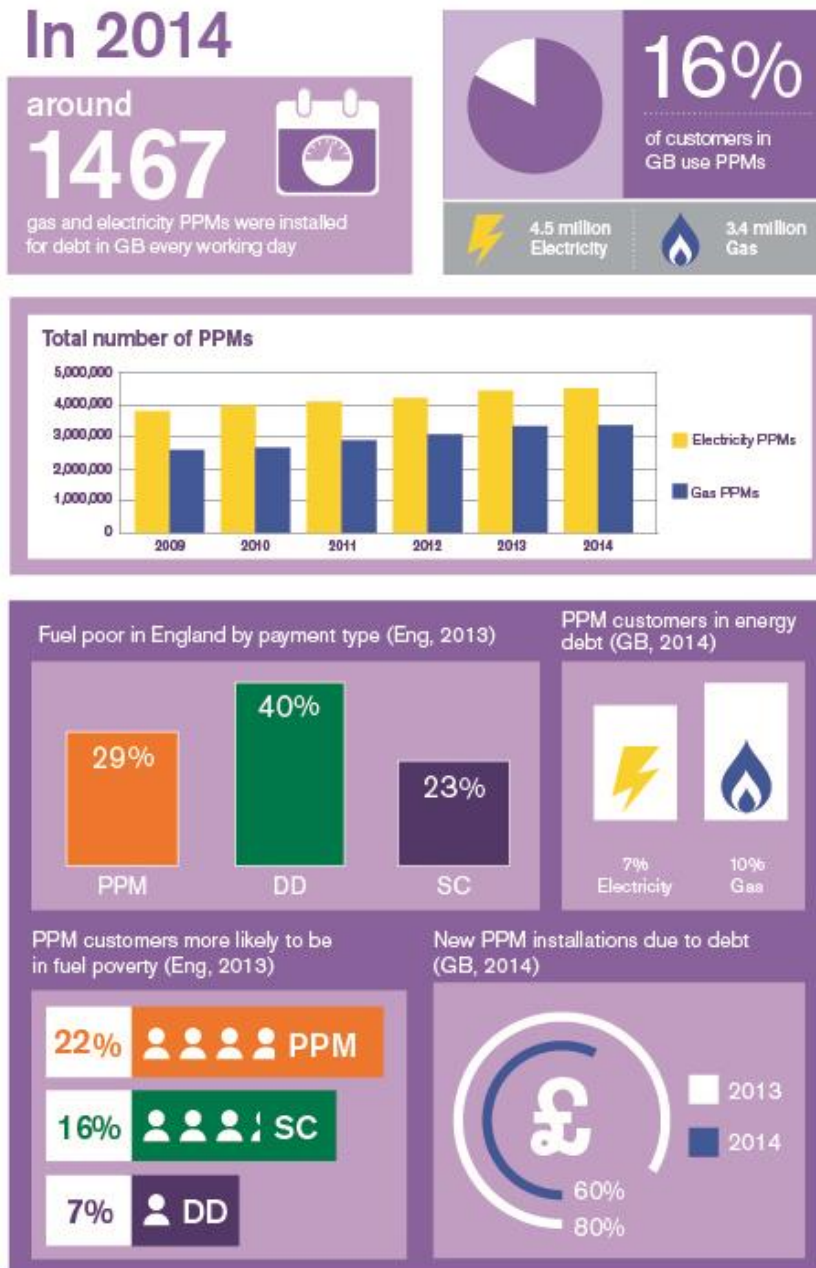
<sup>14</sup> Domestic Retail Market Review evaluation survey:2015 results

<https://www.ofgem.gov.uk/publications-and-updates/domestic-retail-market-review-evaluation-survey-2015-results>

<sup>15</sup> A small but growing number of suppliers have equalised the cost of their PPM and credit tariffs. This includes SSE, Ecotricity, Scottish Power and E.ON. EDF Energy's standard variable and deemed tariffs are the same price for PPM and credit customers. Robin Hood Energy and Economy Energy launched competitive new tariffs for PPM customers in November 2015.

<sup>16</sup> Ofgem, June 2015, Prepayment review: understanding supplier charging practices and barriers to switching  
[https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment\\_report\\_june\\_2015\\_finalforpublication.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf)

Figure 1: Ofgem Social Obligations Reporting: PPM statistics<sup>17</sup>



<sup>17</sup> Ofgem, September 2015, Consumer Vulnerability Strategy Report, <https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy-progress-report>

## Prepayment customers are a priority for Ofgem

1.6. We identified consumers who use PPM as a priority for Ofgem in our consumer vulnerability strategy<sup>18</sup>. Our PPM work relates to three of the five consumer outcomes set out in Ofgem's corporate strategy<sup>19</sup>:

- i. to lower bills where reasonable to do so
- ii. to improve quality of service, appropriate for an essential service, and
- iii. to facilitate benefits for society as a whole including support for those struggling to pay their bills and engage with the market.

1.7. Last year, our consumer panel research on affordability also identified PPM as an area of focus<sup>20</sup>.

1.8. While not all PPM customers are financially vulnerable, they are more likely to be on low incomes than those on other payment methods. Estimates suggest that PPM customers are more likely to be in fuel poverty. Approximately 22% of PPM customers (517,000) in England are fuel poor, compared to 7% of DD customers and 15% of standard credit (SC) customers<sup>21</sup>. PPM customers are also more likely to be disabled<sup>22</sup>. Because of this extra dimension of vulnerability, we think there is a strong case to act now.

## Good practice

1.9. As part of our work we have identified some good practices in suppliers' general approach to debt and prepayment issues. We would like to see industry adopt good practices where appropriate. Our expectation is that industry will be flexible and innovative to deliver positive and appropriate outcomes for consumers.

1.10. Some examples of good practice include:

- Some suppliers agree to waive debt recovery fees where a payment agreement is reached as part of the negotiation.
- Implementing flexible and innovative ways of communicating charges and encouraging consumer engagement. This includes trialling different methods

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<sup>18</sup> Ofgem, July 2013, Consumer Vulnerability Strategy,

<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy>

<sup>19</sup> Ofgem, December 2014, Corporate Strategy

[https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate\\_strategy\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate_strategy_0.pdf)

<sup>20</sup> Ofgem, July 2014, Consumer First Panel (Year 6, Wave 1) Affordability environmental and social schemes, <https://www.ofgem.gov.uk/ofgem-publications/90489/panelreportaffordabilityfinal2.pdf>

<sup>21</sup> This is the figure for electricity customers and a similar figure is available for gas customers, ie 21% PPM, 16% SC, and 6% for DD are fuel poor. DECC, May 2015, Annual Fuel Poverty Statistics Report 2015, pp.46-48, <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2015>

<sup>22</sup> Prepayment meter customers are more likely to be under 65, of C2DE social economic group and disabled than the average energy consumer. Ofgem, September 2015, Consumer engagement with the energy market: Tracking Survey 2015 <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-energy-market-tracking-survey-2015>

## Proposals to improve outcomes for prepayment customers

of communication including such as text message, email, letters and phone calls.

- Partnerships with third party organisations such as Citizens Advice and debt charities, recognising that consumers may be more likely to engage with a neutral party.
- Accepting payments for ongoing consumption only, if a Trust Fund application is being considered. This prevents further debt action or build-up.
- Using internal customer payment history and individual customer assessments to identify potential debt risk instead of using security deposits or credit checks
- Using smart meters to offer flexible payment.

1.11. We welcome further examples of good practices (with evidence of how these practices help consumers) from suppliers about how they are already delivering on our consumer outcomes, and any ways in which learning could be shared.

### Our proposals

1.12. These proposals are designed to meet medium term issues, as smart meters should help transform the PPM market. However, at this stage we are interested in how, over the next few years, these consumers can access the best deals (changing from credit to PPM or staying on PPM) and potential for consumer harm is addressed effectively. We want to ensure charging policies do not penalise those who are in vulnerable situations and worsen their situation.

