Appendix 2 – Draft Impact Assessment

Title: Prepayment meters installed under warrant for non-payment of debt	**Impact Assessment (IA)**
IA Number: N/A	Date: 14 September 2016
Project Number: N/A	Stage: Initial
Division: Consumers and Competition Team: Consumer Vulnerability Strategy	Source of intervention: Domestic
Type of IA: Not Qualified under Section 5A UA 2000.	Type of measure: Price control/Consumer protection
	Contact for enquiries: Steve Osmani-Edwards

Summary: Intervention and Options

Strategic Outcomes	Key word description
Lower bills than would otherwise have been the case.	Lower bills for consumers in the warrant process, particularly a subset of vulnerable consumers. Higher bills for the broader consumer base.
Reduced environmental damage both now and in the future.	N/A
Improved reliability and safety.	N/A
Better quality of service, appropriate for an essential service.	Increased incentive for suppliers to engage effectively with consumers in debt and to ensure that debt resolution is in the consumers best interest.
Better Social Outcomes	Reduced harm for vulnerable consumers in the prepayment meter (PPM) warrant process. Potential reduction in the total number of prepayment meters (PPMs) installed under warrant.

Quality Assurance Status	Approved

Type of IA: Not Qualified under Section 5A UA 2000.

Monetised Impacts (£m)

Business Impact Target Qualifying Provision	N/A
Business Impact Target (EANDCB)	N/A
Net Benefit (Explain the basis of monetised impacts e.g. NPV or other).	Net benefit of monetised impacts is expected to be around zero. The estimated annual decrease in the amount paid by consumers in the warrant process from the preferred option is £4.5m to £8.9m, the majority of which is expected to be socialised across the broader consumer base.

Hard to Monetise Impacts

Describe any hard to monetise impacts

Hard to monitise impacts include:

- Increase in administrative costs to suppliers from requirement to identify certain vulnerable situations. This should largely be in place already and could be viewed as a shared cost across other requirements on suppliers.
- Reduction in harm suffered by a subset of consumers in vulnerable situations from the prohibition of the installation of a PPM or the charges associated with the installation of a PPM.
- Possible efficiencies in the warrant process reducing the total amount redistributed across the wider consumer base.
- Reduction in potential harm to all consumers having a PPM installed under warrant as a result of high charges.
- An increase in supplier costs of managing the debt of consumers whose vulnerability would be excacerbated by the installation of a PPM.

Type of IA: Not Qualified under Section 5A UA 2000.

Rationale for intervention, objectives and options

What is the problem under consideration? Why is Ofgem intervention necessary?

As a last resort, suppliers are permitted to install a PPM under warrant for domestic energy consumers for non-payment of debt and the cost of this process can be charged to these consumers. However, weak market forces make it unlikely the charges faced by consumers are competitive. In addition, reports from consumer groups have highlighted cases of suppliers moving to install a PPM under warrant very quickly and multiple instances where consumers in certain vulnerable situations were severely impacted by either the warrant process or the additional burden of the associated costs. For example, consumers in severe financial crisis or consumers whose vulnerable situation has impaired their ability to engage with the supplier. Furthermore, transparency around suppliers' policies and charges in this area is poor.

What are the policy objectives and intended effects?

The outcomes we aim to achieve as a result of our policy are:

- Installations of PPM under warrant are avoided wherever possible, and only used as a last resort. We want to increase the incentives on suppliers to engage with customers in debt to support them (eg putting them on debt repayment plan).
- Suppliers do not impose high costs, and make their charges and process more consistent and transparent.
- Consumers in the most vulnerable situations are protected, from both costs and process which would exacerbate harm.

What are the policy options that have been considered, including any alternatives to regulation? Please justify the preferred option (further details in Evidence Base)

Options considered include:

- A **prohibition** protecting consumers in relevant vulnerable situations preventing suppliers from charging them warrant costs. In some cases the prohibition prevents suppliers from installing a PPM.
- A **cap** on warrant costs (the cost of applying for and executing a warrant to force fit a PPM) that suppliers can charge to consumers who go through the process.
- A **debt principle of proportionality**, covering costs and actions of suppliers, for all customers in the debt recovery path.

Our preferred option is for a warrant charges cap set at £100 or £150 and applicable to all charges for the application, execution, and installation of a PPM under warrant. This would be accompanied by prohibiting PPMs being installed under warrant to consumers in relevant vulnerable situations (eg consumers with mental health issues and/or severe financial difficulty) and the prohibition of warrant charges to consumers in other relevant vulnerable situations.

Will the policy be reviewed? N/A	**If applicable, set review date:** N/A

Type of IA: Not Qualified under Section 5A UA 2000.

Summary: Analysis & Evidence
FULL ECONOMIC ASSESSMENT

Preferred Policy Option

Price base year: 2015	**Base Year:** N/A	**Time Period:** N/A	**Net Benefit (£m)**		
			Low: optional N/A	**High: Optional** N/A	**Best Estimate:** £0

COSTS (£m)	**Total Transition (Constant Price) Years**	**Average Annual (excl. Transition)(Constant Price)**	**Total Cost (Present Value)**
Best Estimate	N/A	N/A	£4.5-8.9m

Description and scale of key monetised costs by 'main affected groups'

The preferred option is expected to result in £4.5 to £8.9m of warrant charges redistributed across the broader consumer base.

