

OVO Energy response to Ofgem's consultation on Proposals to improve outcomes for prepayment customers

Introduction

OVO Energy (OVO) entered the UK energy retail market in 2009 with the intention of offering a fairer, simpler and more competitively priced service to customers. We are now one of the UK's fastest growing independent suppliers, with over 600,000 customers and 900 staff. In January 2015 we also became Which?'s first Recommended Energy Provider.

Over recent years we have focused increasingly on improving customer experience and engagement through technology and innovation. In particular, we are focusing on pre-payment meter (PPM) customers as they stand to benefit the most from smart technology.

In April 2015 we launched Smart PAYG+, the UK's first full service PPM platform which enables customers to manage all elements of their supply, from topping up to monitoring usage on one simple smartphone app anytime, anywhere. Since the launch of Smart PAYG+ we have grown our PPM business from [...] customers, with [...] of these customers already smart enabled.

By maintaining low operating costs and focussing on business efficiency we can also consistently offer customers competitive prices as well as a market leading product - in fact our PAYG tariff is currently the cheapest PPM tariff in the market.

However, a large portion of PPM customers, many of them vulnerable, are still being overcharged and underserved. Despite our best efforts to ensure competitive rates and smart solutions are available to these customers, there will always be some that will be less able to take advantage of them. For this reason, we welcome Ofgem's intentions to ensure that the regulatory framework properly protects vulnerable customers.

However, while we support Ofgem's underlying intentions, it is important to stress that in order to remain competitive it is absolutely essential for suppliers to be able to manage the debt of non-vulnerable customers - i.e., customers who can pay, but won't pay. We are therefore very concerned about the consequences of any blanket removal of debt management tools for groups of customers. This would result in higher prices across all customers to compensate for the increase in bad debt risk and the volume of formal collections litigation we would anticipate.

Furthermore, indebted customers would be far less incentivised to repay their debt if they knew suppliers were essentially toothless in their ability to recover debt. This would disproportionately impact smaller suppliers, particularly those with competitively priced PPM tariffs such as ourselves.

In this response we provide our thoughts on Ofgem's proposals in relation to warrant charges in the context of our concerns in relation to debt management.

Installation charges (warrant related)

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

We agree with the scope of warrant charges as outlined by Ofgem. To ensure that costs do not increase for all other customers, it is essential for us to have the ability to directly pass on all the costs associated with the warrant process.

As outlined in previous submissions to Ofgem, £330 of the £370 warrant charges are simply third party costs which we pass directly on. We charge a £40 administration fee which covers the time and resource committed by our escalations team during the process.

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

We agree with the desired consumer outcomes as outlined by Ofgem. However, in the context of Ofgem's future regulation consultation, we would strongly urge Ofgem to go one step further by specifying the higher level outcome for customers it wishes to achieve in relation to warrant related charges, making that outcome the focal point of future consultations and building principles - not prescriptive rules - to achieve that outcome.

In the context of warrant charges we think the higher level outcome for which to aim is to minimise warrant charges as much as possible. This would bring not only immediate, direct results (i.e., reducing charges) but also incentivise suppliers to seek operational efficiencies and procure more cost effective third party services, the cost savings from which will benefit all customers by reducing tariffs in the long run.

Furthermore, as will be outlined in OVO's response to the future regulation consultation later this month, we believe that suppliers should take responsibility for achieving the stated outcome.

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

Policy option	OVO's position
<p>Set A</p> <p><i>i. End warrant charges for consumers in vulnerable situations, and</i></p> <p><i>ii. Set out clear expectations of supplier behaviour</i></p>	<p>We do not support this option for the following reasons:</p> <ul style="list-style-type: none"> • Whilst in principle this would protect vulnerable customers, it would result in higher costs for all other customers • Would disproportionately impact smaller suppliers as they would be less able to absorb the warrant charges. • Each supplier has different definitions of vulnerability so this could disproportionately increase costs for suppliers with wider definitions, or better process for identifying vulnerable customers. It could therefore incentivise suppliers to narrow their vulnerability definitions • Would not incentivise vulnerable customers to engage in the warrant process, and could incentivise customers who may not be technically classified as vulnerable to be labelled as such

<p>Set B</p> <p><i>i. End warrant charges for consumers in vulnerable situations</i></p> <p><i>ii. Cap charges for all consumers (one level cap), and</i></p> <p><i>iii. Set out clear expectations of supplier behaviour</i></p>	<p>We do not support this option for the following reasons:</p> <ul style="list-style-type: none"> • See above points relating to removing charges for vulnerable customers • A cap could help minimise costs and incentivise suppliers not to proceed to the warrant process in the first place. However, this incentive would be minimised if coupled with ending charges for vulnerable customers given the need to recoup costs
<p>Set C</p> <p><i>i. Cap charges for all consumers (two level cap), and</i></p> <p><i>ii. Set out clear expectations of supplier behaviour</i></p>	<p>Out of the three options presented we support this option for the following reasons:</p> <ul style="list-style-type: none"> • Would protect all customers from excessively high warrant charges, with additional protections for vulnerable customers • Would minimise the smearing of costs across all customers. • Would still be issues associated with how suppliers define vulnerability but the financial impact associated with this would be minimal compared to ending all charges for vulnerable customers • Would encourage suppliers to minimize costs and incentivise them not to proceed to warrant in the first place (more detail on this below) • Would ensure all customers (vulnerable or not) are engaged in the escalation process and have an incentive to consider other options before warrant charges are incurred