1.13. There are challenging issues around costs of installations under warrant. We are encouraged by our discussions with suppliers to date. Many of them are of the view that consumers who are genuinely in a vulnerable situation should not have to pay warrant costs. In this document, we set out three sets of options for action in this area. Our expectation is that suppliers should take all reasonable steps to identify such consumers and ensure that they communicate appropriately with them. Alongside this we also present options whereby they do not charge warrant costs to consumers in vulnerable situations, or that warrant costs are capped.

1.14. At this stage we are consulting on policy proposals to address the concerns we have identified. We believe our proposals strike the right balance in terms of proportionality and enabling industry to deliver positive consumer outcomes. Subject to consultation feedback, in the next stage of policy development we will identify how changes will be made and delivered. In determining the appropriateness of changes, we will aim to strike a balance between delivering prompt action, increasing positive outcomes for consumers and reducing negative impacts on industry. We will also take into account the CMA's work on PPMs.

## Proposals to improve outcomes for prepayment customers

1.15. The overarching objective of our proposals is to improve outcomes for PPM customers and minimise any unintended consequences. These measures are intended to:

- i. help PPM customers to access more competitive tariffs
- ii. ensure costs do not fall disproportionately on those least able to afford them, and
- iii. ensure that PPM customers are treated fairly by their energy providers.

1.16. The combined impact of these changes is intended to benefit PPM customers in the period ahead of smart meter roll-out. Some of these measures, such as an end to installation and removal charges and supplier practice when using the warrant process will benefit 4.5 million consumers with PPMs<sup>23</sup>.

1.17. To achieve this, our work has focused on two main areas. These are examined in more detail in Chapters 2 and 3.

### Ensuring prepayment is appropriate for consumers

1.18. As well as an increase in the overall number of PPMs installed, the GB market has seen an increase in the number of PPMs installed under warrant over the past six years. One possible explanation is that suppliers are favouring PPM (and thus warrants) as a way to collect debt. It could also be evidence of more aggressive practices. This could also be indicative of suppliers addressing debt earlier and substituting disconnections with PPMs.

1.19. It is important that suppliers are sure that it is fair and practicable for a customer to have a PPM<sup>24</sup>, and that customers in payment difficulty are on an appropriate payment method<sup>25</sup>. The Standards of Conduct (SoC) mean that suppliers should be considering the needs of these customers already and treating them fairly. Any failure to comply with our licence conditions can lead to enforcement action.

### Development of these proposals

1.20. Our policy development has been informed by extensive evidence gathering and stakeholder engagement:

- Following publication of our prepayment meter review in June 2015, we engaged with over 25 suppliers and consumer representatives to discuss our findings and proposals.

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<sup>23</sup> Ibid. footnote 6.

<sup>24</sup> SLC 28.1

<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

<sup>25</sup> SLC 27.6, *ibid.*

## Proposals to improve outcomes for prepayment customers

- In October 2015, we held a senior-level roundtable chaired by our CEO and attended by over 20 suppliers and consumer representatives (see roundtable note in Appendix 5 ).

1.21. We assessed a range of options that were developed following our stakeholder engagement to address the issues that concerned us. We identified the policy objectives for each work area, and assessed the potential impacts of our policy options in line with the guidelines set out in our Impact Assessment Guidance<sup>26</sup>.

1.22. Through this process we determined the most proportionate and appropriate approach for assessing the impacts of our policy options. Our approach is largely qualitative as some of the impacts are hard to monetise. However, we have drawn upon previous impact assessments to quantify costs and benefits where possible and proportionate. We set out a high level analysis in Appendix 2 which has informed our preferred options.

## Current practice relating to security deposits for switches to credit meters

### Current practice

1.23. As noted in earlier sections, the CMA has proposed a remedy<sup>27</sup> about security deposits as part of their market investigation. Therefore, we are not setting out proposals on this issue in this consultation. Supplier practices relating to security deposits concern us and as part of our work we have looked into this issue. We issued an information request to domestic suppliers in September 2015 to gather more evidence on the use of security deposits, credit checking and meter refusals for customers attempting to switch from prepay to credit. We intend to work closely with the CMA on this and contribute our findings into the CMA's consultation on possible remedies. We reflect some of our analysis of current practice in this area in the following sections.

1.24. Suppliers use security deposits as one of a number of credit management tools to control bad debt, which potentially lowers bills for all customers. There are different circumstances in which suppliers require their customers to pay security deposits. Our focus here is on the use of security deposits when a consumer wishes to switch from PPM to credit (Direct Debit and Standard Credit).

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<sup>26</sup> Ofgem, October 2013, Impact Assessment Guidance,  
[https://www.ofgem.gov.uk/sites/default/files/docs/2013/10/impact\\_assessment\\_guidance\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2013/10/impact_assessment_guidance_0.pdf)

<sup>27</sup> Second supplemental notice of possible remedies, Competition and Markets Authority, 2015  
[https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second\\_supplemental\\_notice\\_of\\_possible\\_remedies.pdf](https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second_supplemental_notice_of_possible_remedies.pdf)

## **Consumer outcomes – security deposits**

1.25. The consumer outcomes that we think are important in this area are:

- i. Consumers are only asked to pay a security deposit when it is fair and reasonable to do so
- ii. Consumers who are able to manage their bills in arrears, and have demonstrated intent to pay, are not prevented from accessing the best deals, and
- iii. Consumers do not face higher bills due to poor debt management practices by suppliers.

## **Scale of use**

1.26. The number of consumers who are impacted by security deposits for moving to credit is small. Only five suppliers have a policy whereby they may, in certain circumstances<sup>28</sup>, request a security deposit from a customer wishing to switch from PPM to credit. This comprises two larger suppliers (Npower and Scottish Power) and three smaller suppliers (Economy Energy, First Utility and Utility Warehouse).

1.27. All these suppliers report that they consider vulnerability when deciding whether to request a security deposit. In all cases, individual circumstances are taken into account which means that because of the circumstances some customers find themselves in, they will not be required to pay a security deposit.

1.28. Three suppliers will only request a security deposit from high risk customers. We had identified concerns about how fair and transparent some suppliers' approaches were. Two suppliers requested security deposits from all consumers without assessing whether or not it was reasonable in each case to do so<sup>29</sup>.

1.29. Generally, E.ON does not request security deposits where a PPM is no longer safe and reasonably practicable for the customer to use. E.ON has a policy where it may ask for a security deposit from a vulnerable customer returning a high risk credit check result who wishes to pay by regular cash payment, but in practice, E.ON has never done this. E.ON is currently in the process of removing this policy.

1.30. We will continue to monitor suppliers' approaches to the use of security deposits, and debt management more widely, through meetings with Citizens Advice and suppliers.

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<sup>28</sup> Npower has a policy to credit check existing customers when they move or want a new fuel. If the customer has a high credit rating, the supplier may request a security deposit. Where any customers raise concerns about their ability to pay the deposit, this supplier may reduce or remove the need for a security deposit. Where the customers' request extended payments they offer to split their payment typically over a one month period.

<sup>29</sup> SLC 27.3

<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

## Current protections

1.31. The supply licences contain an overarching principle<sup>30</sup> requiring suppliers to have fair practices around the use of security deposits. In addition, a narrow principle<sup>31</sup> backed by guidance<sup>32</sup> states that suppliers must not require a customer to pay a security deposit if it is unreasonable in all the circumstances of the case, and that a security deposit must not exceed a reasonable amount (i.e. guidance says this should not exceed 1.5 times average quarterly consumption). We are of the view that these protections include consideration of vulnerability.

## Next steps

1.32. This consultation considers the outcomes that we want to see for PPM customers and proposes measures to help suppliers deliver these outcomes. We welcome feedback on these issues and proposals along with relevant evidence and data. Please send your responses to [prepayment@ofgem.gov.uk](mailto:prepayment@ofgem.gov.uk) by 25 February 2016.