Other key non-monetised costs by 'main affected groups'.

The prohibition policy required suppliers to identify consumers in vulnerable situations. This is not expected to be a significant cost as suppliers should already have processes in place to identify and manage vulnerability.
Suppliers may see an increase in the costs of managing debt due to those cases where they can no longer install a PPM under warrant for certain consumers in vulnerable situations.

BENEFITS (£m)	**Total Transition** (Constant Price) Years	**Average Annual** (excl. Transition)(Constant Price)	**Total Benefit** (Present Value)
Best Estimate	N/A	N/A	£4.5-8.9m

Description and scale of key monetised benefits by 'main affected groups'

It is expected that the preferred option will see a reduction in warrant charges paid by consumers in vulnerable situations each year of up to £1.0m and a reduction in warrant charges paid by all consumers in the warrant process each year of £4.5m to £8.9m.

Other key non-monetised benefits by 'main affected groups'.

The prohibition of warrant action and charges to consumers in certain vulnerable situations will remove potential harm from these consumers. A cap on warrant charges will reduce the potential detriment as a result of warrant charges to all consumers with particular benefit to those consumers in vulnerable situations which either do not qualify under the prohibition policy or have been incorrectly categorised by their supplier. In addition, efficiencies are likely to see a reduction in the costs of the warrant process that may result in the full £4.5-8.9m not being redistributed.
Reduced costs for PPM consumers should result in more PPM switching and therefore increased competitive pressure in the PPM sector. High debt on a PPM acts as a barrier to switching; the limit for debt transfer under the Debt Assignment Protocol is £500. Our proposals should result in fewer consumers, particularly consumers in vulnerable situations, repaying debts of more than £500 and therefore unable to switch supplier.

Type of IA: Not Qualified under Section 5A UA 2000.

Key Assumptions/sensitivities **Discount rate (%)** • We have assumed that the proportion of vulnerable consumers as reported by suppliers for 2015 is the appropriate proportion to assess the impact of prohibition . • Cap set at £100 or £150 and applicable to warrant application and execution **Key risks** • Suppliers could view cap as a recommended charge and remove any non-mandated waiving of charges. This would decrease the redistributive impacts and could result in some consumers in the warrant process paying more as a result. • Effect of change in consumer and supplier incentives is not known. The decrease in warrant charges could alter the consumer engagement incentive and result in an increase in the total number of warrants. • Impact of smart meter roll-out is not known although the costs for switching a consumer to prepayment for non-payment of debt are expected to be lower with a smart meter because a physical meter exchange is not required.	N/A
BUSINESS ASSESSMENT (Option1)	
Direct impact on businesses (EANCB)	**Score £m:** N/A

Type of IA: Not Qualified under Section 5A UA 2000.

Introduction

1.1. In this document we set out the issues identified with current practice around installation of prepayment meters (PPMs) under warrant for non-payment of debt and provide justification for taking action in this area. We then describe our process of identifying policy options and narrowing down to a selection of options for analysis. We describe the approach to analysis then present results for each policy option in turn before summarising and concluding with our recommendation.

Justification for Action

1.2. This section describes the process by which installation of PPMs under warrant for non-payment of debt was identified as an area for review and the policy review process to date. The proposed action is justified in the context of competition and consumer protection.

1.3. We published a research report into PPMs in June 2015[1] which was prompted by concerns that prepayment (PPM) customers face barriers preventing them from accessing competitively priced tariffs deals; notably fewer tariff choices, charges for installing and removing a prepayment meter (switching pre-payment to credit meter), and upfront security deposits for switching from PPM to a credit meter. In the review we committed to developing proposals to address these barriers. This impact assessment focusses on proposals to address issues identified with supplier practices relating to installation of PPMs under warrant for non-payment of debt. We raised concerns about the impact of warrant charges on customers' debt levels as well as concerns about the levels, consistency, application and transparency of the charges themselves. We were also concerned by the lack of consideration of customers' vulnerability when pursuing installation of PPM under warrant and occasions when suppliers pursue a warrant too quickly.

1.4. Several of the other barriers identified in our PPM research are being addressed by the Competition and Markets Authority's (CMA) remedies following their investigation of the energy market from a competition perspective[2]. The focus of some of the CMA remedies is to ensure barriers to effective engagement are removed and customers experience positive outcomes such as easier switching for indebted customers, protection from high costs through the PPM price cap and more tariff choices[3].

