

Response to Ofgem proposals to improve outcomes for prepayment customers

25th February 2016

Introduction

Energy UK is the main trade association for the energy industry, with over 80 members; representing energy generators and suppliers of all sizes. Our members supply gas and electricity and provide network services to both the domestic and non-domestic market. Energy UK members own over 90% of energy generation capacity in the UK market and supply 26 million homes and 5 million businesses, contributing over £25 billion to the UK economy each year. The industry employs 619,000 people across the length and breadth of the UK, not just in the South East, contributing £83bn to the economy and paying over £6bn annually in tax.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's proposals to improve outcomes for prepayment (PPM) customers. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Executive Summary

Suppliers take their obligations to their customers very seriously. Installing a prepayment meter under warrant is always a last resort (and only ever after extensive efforts to make contact with the customer) and suppliers want to avoid this wherever possible. Energy UK supports any regulatory efforts to improve outcomes for prepayment customers as far as is reasonably practicable without negatively impacting upon the wider customer base. Energy suppliers have to strike a fine and sensitive balance, especially where vulnerability has been identified, and make important but often difficult decisions on how to collect payments from customers who do not pay and often actively choose not to engage with their supplier.

While Ofgem's review of prepayment published last summer highlighted practices that need to be addressed, it is essential to recognise that prepayment is a legitimate way of paying for energy that can bring benefits for both consumers and suppliers.

For consumers who seek greater control over their budgeting prepayment can provide an ideal means with which to do so. Prepayment can be a useful way for suppliers to facilitate the process of debt recovery in a way that suits the needs of and reflects the circumstances of the individual consumer.

The process of debt recovery is one that should be regularly reviewed by suppliers to ensure it is effective and sensitive to consumer needs, especially those who experience vulnerability. But any regulatory intervention in the area of debt recovery needs to distinguish between those customers who genuinely cannot pay and those who can but choose not to pay. Not only should suppliers have legitimate means of recovering debt from those who choose not to pay, but a failure to do so inevitably leads to the costs falling upon all customers, including those in genuine financial difficulty.

Ultimately energy suppliers want to improve outcomes for their prepayment customers but reconciling this with obligations to the wider customer base is not always straightforward.

Energy UK's response to the questions set out in the consultation document are presented below.

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

- 1.1. We disagree with the scope of warrant charges set out in paragraph 2.8 of the consultation document. Warrant charges should relate only to the obtaining of the actual warrant and executing it. Installing a prepayment meter under warrant is always a last resort (and only ever after extensive efforts to make contact with the customer) and should be viewed as separate from debt collection activity more generally.
- 1.2. The wider process of recovering debt should not be included. It is entirely possible for a consumer to be experiencing some level of vulnerability yet still be in a position to pay their energy bills but choose not to. It is only reasonable that suppliers should be able to make attempts to recover such debts.
- 1.3. Taking the Energy UK Safety Net indicative debt path for reference, the process of recovering debt includes a number of steps that require suppliers to make:
 - 6 attempts to contact through correspondence
 - 1 attempt to contact by telephone
 - 1 attempt to contact by personal visit to property where no previous contact has been made, including visually checking the property for signs of vulnerability
- 1.4. A significant number of consumers purposely have little or no engagement with energy suppliers and the debt recovery process is often an important means of discovering information about customers including about any vulnerability. Many suppliers will have different debt recovery processes for vulnerable customers but these still require costs to implement.

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

- 2.1. We support the consumer outcomes detailed on page 22 of the consultation. Warrant charges and practices should always be transparent and fair. Suppliers take their obligations to customers very seriously and will always seek to reduce negative impacts on their most vulnerable customers.
- 2.2. We note however that the Gas Act 1986 (as amended) and the Electricity Act 1989 (as amended) explicitly state that a supplier may recover any expenses incurred in the installation of a prepayment meter.
- 2.3. It should also be noted that there is a very important difference between a customer facing detriment due to their vulnerability and a customer in a vulnerable situation who can pay but wilfully chooses not to engage. We therefore have concerns that the proposals' use of 'vulnerable' is too widely defined. Without further guidance, suppliers can only assume Ofgem refer to their Consumer Vulnerability Strategy interpretation. Given that a customer's vulnerability may not be connected to their ability to pay or engage, it is unclear what detriment / unequal outcome using such a broad definition is seeking to address, let alone whether this is a proportionate approach.
- 2.4. The Ofgem Corporate Strategy states that Ofgem does not believe it is its place to pursue a policy to achieve outcomes that seek significant redistribution of costs among customers¹. With this in mind, we believe it is incumbent upon Ofgem to carry out a distributional impact assessment to understand the effects of the proposals on consumer bills.

¹ "... we do not believe it is for us as an independent regulator to initiate or pursue a policy to achieve social or environmental outcomes which has the purpose of levying significant costs, or seeking significant redistribution of costs among consumers." (page 11, Ofgem Corporate Strategy) https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/corporate_strategy_0.pdf

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

3.1. We expect our members will respond to this question individually.

3.2. Energy UK would urge Ofgem to clarify what is meant by option 5 in the consultation document in regard to setting out clear expectations of supplier behaviour. Is there an expectation that a voluntary code should be developed? How will this code be managed given the large number of suppliers currently active in the market?

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

4.1. We believe that cases of energy theft or wilful damage should be exempt from Ofgem's proposals. Ofgem summarised the reasons why effectively in its consultation on 'tackling electricity theft':

Theft of electricity increases prices for customers and reduces safety. It leads to misallocation of costs among suppliers, which can distort competition and hamper the efficient functioning of the market. It also has links to organised crime, in particular cannabis cultivation.²

Although the extract refers only to electricity the underlying principle applies to gas.

5. 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?

5.1. This question is addressed to licensees and we expect our members to respond to this question individually.

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

6.1. Ofgem must ensure the proposals fit in with a commitment to move to a more principles-based approach to regulation. Prescription outside the licence condition is still prescription.

6.2. In the consultation document, on page 13, section 1.19 it states that:

It is important that suppliers are sure that it is fair and practicable for a customer to have a PPM...

This is in contrast to existing licence condition 28.1 which stipulates that the obligation on suppliers is to ensure that a PPM is safe and reasonably practicable. It is important that Ofgem is clear and consistent when communicating the requirements of licence conditions.

For further information please contact Natan Doron on 020 7747 2932 or at natan.doron@energy-uk.org.uk

² https://www.ofgem.gov.uk/sites/default/files/docs/2013/07/20130703_tackling-electricity-theft.pdf