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<sup>30</sup> SLC 25C, *ibid.*

<sup>31</sup> SLC 27.3 and 27.4, *ibid.*

<sup>32</sup> Ofgem, June 2007, 128e/07 Appendix 10 SLR - Supplementary document (electricity), <https://www.ofgem.gov.uk/ofgem-publications/38821/appendix-10-slr-supplementary-document-electricity-final.pdf>; Ofgem, June 2007, 128f/07 Appendix 11 SLR - Supplementary document (gas), <https://www.ofgem.gov.uk/ofgem-publications/38822/appendix-11-slr-supplementary-document-gas-final.pdf>



## 2. Installations carried out under warrant

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This chapter sets out our views on the key issues concerning PPM installations carried out under warrant, and our proposals to benefit consumers in this area.

### Questions

*Please support each of your responses with evidence.*

**Question 1:** Do you agree with the scope of warrant charges?

**Question 2:** Do you agree with the desired consumer outcomes?

**Question 3:** Which option set (A, B or C) do you think will be most effective in meeting our consumer outcomes?

**Question 4:** Should cases of energy theft or wilful damage to meters be exempt from our proposals?

**Question 5:** *For licensees:* please explain how you identify vulnerable consumers and provide details of how any such policy or procedure is monitored and reviewed?

2.1. Suppliers typically use the warrant process to install a PPM after many attempts to collect unpaid energy charges. We recognise that this is a legitimate means of recovering costs from those consumers who won't pay for their energy.

2.2. There are challenging issues around the cost of PPM installations under warrant. These relate to the practices and behaviours of suppliers as well as the charges that are levied on consumers, including those in vulnerable situations. Some of these difficult trade-offs are described further in Appendix 2. We are encouraged by our discussions with suppliers to date, many of whom have told us that they think consumers who are genuinely in a vulnerable situation should not have to pay warrant costs. We generally agree with the spirit of this approach but recognise the need to explore a range of regulatory options. In this chapter, we set out our expectation that suppliers should take all reasonable steps to identify such consumers and ensure that they communicate appropriately with them.

2.3. We are consulting on three sets of options which we think meet our consumer outcomes. These are outlined below and are intended to address supplier practices and behaviour, and the charges levied on consumers.

### Current practice

2.4. Currently, where a consumer has not paid charges within the requisite period, suppliers may install a PPM and recover any expenses incurred in doing so from the consumer<sup>33</sup>.

2.5. Suppliers tend to follow the process for installing a PPM under warrant set out in Energy UK's voluntary 'Safety Net'<sup>34</sup> scheme. Most suppliers state that a

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<sup>33</sup> See Schedule 2B of the Gas Act 1986 (the Gas Code) and Schedule 6 of the Electricity Act 1989 (the Electricity Code)

warrant is only exercised as a last resort and that no margin is added to the costs passed on to consumers. Suppliers typically add warrant charges to the PPM and set a default repayment rate when it is installed<sup>35</sup>.

2.6. Effective engagement between suppliers and customers is a vital part of this process. Successful engagement can result in warrant costs being avoided. This might be the case when a supplier and customer agree a suitable repayment plan, or the customer volunteers to have a PPM installed. Magistrate courts are likely to look closely at suppliers' attempts to engage with customer by letter, phone, email and home visits before they will issue a warrant.

2.7. Some suppliers indicated they have policies to identify customers in vulnerable situations and that they provide additional support to these customers. We welcome further information on these policies, including details of how they are monitored and reviewed.

2.8. The charges we have considered within the scope of 'warrant charges' cover all aspects of debt recovery up to and including costs to exercise a warrant and install a PPM. This includes debt collection visits which typically occur during the early stages of the debt path and can range from £17.00 – £95.00. We also propose to include charges incurred by customers who eventually avoid having a PPM installed under warrant.

## Current protections

2.9. There are a range of existing protections, including regulatory and voluntary commitments, which govern the process for installing a PPM under warrant. These are set out below. This does not constitute a comprehensive overview of all existing PPM protections:

- The **Gas Act**<sup>36</sup> and **Electricity Act**<sup>37</sup> state a supplier can install a PPM under warrant for the recovery of unpaid charges, only after the customer has been given 28 days to repay the full amount and after the supplier has provided the customer with a 7 day notification period of their intent to install a meter under warrant.
- We consider that the **Standards of Conduct (SLC 25C)** require suppliers to take all reasonable steps to clearly communicate all charges, including PPM installation and warrant charges, to consumers. Suppliers are also required to take all reasonable steps to behave and carry out any actions relating to the warrant process, in a fair, transparent, and professional manner. This includes consideration of the circumstances where charges are applied.

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<sup>34</sup> Energy UK Safety Net, April 2014 [https://www.energy-uk.org.uk/files/docs/Disconnection\\_policy/energy-uk-safety\\_net-17-april-2014.pdf](https://www.energy-uk.org.uk/files/docs/Disconnection_policy/energy-uk-safety_net-17-april-2014.pdf)

<sup>35</sup> Ofgem, June 2010, Review of suppliers' approaches to debt management and prevention <https://www.ofgem.gov.uk/publications-and-updates/review-suppliers%E2%80%99-approaches-debt-management-and-prevention>

<sup>36</sup> Gas Act 1986 <http://www.legislation.gov.uk/ukpga/1986/44>

<sup>37</sup> Electricity Act 1989 <http://www.legislation.gov.uk/ukpga/1989/29/contents>

## Proposals to improve outcomes for prepayment customers

- **SLC 27.8** requires suppliers to take all reasonable steps to ascertain a customer's ability to pay and to take this account when calculating debt repayment instalments. In particular, **SLC 27.8(b)** provides that where debt is to be repaid using a PPM, suppliers must give due consideration to the value of all charges that are to be recovered through that meter.
- Our '**Ability to Pay**' principles<sup>38</sup> state that when setting repayment rates based on ability to pay, suppliers must ensure that all available information is obtained and taken into account. This includes customer's circumstances identified on the warrant visit or when installing a PPM under warrant.
- **Energy UK's Safety Net** is a voluntary industry initiative which commits signatories to help and support customers, particularly the most vulnerable, to manage their energy use. The Safety Net outlines an illustrative debt collection path<sup>39</sup> which suppliers typically follow when engaging with consumers in the following ways:
  - letters and other debt communications
  - debt collection visits
  - pre-warrant visits (if required), and
  - obtaining and exercising a warrant

The Safety Net indicates that the length of time it typically takes a supplier to install a PPM under warrant should be between 80 - 180 days after the first bill is issued.

### Our concerns

2.10. The number of PPM installations carried out under warrant has increased over the last six years. Around 50,000 gas and 50,000 electricity PPMs were installed under warrant in 2014<sup>40</sup>.

2.11. We are concerned about the charges faced by consumers when a PPM is installed under warrant. We are concerned that some consumers in acute vulnerable situations who go through the warrant process face particular harm from the additional costs added to their existing debt. We are also concerned about suppliers' practices when they follow this process. Our proposals address these two areas:

- i. **Charges** - variation of charges between suppliers and the harm caused to consumers in vulnerable situations, and,

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<sup>38</sup> The principles reflect key considerations which the Authority will take into account when assessing compliance with SLC 27. Ofgem, June 2010, Open letter, <https://www.ofgem.gov.uk/sites/default/files/docs/2010/06/open-letter.pdf>

<sup>39</sup> Six suppliers have signed up to the Safety Net. The debt path outlines the steps taken and processes suppliers use from the point a customer is late with payment through to the warrant stage. It includes all points of contact and interaction between the supplier and the customer.

<sup>40</sup> Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 annual report, <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

- ii. **Supplier practice and behaviour** - communication and engagement with consumers on energy debt, policies relating to charges, including how charges are set and communicated to consumers.

2.12. We recognise that smart meters are likely to eliminate the majority of warrant related costs due to the ability to switch payment modes remotely without the need for a physical meter exchange<sup>41</sup>.

### **Concerns about the level of charges**

2.13. Warrant charges can be high, and may form a significant proportion of the debt recovered by suppliers. In some cases these charges can be greater than the debt owed. The cost of exercising a warrant is high. This is partly because, when considering whether to grant a warrant, magistrate courts will scrutinise the actions taken by a supplier to engage with a customer in debt. In addition, installing a PPM under warrant requires other services which carry a charge, e.g. installing the new meter, gaining entry to the property, locksmiths, dog handlers etc.