Of the three options Ofgem has provided we believe that Set C strikes a reasonable balance between minimising costs for all customers (with further protections for the most vulnerable) and incentivising all customers and suppliers to consider all available options to avoid the warrant process. Our preference however would be to consider options that not only reduce the cost of warrants to all customers but avoid the need for a meter to be installed under warrant in the first place.

As outlined in question 2, in line with an outcomes and principles based approach to regulation, the task for Ofgem should be to define the outcome they wish suppliers to deliver and design the principles for achieving the outcome so that suppliers are afforded a level of flexibility in how they achieve the outcome.

To reiterate, we believe that the overall outcome for all suppliers and Ofgem to achieve is to minimise warrant related charges for all customers - whether vulnerable or otherwise. The best means of reducing warranted related charges for all customers is to reduce the number of meters that are required to be installed under warrant in the first place. Avoiding the cost of warrant charges should therefore take priority over reducing the costs when they occur.

The primary means by which we think warrant installs - and therefore charges - can be avoided is to ensure that smart meter installations are prioritised for vulnerable and/or indebted customers. To achieve this outcome Ofgem could introduce a principle of **maximising smart meter installations**

with indebted customers with an obligation for suppliers to offer indebted customers a smart PPM at the beginning of the debt escalation process to reduce the likelihood of going to warrant.

Fulfilling this principle should not only result in reducing costs but also increasing smart meter take up in line with Government policy objectives.

We believe this principle achieves costs reductions because smart PPMs can be remotely switched to repayment mode without having to obtain a warrant and therefore incur warrant charges. This would give customers greater visibility and control over debt repayment and also make it easier to switch back to credit mode when the debt was cleared.

On top of this, we also believe that an additional principle could be introduced to require suppliers to install PPMs at the warrant stage where possible (a policy that OVO already adopts). Again this would increase smart meter take up, give customers greater visibility and control over debt repayments, and make it easier to switch back to credit mode when the debt is cleared.

The benefit of using a principle to achieve this outcome is that a level of flexibility is retained which would allow suppliers to install dumb repayment meters when it is not technically possible to fit a smart meter (e.g. If there is no network connection). It would also give suppliers flexibility in how to incentivise customers to take up a smart meter early in the debt escalation process - e.g., suppliers could waive x% or £x of the debt the customer co-operates and engages early in the process by taking a smart meter.

We think that Ofgem could supplement the 'smart meter' principle outlined above by introducing a secondary principle of cost reflectivity. This principle would apply to a supplier if they failed to meet the primary 'smart meter' principle, and allow the supplier to recover only the costs they incur in the process of installing a meter PPM under warrant.

Administering both primary and secondary principles would involve:

- *Reporting:* Cost breakdowns should be reported to Ofgem and overall cost league tables should be published on an annual basis, and
- *Communication & transparency:* Overall costs should be readily available on supplier websites with links to the annual league table, and details of costs must be communicated to customers at the start of the escalation process that may lead to a warrant.

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

We agree that these charges should be exempt. If these costs were removed or capped it could increase the number and severity of cases from the limited number of considerable charges we see today.

For example since January 2015, only 160 customers have been charged through the Revenue Protection Services process. However the average charges incurred are £402 per customer (with the highest being £1224).

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?

Before answering the specific consultation question we would like to reiterate some of the views we outlined in our recent response to Ofgem's priority services review.

Identifying vulnerable customers (VCs) is not straightforward and requires significant resources on the part of suppliers. The information that suppliers have access to is very limited in many cases, which makes it challenging to:

- a) Identify whether or not a customer is vulnerable, and
- b) If so, to assess accurately the nature of the customer's vulnerability.

The difficulty that suppliers face with regard to identifying vulnerability is further compounded by the transient nature of certain vulnerability categories, one example being households with young children. Without accurate data being frequently updated, the operational burden of identifying these customers would be considerable and therefore costly. We are concerned that customers would ultimately bear these additional costs.

Reducing the cost and administrative burden with regard to identifying and maintaining the PSR would allow suppliers to focus more on the provision of services for their VCs. In this context the problem with the PSR that needs to be addressed is the quality of the information relating to VCs and the means by which that information is shared and updated between suppliers.

OVO would therefore strongly urge Ofgem to carry out more work to determine how best to administer vulnerability records and the PSR process as cost effectively and operationally efficiently as possible. Our proposal is that the central registration scheme that is in the process of being procured by the DCC should be used as the location to store all of the data relevant to the PSR. We outline what we believe are the benefits of this proposal further in paragraph 2.6 of this response.