2.14. There are high variations in charges by different suppliers. Suppliers state that they pass on costs from third party providers without adding any margin. The variations in charges may be explained by different economies of scale, some subsidy and different charges being levied by third party providers to suppliers. Suppliers may not have sufficiently strong incentives to ensure third party providers' costs are as low as possible. Some suppliers have highlighted that an intervention to limit charges in this market may compromise the quality of warrant related services. We welcome any stakeholder views on this point.

2.15. Warrant charges can cause significant detriment to consumers in vulnerable situations who can be among those least able to afford them. The additional debt burden can lead to detriment and extend situations of vulnerability faced by consumers. These charges mean that a customer may end up with a larger debt to repay and may have to remain on a PPM for longer<sup>42</sup>, sometimes by as much as nine months. Consumers are unable to switch to another PPM tariff with another supplier if their debt has increased over the £500 debt assignment protocol threshold.

2.16. Moving to PPM may be accompanied by an increase in the cost of the consumers' energy tariff. This can put further strain on finances, and potentially increase the risk of high-interest borrowing or further indebtedness.

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<sup>41</sup> Some costs around the management of a consumer's debt may remain.

<sup>42</sup> Suppliers will often refuse to exchange a PPM (for a credit meter) when the customer owes debt – essentially acting as a barrier to these customers accessing credit meter tariffs (and as our prepayment review illustrated, cheaper market details).

## Concerns about supplier practices

2.17. Consumers in vulnerable situations may be or feel less able to talk to their supplier. It is therefore crucial that suppliers have effective strategies to engage with their customers. This can prevent customers from falling into vulnerable situations, or stop vulnerable situations from worsening.

2.18. Consumer groups have indicated that in some cases suppliers have not followed their own processes to engage properly with consumers, and have progressed to the warrant stage in haste. In these cases suppliers could do more to engage with their customers early on.

2.19. In line with the spirit and letter of the regulatory and consumer protection law requirements that apply to the prominence and transparency of contractual information (including charges)<sup>43</sup>, we consider that suppliers need to do more to ensure consumers are properly informed about the charges they may be subject to at relevant times. This includes ensuring that information about charges is readily available on a supplier's website.

2.20. We also think suppliers should avoid practices that unnecessarily increase costs for consumers. We are aware of examples where this has happened. This includes suppliers issuing multiple warrants when only one was required, or issuing warrants when right to entry wasn't required (ie the meter was located on the side of the building or in front of the property).

2.21. Consumer groups have raised concerns that suppliers are not thoroughly considering alternatives such as Fuel Direct or repayment plans early enough. Suppliers have continued along the same path despite knowing about a customer's circumstances, resulting in additional charges for the customer.

2.22. In one case, a PPM was installed when a consumer was in hospital. The consumer was unaware that they had any debt and that the PPM was being installed under warrant. This happened before their supplier made any substantive efforts to communicate with the customer. The customer had the money to pay off the debt but was not given the opportunity to, and ended up paying over £200 in warrant costs. The meter was installed in an inconvenient location without due consideration for the customer's physical ability to top-up.

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<sup>43</sup> Including, but not limited to SLC 23 on principal terms, SLC 31B on tariff information labels, the standards of conduct in SLC 25C, the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013, and laws applicable to unfair contractual terms.

## Consumer outcomes

### **We expect warrant charges to be applied fairly for all consumers**

2.23. When charges for warrant installations are applied, we expect suppliers to treat customers fairly in considering when and how they are applied. This is particularly important due to the financial detriment faced by some consumers going through the warrant process. Suppliers should take account of individual consumer circumstances when applying warrant charges.

### **We expect suppliers' warrant practices to be transparent and fair**

2.24. Suppliers can do more to improve their practices and behaviour around warrant charges. Suppliers should have robust engagement strategies so they can satisfy themselves that a warrant isn't being requested in circumstances where it is unfair to do so. Suppliers should also agree appropriate debt repayment plans and methods with their customers.

2.25. Supplier practices should also take into account individual circumstances, including whether these circumstances have contributed to the need to seek a warrant. This includes:

- treating consumers fairly when mistakes are made, and
- communicating warrant charges clearly.

2.26. We expect suppliers to be fair and transparent with respect to the design and application of the warrant process and associated warrant charges.

### **We want to reduce impact on the most vulnerable**

2.27. We want to ensure that consumers who are in vulnerable situations are not penalised due to their vulnerability and that they can participate in the market. This includes avoiding situations where a consumer may face additional charges because of their vulnerability.

### **Unintended consequences**

2.28. While a PPM installation under warrant is in many ways preferable to disconnection, we are concerned that the rise in the number of PPMs installed under warrant means that suppliers may be more frequently using warrants as a mechanism to deal with debt, and not considering other courses of action which don't involve disconnection. We do not want to encourage disconnections as a result of these proposals.

## Proposals for warrant charges

2.29. Based on our initial assessment of the policy options we believe that a set of measures is needed to ensure suppliers deliver the desired consumer outcomes around warrant charges. We feel the following sets of options would meet the consumer outcomes, albeit in different ways:

*Set A:*

- i. End warrant charges for consumers in vulnerable situations, and
- ii. Set out clear expectations of supplier behaviour

*Set B:*

- i. End warrant charges for consumers in vulnerable situations
- ii. Cap charges for all consumers (one level cap), and
- iii. Set out clear expectations of supplier behaviour

*Set C:*

- i. Cap charges for all consumers (two level cap), and
- ii. Set out clear expectations of supplier behaviour

2.30. We seek views from stakeholders on how effective these sets of options may be at meeting the desired consumer outcomes. We have assessed the possible impacts of these options against a baseline of doing nothing (see Appendix 2). This is a high level view on potential impacts and we welcome comments from stakeholders.

2.31. We recognise that where there has been theft or damage to the meter, these circumstances are different from normal. We would welcome views on charges for recovering costs from energy theft or wilful damage to the meter and whether these exceptional circumstances should be exempt from our proposals.

### **Policy options we have considered**

2.32. In our prepayment review, we indicated that we would consult on proposals to take action in this area. This included looking at whether or not we should end charges for installation under warrant for all or some consumers.

#### **Option 1: End warrant charges for all consumers**

2.33. We considered ending warrant charges for all consumers. While this option would ensure that consumers in vulnerable situations do not face warrant charges, we do not feel this would be a proportionate approach and we feel it could harm wider consumer interests.

2.34. We are concerned that warrant charges are a significant cost for consumers, but we also recognise that suppliers should have a mechanism for passing charges on to those consumers who have no intention to pay or engage. These charges do provide an incentive for consumers to engage. Suppliers are concerned that removing this incentive may reduce consumers' level of engagement and increase the total cost to industry from warrant activity. We are also concerned about the fairness to all consumers who may end up paying higher bills, including consumers in vulnerable situations.

### **Option 2: Rely on existing protections**

2.35. We have considered relying on existing protections to deliver on our consumer outcomes.

2.36. However, we are not convinced that this would achieve the consumer outcomes that we want to see. We are not convinced that currently there are sufficiently clear expectations on suppliers about their practices that would deliver consistent consumer outcomes. Relying on current arrangements would not address the issue of costs falling on consumers in vulnerable situations.

### **Option 3: End warrant charges for consumers in vulnerable situations**

2.37. This option aims to ensure that no consumer in a vulnerable situation is made to pay warrant charges. This proposal would require suppliers to have robust processes in place to identify consumers in vulnerable situations. This would operate as a restriction, in some circumstances, on suppliers' right to recover warrant related charges from the customer incurring the charge.

2.38. This targeted approach would help to deliver benefits to these consumers and alleviate detriment where it is most severe. It would provide more certainty that consumers who pay for warrant charges would be those consumers who have no intention to pay or engage.

2.39. Consumers in vulnerable situations will benefit by eliminating the financial burden of warrant costs and the potential knock-on effects of this debt. The individual benefit will depend on the customer's supplier and the costs incurred. Charges to install a PPM under warrant range from £75.00 and £566.00. This does not include other related charges<sup>44</sup> which could range between £7.00 and £175.00.

### **Option 4: Cap charges for all consumers**

2.40. This option would introduce a cap on the value of warrant charges that suppliers could pass through to consumers. The cap could have two levels, so that consumers identified as being in vulnerable situations pay less of these charges.

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<sup>44</sup> Our PPM review identified other charges to include revenue protection, theft of energy charges, pre-installation debt charges, admin charges including home visits, letters



## Proposals to improve outcomes for prepayment customers

2.41. A cap could be set in a number of ways. At this stage we have not determined our preferred design and approach to implementing the cap, nor what level a cap could be. This would operate as a restriction on suppliers' right to recover all warrant related charges from the customer incurring the charge.

2.42. A cap on the value of warrant charges could lessen the impact for all consumers going through an installation under warrant. This would not fully eliminate detriment to consumers in vulnerable situations. However, it would offer greater certainty that all of these consumers in vulnerable situations receive some benefit from the effects of the charges even if they are not identified. A portion of the charges would remain to act as an incentive for consumers to engage with the process.

2.43. We also think that a cap may act as an incentive for suppliers to engage with consumers to lessen their own exposure to warrant costs (similar to proposal 1). Suppliers have told us they may respond in different ways to this incentive, for example some suppliers may decide to minimise their costs while others may simply accept the cap and pass the costs on to the rest of their customer base.

2.44. If this option were paired with the removal of costs for vulnerable consumers, arguably there would be no need for a two level cap, as vulnerable consumers' costs would already be mitigated. Therefore there are two versions of this option:

- i. One level of cap
- ii. Two level cap (so that consumers in vulnerable situations face lower charges)

### **Option 5: Set out clear expectations of supplier behaviour**

2.45. This option would set out expectations of how suppliers should behave during the warrant process. This would give greater certainty to suppliers and create an incentive to improve engagement. This could lessen their warrant bill, because if consumers understand the costs associated with a warrant, they might be making a more informed choice about whether to accept a PPM. This may mean consumers are more likely to have a PPM installed before reaching the warrant stage.

2.46. One way of doing this could be to establish a code of practice for suppliers covering the broad process that suppliers take when installing a PPM under warrant.

## 3. Installation (non-warrant related) and removal charges

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This chapter outlines our proposals for ending installation (non-warrant related) and removal charges in order to achieve a positive outcome for PPM customers.

### Question box

*Please support each of your responses with evidence.*

**Question 6:** Do you have any views on our approach or better alternatives to achieve the outcomes we have identified?

3.1. In our June 2015 review we identified that PPM customers incur additional costs to have a PPM installed or removed. These charges can act as a barrier to accessing better deals in the market. These consumers are more likely to be in vulnerable situations than those with credit meters. We made the case that an end to charges would lead to positive outcomes for both consumers and suppliers.

3.2. At the time of the PPM review in June, a number of large suppliers were not imposing these charges. We committed to pursue an end to these charges ahead of this consultation. Ofgem's CEO Dermot Nolan wrote to the suppliers who still charged in autumn this year to seek an end to these charges. As result a further six suppliers have ended non-warrant-related installation and/or removal charges. Another four suppliers are reviewing their policy.

3.3. As of December 2015, only around 4% of consumers would now face removal charges, and only around 1% would face installation charges. We consider this change to be consistent with the spirit of the customer objective set out in the SoC licence condition to ensure customers are treated fairly (fairness principle). We encourage all suppliers to consider these examples in light of their own business and customer needs, and to continue pushing themselves to deliver fair treatment to PPM customers who are often in vulnerable situations. In line with the fairness principle, all suppliers should keep their approach under review, for example by considering feedback from consumer research and complaints data. If we find that PPM customers are suffering detriment we will consider taking further steps to protect them.

3.4. As noted previously this issue is within scope of the recently published<sup>45</sup> proposed remedies for the PPM segment of the market (remedy 20b) and we will support CMA on this. We see our proposals in this chapter on removal charges to be complementary to wider issues that the CMA has identified with the PPMs.

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<sup>45</sup> CMA, December 2015, Second supplemental notice of possible remedies [https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second\\_supplemental\\_notice\\_of\\_possible\\_remedies.pdf](https://assets.digital.cabinet-office.gov.uk/media/56704243e5274a12c3000007/Second_supplemental_notice_of_possible_remedies.pdf)

### **Interaction with smart meter rollout**

3.5. The rollout of smart meters will result in suppliers being able to switch payment modes remotely, meaning that consumers should not face charges to have a PPM installed or removed. However until the rollout is complete, many traditional PPM customers may continue to be charged. There may also be cases where smart meters cannot be installed, or a customer refuses to have one installed.

### **Installation charges: benefits for consumers**

3.6. The majority of newly installed PPMs in recent years have been installed due to debt<sup>46</sup>. We are concerned that installation charges for PPMs can cause additional financial detriment for consumers who are struggling to afford their energy bills. In addition, consumers who decide themselves to have a PPM generally do so because they value the control this payment method offers - in particular not having to worry about receiving an unexpectedly high bill and being able to budget more easily<sup>47</sup>. An installation charge may deter consumers from using this payment method. In particular, we are concerned about the detrimental effects this may have for low-income consumers and the wider impact on consumer engagement and competition.

### **Removal charges: benefits for consumers**

3.7. Charges to remove a PPM can act as a barrier to switching, which could otherwise lead to substantial savings for consumers. Consumers with a standard variable PPM tariff could save as much as £300 a year by moving to the cheapest DD tariff in the market<sup>48</sup>. However, the number of PPM customers who switch to credit meters remains very low. About 130,000 electricity and 103,000 gas prepayment customers switched to credit meters in 2014<sup>49</sup>. This represented around 3% of all electricity and all gas PPM customers<sup>50</sup>.

3.8. Given the potential savings available on the market, it is essential that consumers are able to switch easily and are not discouraged to do so by having to pay for a removal charge. The rollout of smart meters has the potential to address these issues as smart meters will enable remote switching between payment

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<sup>46</sup> 80% in 2013 and 60% in 2014 of newly installed prepayment meters were installed due to debt. Ofgem, September 2015, Domestic Suppliers' Social Obligations: 2014 annual report <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

<sup>47</sup> Citizens Advice, October 2014, Topping-up or Dropping-out: Self-Disconnection among Prepayment Meter Users, [http://www.citizensadvice.org.uk/index/policy/policy\\_publications/er\\_fuel\\_water\\_post\\_digital\\_telecoms/topping\\_up\\_or\\_dropping\\_out.htm](http://www.citizensadvice.org.uk/index/policy/policy_publications/er_fuel_water_post_digital_telecoms/topping_up_or_dropping_out.htm)

<sup>48</sup> Ofgem, June 2015, Prepayment review: understanding supplier charging practices and barriers to switching [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment\\_report\\_june\\_2015\\_finalforpublication.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf)

<sup>49</sup> Ofgem, September 2015, Domestic Suppliers' Social Obligations: 2014 annual report, <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

<sup>50</sup> Ibid.

methods and many suppliers have indicated that they do not intend to charge for a remote switch. We agree that this should be the case.

### **Benefits for suppliers**

3.9. It is not just consumers who will benefit from an end to charging, suppliers will benefit too. Suppliers who have ended charges have told us that they see benefits from not charging. For installations due to debt, charges can deter consumers from engaging with their supplier early on, which can lead to higher costs for the supplier. If the charge is waived, this can create an incentive for indebted consumers to agree voluntarily to have a PPM installed earlier in the debt path. This provides a degree of security, allowing suppliers to get their money back, and lessening the risk of consumers adding to future debt.

### **Current practice**

3.10. We have engaged with suppliers over the recent months to understand their current practices. At the time of the June review, we identified a number of suppliers (11 out of 18) who had a policy of imposing a range of charges to customers to install and/or remove PPMs in non-warrant related circumstances<sup>51</sup>. A large number of these suppliers explicitly stated at the time or in subsequent correspondence that their policy was to waive these charges for customers in vulnerable situations.