As well as meeting our regulatory obligations, we strive to look beyond what is expected of us to identify vulnerable customers. Our approach is summarised below.

Definition

OVO uses Ofgem's definition of vulnerability as well as three further definitions:

- Core vulnerability (our regulatory obligations);
- Peripheral vulnerability (additional criteria we use including but not limited to pregnancy, mental health issues, bereavement, off gas grid, rural household)
- Further financial vulnerability (further financial insecurity indicators we take into account including whether the customer claims Means Tested Benefits, has a household income of £16,190 or less or spends more than 10% of their gross annual income on energy)

Strategy

Training

- OVO works with National Energy Action to help deliver training to all OVO Energy staff, with particular attention paid to the customer facing staff, focusing on the ability to recognise vulnerability, understanding our duty as an energy provider to our vulnerable customers, and how to register customers onto our PSR

Vulnerability Team

- OVO has a team of experienced and highly skilled Vulnerability Specialists to support our customers beyond our statutory duty and to reach a sufficient outcome to safeguard the welfare of the customer. This team have access to in-depth training from organisations specialising in debt management, mental health issues and fuel poverty

5 Step Recovery Programme

1. Priority Services Register
 - a. This is available to all customers throughout their journey
2. Ability to Pay
 - a. Customers will have the opportunity to reassess their payment method, with the guidance of a Vulnerability Specialist and adjust accordingly taking into account the customer's ability to pay
3. Income Maximisation
 - a. This step allows the customer to increase their income, where appropriate, through a mixed variety of initiatives:
 - i. Warm Home Discount
 - ii. OVO Energy Fund
 - iii. Benefits Calculator (provided by Turn2Us)
 - iv. Grants Search (provided by Turn2Us)
4. Energy Efficiency
 - a. This step actively promotes education to the benefits of energy efficiency in the home, with support provided by the Centre for Sustainable Energy's expert energy efficiency advisors. Customers can access this service themselves, or through our Vulnerability Specialists
5. Debt Management
 - a. Our Vulnerability Team are able to recognise debt management issues and offer the customer free and independent debt advice and debt management solutions through our partnership with StepChange

PPM customers

All PAYG customer service agents receive specialist vulnerability training, tailored to communicate the increased risk of vulnerability amongst this customer base. As outlined above all our PAYG customers have the option to have a smart meter fitted during their onboarding journey. This offers the functionality to both manage their finances in a more sustainable way, and reduce their energy consumption by offering visibility of their energy consumption in real time, dependent on the device selected.

Prepayment smart meters are offered to our customers at the beginning of the escalation process (included in correspondence sent if the customer is in debt for more than a week) if there is a debt on the account that the customer cannot afford to pay. We feel this provides a reasonable, customer centric solution to managing debt and ongoing consumption in a sustainable way. In order to set the repayment amount, our customers' ability to pay is always accounted for.

Debt repayment is always based on the customer's ability to pay, and on their individual circumstances, including a vulnerability assessment. If eligible, OVO will offer the customer the ability to repay debt by deducting a prearranged amount from their existing welfare benefits, a



government scheme known as Fuel Direct. If a customer is not eligible for this, we are willing to set repayments to an equal, or lower amount, to suit the customer's needs.

On the pre warrant site visit, our partner ([...]) is trained to look for signs of vulnerability, with the opportunity to stop the process at any point.

Installation (non-warrant related) and removal charges

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

In previous correspondence to Ofgem we have confirmed that we do not charge our customers for PPM installations or removals except in very rare circumstances where the customer refuses to have their dumb PPM replaced with a smart meter.

OVO has a policy of replacing PPMs with smart meters free of charge. If a smart meter can't be installed for technical reasons (e.g. due to lack of network coverage) then we install a dumb credit meter also free of charge.

However, if a customer refuses a smart meter, and there are no technical or other reasons preventing one being fitted, then OVO directly passes on its third party installation costs for installing a dumb PPM (currently £57.75 for electric and £92.40 for gas inc. VAT). We do this primarily because it's an avoidable cost i.e. it will have to be replaced with a smart meter by 2020 anyway. To confirm, we do not add any margin or other administrative costs on top of these charges.

More generally, installing smart meters enables us to manage debt more cost efficiently which means lower prices for all customers. We can switch the meter to credit mode during the change of tenancy process without incurring installation costs. Also in the hopefully unlikely event of a warrant process a smart meter will also enable us to switch the meter to PPM mode without incurring costs.

We have made it clear from the start that we support any initiatives to protect vulnerable customers. However, as outlined above and in previous correspondence to Ofgem, we would only consider removing our PPM charges if there were guarantees that other necessary tools to manage customer debt (e.g. through security deposits and debt objections) were retained. This will enable us to manage the increased bad debt risk posed by installing dumb meters instead of smart meters.

As Ofgem has indicated that debt objections and security deposits are out of the scope of this consultation exercise given the CMA's focus on this area, we will reserve a decision on this matter until their findings are published in the summer.