3.11. At the time of the review, many companies recognised the negative effects of installation and removal charges and had already taken steps to end these voluntarily. These suppliers told us that they acknowledge the financial pressure put on PPM customers and prefer not to impose these additional costs.

3.12. Table 1 shows that the majority of suppliers have waived these charges entirely, either as previously seen in our June review or more recently as a result of our work. This means around 96% of existing PPM customers would not have to pay to have their meter removed.

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<sup>51</sup> Ofgem, June 2015, Prepayment review: understanding supplier charging practices and barriers to switching, p. 32-34 <https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

**Table 1: Current practices: suppliers who do not charge PPM installation (non-warrant related) and removal charges**

<b>Supplier</b>	<b>Update since June 2015</b>
<b>Better Energy</b>	Ended charges (Nov 2015)
<b>British Gas</b>	Do not charge
<b>Ecotricity</b>	Announced ended charges Nov 2015 – changes take effect 4 January 2016
<b>EDF Energy</b>	Do not charge
<b>E.ON</b>	Do not charge
<b>Extra Energy</b>	Undertaking a six month trial ending charges: August 2015 – February 2016
<b>First Utility</b>	Do not charge
<b>Good Energy</b>	Do not charge
<b>Green Energy</b>	Ended charges (Nov 2015)
<b>LoCO2 Energy</b>	Ended charges (Nov 2015)
<b>Npower</b>	Announced ended charges Nov 2015 – changes take effect early 2016
<b>Scottish Power</b>	Do not charge
<b>Spark</b>	Ended charges (Nov 2015)
<b>SSE</b>	Do not charge
<b>Utilita</b>	Do not charge

## Next steps

3.13. Given the progress made by industry already and the links to the CMA’s proposed remedy in this area, we think all suppliers should keep their approach under review to deliver fair treatment to PPM customers. We think that these actions are a good example of how the aims of our consumer vulnerability strategy and the consideration of the fairness principle of the SoC can be achieved. If we find that PPM customers are suffering detriment we will consider taking further steps to protect them.

## Appendices

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### Index

Appendix	Name of Appendix	Page Number
1	Consultation response and questions	39
2	Assessment of impacts	41
3	Defining vulnerability	49
4	Related areas of work	52
5	Prepayment roundtable	54
6	Feedback questionnaire	56

## Appendix 1 – Consultation response and questions

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Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

Responses should be received by 25 February 2016 and should be sent to: [prepayment@ofgem.gov.uk](mailto:prepayment@ofgem.gov.uk).

Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

Any questions on this document should, in the first instance, be directed to: [prepayment@ofgem.gov.uk](mailto:prepayment@ofgem.gov.uk).

### Consultation questions

#### **CHAPTER 2:** Installations carried out under warrant

**Question 1:** Do you agree with the scope of warrant charges?

**Question 2:** Do you agree with the desired consumer outcomes?

**Question 3:** Which option set (A, B or C) do you think will be most effective at meeting our consumer outcomes?

**Question 4:** Should cases of energy theft or wilful damage to the meter be exempt from our proposals?

**Question 5:** *For licensees:* please explain how you identify vulnerable consumers and provide details of how any such policy or procedure is monitored and reviewed?

#### **CHAPTER 3:** Installations carried out under warrant

**Question 6:** Do you have any views on our approach or better alternatives to achieve the outcomes we have identified?

## Appendix 2 – Initial assessment of impacts

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*Our preferred options are described in full in Chapter 3. Table 2: Summary of analysis of proposals below summarises our analysis for all the proposals we considered.*

This section sets out further analysis into our options including assessment of the effectiveness of these to deliver our consumer outcomes and a preliminary assessment of impacts.

### **Option 3 - Remove warrant charges for consumers in vulnerable situations**

This option aims to ensure that no consumer in a vulnerable situation is made to pay warrant charges.

#### Alignment with policy objectives

We consider this targeted approach would help to deliver benefits to consumers in vulnerable situations. By targeting consumers who are in vulnerable situations, this avoids waiving charges for those consumers who have no intention to pay or engage with their supplier about their debt (which is a concern with Option 1).

This option relies on suppliers having effective practices in place to identify where a consumer is in a vulnerable situation and eligible for having their fees waived. Some suppliers do this well. While it may be easier for some suppliers to implement these practices, we do not consider there are significant barriers for other suppliers to have these practices in place.

Depending on how the option is delivered a regulatory incentive may be needed to ensure suppliers are effectively targeting vulnerable consumers. There is a risk that supplier practices will fail to identify consumers in vulnerable situations before or after the installation. It is likely that some consumers in vulnerable situations would not be identified, but we would still expect suppliers to treat these customers fairly.

#### Impact on consumers in vulnerable situations

We expect that consumers in vulnerable situations will be the main beneficiaries of this option, because of the removal of the financial burden of warrant charges and eliminating potential knock on effects of this debt. The benefit to the individual consumer will depend on the supplier, and the particularly costs potentially incurred from the installation.



**Table 2: Summary of analysis of proposals**

Policy option	Policy objectives			Other consumer impacts	
	Warrant charges are fair	Supplier’s warrant practices are transparent, and fair	Reducing impact on the most vulnerable	Impact on other consumers	Impact on competition
End all charging for warrant	<b>Medium impact</b> Removes incentives for some consumers to engage with debt processes.	<b>Small positive impact</b> , May incentivise suppliers to improve their engagement strategies.	<b>Significant improvement</b> Consumers in vulnerable situations would not face the impacts from warrant charges.	<b>Medium impact</b> May increase costs to wider customer base.	<b>Medium impact on small suppliers</b> Small suppliers may face higher costs.
End charges for some groups (consumers in vulnerable circumstances)	<b>No change</b> Potential issues may remain for consumers not in vulnerable situations.	<b>Small positive impact</b> May incentivise suppliers to improve their engagement strategies.	<b>Significant improvement</b> But potentially less certain than a complete removal of charges.	<b>Small impact</b> May increase costs to wider customer base.	<b>Minimal</b> Small suppliers may face higher cost but competition impact of this is likely to be minimal. Also costs will be limited until 2020.

Proposals to improve outcomes for prepayment customers

Policy option	Policy objectives			Other consumer impacts	
	Warrant charges are fair	Supplier's warrant practices are transparent, and fair	Reducing impact on the most vulnerable	Impact on other consumers	Impact on competition
Cap value that suppliers can recover	<b>Improvement</b> Benefits for those consumers going through the warrant process.	<b>Small positive impact</b> May incentivise suppliers to improve their engagement strategies.	<b>Improvement,</b> Would deliver some benefit (up to the level of the cap) for consumers in vulnerable situations.	<b>Small impact</b> May add to on costs to wider customer base.	<b>Small impact</b> Small suppliers may face higher cost but impact is likely to be minimal. Also costs will be limited until 2020.
Set out clear expectations of suppliers	<b>Improvement</b> Clearer expectations should drive better practice.	<b>Improvement</b> Addresses lack of clarity on supplier practices. Offers guidance for suppliers.	<b>Improvement</b> Benefits for consumers in vulnerable circumstances. Practice may support improvements for consumers in vulnerable situations in other areas.	<b>Negligible impact on costs.</b> May be some costs associated with implementing new practice.	<b>No change</b> None expected.

## Proposals to improve outcomes for prepayment customers

Our PPM review found that consumers could face warrant charges between £75.00 and £566.00. This does not include other charges<sup>52</sup> which could range between £7.00 and £175.00. We are also aware of warrant charges that exceeded this amount. This could be due to multiple warrants being issued.

### Impact on other consumer groups

In order to enact these options, suppliers have told us they may spread costs of warrant charges for consumers in vulnerable situations across the rest of their customer base. In most cases we estimate, unless suppliers absorb the cost, this may result in a small cost to the wider customer base.

The amount of this cost would depend on the number of customers deemed eligible for having these charges waived (ie customers in vulnerable situations), and the size of the supplier's customer base.

This issue is time bound – smart meters should eliminate warrant related costs due to the ability to switch payment modes remotely without the need of a physical meter exchange<sup>53</sup>. We think the impact on consumers will only exist until 2020 when we expect most consumers will have a smart meter.

### Impact on competition (and suppliers)

Suppliers may choose to absorb some of these costs. Large suppliers may be able to absorb these costs more easily than small suppliers. This will depend on factors such as the size of the customer base, the proportion of customers in vulnerable situations who have a PPM installed under warrant, and the cost of each suppliers warrant activities.

We do expect there to be an uneven distribution of costs across suppliers. However, we still consider the impacts of these costs to be minor compared to the significant benefit for consumers in vulnerable situations.

We expect there may also be an incentive to suppliers to find efficiency benefits from by lowering the costs as they can no longer charge these to PPM customers in vulnerable situations. This may occur in a number of ways including:

- streamlining the process to reduce costs, and
- improving the engagement process so fewer people have PPMs installed under warrant in the first place.

Stakeholders have told us that suppliers may respond in a number of ways to this incentive.

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<sup>52</sup> Our PPM review identified other charges to include revenue protection, theft of energy charges, pre-installation debt charges, admin charges including home visits, letters

<sup>53</sup> The costs relating to the warrant and the physical meter exchange will become null. There may still be situations where a supplier may need to install a smart meter under warrant where the previous meter was also smart. Additionally, some of the costs relating to debt collection and admin may remain and suppliers may still recoup these costs from consumers

#### **Option 4 - Cap charges for all consumers**

This option would introduce a cap on the value of warrant costs that suppliers could pass through to their customers. For the purpose of this analysis only we have assumed that the cap would apply to all charges, and assumed a single level cap set at 50% across a suppliers average warrant charge.

##### Alignment with policy objectives

A cap on the value of warrant charges a supplier could pass through to its customers would lessen the impact of these charges. This would not fully eliminate consumer detriment to consumers in vulnerable situations. However, it would offer greater certainty that these consumers would face lower costs.

We consider that a cap would address some of the fairness aspects of supplier charges and practices. Under this option a proportion of the charges would remain to act as an incentive for consumers to engage with the process.

We also think that a cap may act as an incentive for suppliers to engage with consumers to lessen their own exposure to warrant costs (as they would also in option 1). Suppliers have told us they may respond in different ways to this incentive (ie some suppliers may decide to minimise their costs while others may simply accept the cap and pass the costs on to the rest of their customer base).

Given that we want suppliers to start delivering our consumer outcomes quickly, we would ensure that any cap is easy for suppliers to implement.

##### Impact on consumers in vulnerable situations

Under this option, there would be no distinction between consumer groups but there would be greater certainty that consumers in vulnerable situations would benefit.

Any costs may also impact on those consumers in vulnerable situations who are in the wider customer base. However, we consider that this impact would likely be minor and balanced by the significant benefit to consumers in vulnerable situations who would have their warrant charges reduced.

##### Impact on other consumer groups

Unless suppliers absorb the costs, this could lead to small increases in cost to the wider customer base. The impact would be different depending on the size of the suppliers and propensity to install a PPM under warrant. This would reduce costs on all consumers going through the warrant process.

##### Impact on competition (and suppliers)

The impact on competition would likely be similar to option 1. Larger suppliers may be able to absorb costs more easily than small suppliers. This would also depend on aforementioned factors such as size of consumer base, proportion of consumers who have a PPM installed under warrant and the cost of the warrant activities for individual suppliers. With any degree of cross subsidisation there may be some impact on competition.

We would also expect there to be efficiency benefits from incentivising suppliers to lower costs as they would no longer be able to charge consumers all of the costs of the warrant process.

### **Option 5 - Set out clear expectations of suppliers**

This option would introduce clear expectations for suppliers that would cover the broad process that suppliers take when installing a prepayment meter under warrant. We have not determined yet how this could happen, but this could be a code of practice, guidance or principles.

#### Alignment with policy objectives

This option is intended to address the conduct of suppliers by clearly setting out what is expected of how the warrant process should be undertaken. We acknowledge that a voluntary and regulatory framework addressing warrants already exists.

This option would give greater clarity to all suppliers but particularly new suppliers who have less experience dealing with the warrant process. We have considered existing codes and principles as well as the E.UK Safety net can provide useful guidance to suppliers. Stakeholders have told us that the Safety Net is not only useful for members who have signed up but also is used by non-member suppliers as a framework to underpin their practices.

Suppliers have an incentive to improve engagement practice as this could lessen their warrant bill because if consumers understand the costs associated with a warrant may be more likely to agree to a PPM installation if they make an informed decision.

#### Assessment of main impacts

It is unclear the degree of any impacts to the wider customer base as this would be different for each supplier and depends on how they adopt good practice. It is however, likely to have much less a cost impact on consumers than options 1 and 2. There may be some administrative cost associated with implementing new policies and practices for suppliers.

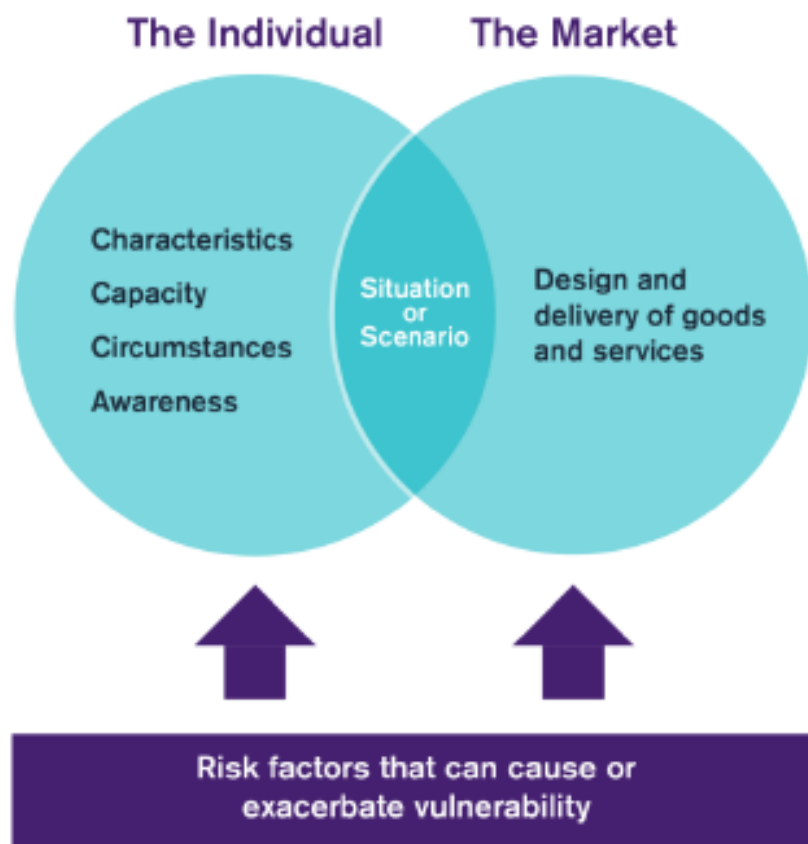
## Appendix 3 – Defining vulnerability

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### Defining vulnerability

Our consumer vulnerability strategy aims to support some of the poorest and most vulnerable households in the energy market. For this purpose a consumer in a vulnerable situation or circumstance is defined as one who is:

- significantly less able than a typical consumer to protect or represent their own interests; *and/or*
- significantly more likely to experience detriment, or for that detriment to be more substantial.



We recognise that whether a customer is vulnerable in the energy market, and the likelihood of them suffering detriment, depends not only on personal characteristics such as age, or disability, but also the situation or scenario they are in, and how the market responds to their needs.

### Vulnerable characteristics - risk factors

In practice there may be a range of characteristics that put a consumer or member of a household at greater risk of detriment, and/or impact in different ways their ability to represent their interests. These include, but are not limited to:

- living with physical health issues or mental illness
- cognitive impairment
- literacy or numeracy difficulties

## Proposals to improve outcomes for prepayment customers

- having a speech impairment
- not speaking English as a first language
- being a child, or
- low confidence.

The extent to which an individual is aware of their vulnerability may also impact the depth and likelihood of any detriment they suffer, and their ability to limit that impact.

### **Circumstances - risk factors**

There are also a range of circumstances or circumstances that can make consumers with vulnerable characteristics more likely to suffer detriment. These risk factors include but are not limited to:

#### Personal circumstances

- living alone
- not having internet access
- being on a low income
- being unemployed or being made redundant
- being a full-time carer
- being a lone parent
- leaving care
- experiencing relationship breakdown, or
- experiencing bereavement;

as well as:

#### Wider circumstances

- living in a rural area
- living off the gas grid
- living in private rented accommodation
- living in a cold, energy-inefficient home, or
- having a certain meter type eg prepayment, dynamic tele-switching meter.

The list above is not exhaustive, nor does it indicate that a consumer in such circumstances will always experience detriment. However these circumstances can make a customer more vulnerable to detriment and the likelihood and impact of the detriment tends to increase if consumers have more than one of these risk factors.

### **Characteristics or circumstances can change over time**

We also recognise that individual characteristics or circumstances can change over time. Vulnerability can affect anyone at any time and for many different reasons. It may be permanent or long-term, but equally it can be transitory following a bereavement or relationship breakdown. A consumer can quickly fall into a vulnerable situation, but it may take them time to recover from it. For example, if someone is made redundant, their vulnerability may continue even once they have a new job if they have accumulated debt during that time.

### **The role of markets**

Markets themselves in combination with a customer's characteristics and situation can also cause or exacerbate vulnerability. This includes the action or behaviour of suppliers, network companies or third parties. The nature, design and delivery of goods and services for example, can put some consumers with vulnerable characteristics, at greater risk of detriment. For example:

- lack of affordable phone access can result in an increased likelihood of detriment for consumers without internet access on low incomes
- complex information on products or services can limit any consumer's ability to make appropriate decisions, but this may particularly cause problems for customers with cognitive impairments, or
- consumers with sight, hearing or speech impairments may struggle to communicate with a company if their written communications or customer services are not designed to be accessible and inclusive.

Consumers in some vulnerable circumstances may also be served less well by competitive markets because, for example:

- they may be more expensive to serve
- they have less market access
- they are a higher debt risk so greater risk to the company, or
- it is not cost-effective to meet their needs.



## Appendix 4 – Related areas of work

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### **Ofgem’s consumer vulnerability strategy**

Prepayment is a key part of our consumer vulnerability strategy which we published in July 2013 following extensive consultation<sup>54</sup>. It outlined our aims to:

- protect and empower consumers in vulnerable circumstances – to reduce the likelihood and impact of vulnerability, *and*
- ensure *all* consumers can access market benefits – so that nobody is at a disadvantage due to their circumstances.

There are some key links within the strategy which we recently reported progress on in the latest consumer vulnerability strategy progress report<sup>55</sup> including:

- Debt assignment protocol
- PPM voucher uptake
- Smart prepayment, and
- Simpler clearer PPM protections guide.

### **Review of debt objections**

There are also close links to our intended work on supplier debt objections. The use of security deposits is an important aspect of this process. Suppliers approach to debt has impacts on their engagement with consumers, and ultimately when and how a prepayment meter is installed.

### **CMA Energy Market Investigation**

The Competition and Markets Authority (CMA) is currently investigating the level of competition in the retail energy market. The scope of the CMA’s market investigation covers many of the issues around tariff choices that we identified in our prepayment meter review, and as part of its Notice of Possible Remedies, and Second Supplemental Notice of Possible Remedies the CMA has proposed remedies relating to prepayment meters. We are continuing to support the CMA as they develop their remedies.

### **Citizens Advice Credit referencing research**

This research will update and expand understanding of how energy suppliers identify and provide support for consumers throughout all aspects of debt management. This will include how suppliers use credit information to help identify consumers who are showing signs of financial difficulty, even though they may not yet have missed a payment. It will also examine the role of credit information in determining consumers’ eligibility to change from prepayment to credit meters, and the integration of smart meter data within decision making.

### **Smart metering**

Our expectations are that smart meters should remove the costs to consumers for installing and removing a PPM meter (including when this is done under warrant). We have however argued that there is a strong case for action to address the issues that exist between now and the completion of smart meter rollout for traditional prepayment

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<sup>54</sup> Ofgem, July 2013, Consumer Vulnerability Strategy, <https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf>

<sup>55</sup> Ofgem, September 2015, Consumer Vulnerability Strategy Progress Report, <https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy-progress-report>

## Proposals to improve outcomes for prepayment customers

users. We anticipate that some prepayment customers will likely remain up to the anticipated completion of rollout in 2020.

### **Transition to an increased reliance on principles**

We have committed over time to rely more on general principles rather than detailed rules about what companies can and cannot do. We are currently exploring how we can progress this transition. We have taken this into account in developing the proposed measures.

## Appendix 5 – Prepayment roundtable

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In October 2015, Ofgem held a senior-level roundtable chaired by our CEO and attended by over 20 suppliers and consumer representatives. The roundtable looked at the consumer outcomes that can arise from the use of security deposits, and when PPMs are installed under warrant. The group discussed ways to improve consumer outcomes, helping to shape the proposals in this consultation.

### Key points session 1: Consumer outcomes

#### Consumer engagement is important

- If suppliers can contact customers they can help solve problems.
- Some consumers are more willing to speak to trusted third party such as Citizens Advice or Extra Help Unit than suppliers.

#### Some consumers in vulnerable situations can be hard to identify

- Suppliers try to gain as much information as possible when customers sign up to detect existing vulnerability. There are some objective ways to identify vulnerability (e.g. customers who are eligible for Warm Homes Discount).
- Some vulnerability is challenging to detect. Sometimes suppliers can only identify vulnerability if the customer is willing to share information.
- Some consumers don't identify themselves as being in vulnerable situations which makes it harder to spot. In some cases this may be because of the stigma attached.

#### Impact of security deposits

- Some consumers find it difficult to get the money together to pay a security deposit. This can reduce a customer's ability to switch to cheaper credit tariffs.
- Consumer groups have seen consumers take out high interest loans or borrow from families to pay for security deposits.

#### Impact of warrant costs

- Despite suppliers' policies, sometimes consumers in vulnerable situations still go through the warrant process. In some cases this may be due to advisor failure with individual cases failing rather than general policy.
- Some suppliers waive charges for certain groups of consumers in vulnerable situations.
- Consumers do not always pay more for their energy on PPM. If they have been on standard variable tariff this can be priced similarly to the PPM tariff.
- Warrant costs can vary because the market for services is volatile. Larger suppliers may benefit from economies of scale.

## Proposals to improve outcomes for prepayment customers

### Key points session 2: How can we achieve better outcomes for consumers?

#### Security deposits

- Some suppliers don't request security deposits and look at other alternatives including:
  - paying in monthly instalments rather than one upfront sum
  - credit checking with a clear appeals process
  - use of managed credit
  - taking a broader approach to determining credit worthiness.
- Some suppliers stated they should have the right to refuse a switch to a credit meter (eg if a customer still has £300 debt on meter and the PPM was installed to recover debt).

#### Installations carried out under warrant

- Advice to consumers going through the process should be provided as early as possible.
- Consumers should be referred to third party organisations where appropriate.
- Suppliers can develop partnerships with independent charities to help consumers manage their debt.
- Suppliers could make their warrant charges transparent. This is not currently the case.
- Consumer groups argued that warrant related costs should be capped so they do not exceed the original debt owed by the consumer.
- Suppliers need to ensure staff are trained appropriately to engage with consumers and to improve the chances of detecting vulnerability.

#### Suppliers raised concerns with full cost-subsidisation of warrant costs

- Need to differentiate between vulnerable consumers who really are in need of support, and those customers who have no intention of paying.
- Increasing costs to suppliers would affect supplier margins and may have a competition impact.
- Suppliers argued full cost subsidisation may be unfair for other customers.
- Complaints and escalation may increase.
- Suppliers prefer to have policies which protect vulnerable consumers yet give them the flexibility to develop solutions for customers on a case by case basis.

## Appendix 6 – Feedback Questionnaire

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Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

Please send your comments to:

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