1.5. Warrants are typically used by suppliers to install a PPM to resolve cases where customers cannot agree a payment arrangement for their energy debts or do not

---

[1] Ofgem repayment review, June 2015 https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching

[2] CMA energy market investigation https://www.gov.uk/cma-cases/energy-market-investigation

[3] Ofgem implementation strategy letter https://www.ofgem.gov.uk/system/files/docs/2016/08/ofgem_implementation_strategy.pdf

engage with their supplier in response to debt communications. We have made it clear that we think this should only be used as a last resort to prevent a customer from being disconnected[4]. A warrant application is made at the relevant court then the warrant is executed at the customer's premises to install a PPM. In the majority of cases, the costs for warrant application and execution are passed through to the customer and added to the debt applied to the PPM. Customers repaying a debt through a PPM typically repay their debts in weekly instalments of an amount agreed at the point of installation which should take into account the customer's ability to pay[5].

1.6. In December 2015 we consulted on initial policy options to address these issues[6] including ending warrant charges for consumers in vulnerable situations and capping charges for all consumers. Responses to the consultation highlighted the need for detailed consideration of which consumers should be eligible for charge exemption and the effect of our proposals on consumer and supplier incentives around debt collection activities. Consumer groups want to remove costs for vulnerable consumers and tackle high warrant costs. This impact assessment analyses our final proposals in this area.

1.7. To inform this initial impact assessment, we issued a request for information (RFI) to all domestic suppliers in May 2016 asking for details of costs and charges for the debt recovery and warrant process as well as details of the frequency of application of these charges to all consumers and, as a subset, consumers in vulnerable situations. Supplier's responses to this RFI show that the proportion of consumers identified as vulnerable in the warrant process varies considerably between suppliers[7] with a weighted average of 10-15% of consumers.

Development of Options

1.8. This section gives context to the development of policy options and describes how the options were refined prior to analysis.

Context

1.9. Suppliers have the right to recover[8] expenses incurred from installing a PPM under warrant, from the consumer. This includes any expenses that are incurred as a direct result of the permitted actions eg court application costs, dog handler fees, debt recovery costs etc.

---

[4] Ofgem statement on prepayment meters installed under warrant https://www.ofgem.gov.uk/publications-and-updates/ofgem-statement-prepayment-meters-installed-under-warrant
[5] Ability to Pay principles SLC 27
[6] Proposals to improve outcomes for prepayment customers https://www.ofgem.gov.uk/sites/default/files/docs/final_consultation_ppm_0.pdf
[7] Proportions of consumers identified as vulnerable range from 2-42% at the warrant application stage and 4-34% at the warrant execution stage
[8] The Gas Act 1986 (also the Electricity Act 1989)

1.10. Where suppliers expercise such statutory powers they will need to take customer vulnerabilties into account to the extent this is relevant to existing licenece conditions, such as the standard of conduct in standard licence condition 25C. In Ofgem's decision to implement the standards of conduct we made clear that, where a supplier has a legal right to do something (eg because of a statutory power), *"…the SOC will capture whether the process for exercising the right and the manner in which it is exercised is fair and that a supplier should employ its discretion before exercising a legal right."*[9]. We would therefore expect suppliers to take customer vulnerabilities into account as part of employing their discretion.

1.11. Practices and charges vary widely between suppliers with the result that consumer outcomes can vary significantly particularly for consumers in vulnerable situations. For example, responses to our RFI issued in May 2016 suggest that typical charges passed through to consumers for the application of a warrant range from no charge to over £100. Magistrates' Courts in England and Wales charge £20 for a warrant of entry[10] and the Justice of the Peace Courts charge £11 for Applications for Utility Warrants[11]. The difference between the court fees and the charges applied by suppliers demonstrates that some suppliers add substantial additional charges.

1.12. Some suppliers already apply a cap to charges to protect consumers from extreme charges whereas other suppliers pass through the entirety of costs including complex cases with additional support from locksmiths, dog handlers and meter providers. Many suppliers treat dual fuel consumers as two separate accounts in the warrant process so two sets of charges are often applied with the result that overall charges can total well over £600.

1.13. In addition, the approaches to protecting consumers in vulnerable situations and managing non-payment of debt by those consumers are variable between suppliers. Some suppliers have narrow scope of vulnerability which qualifies for additional support while other suppliers offer no particular difference in treatment for consumers in vulnerable situations in their debt path.

1.14. Therefore we have developed protections with the following target outcomes:

- Outcome 1 – **Installations of PPMs under warrant are avoided wherever possible.** In practice, this would mean an adjustment of incentives to achieve more effective engagement with consumers in debt resulting in a decrease in the number of installations under warrant.

---

[9] https://www.ofgem.gov.uk/ofgem-publications/84946/implementation-domestic-standards-conduct-decision-make-licence-modifications.pdf
[10] Magistrates' Courts, England and Wales, Courts Fees Amendment Order 2014 http://www.legislation.gov.uk/uksi/2014/875/pdfs/uksi_20140875_en.pdf
[11] Justice of the Peace Court Fees https://www.scotcourts.gov.uk/rules-and-practice/fees/j-p-court-fees

- Outcome 2 –**Appropriate outcomes.** Including consistency and transparency of actions and charges. This also includes protection for consumers from high charges and debt resolution in the best interest of consumers. We acknowledge that this is an area of complex consumer circumstances.

- Outcome 3 - **Protection for consumers in vulnerable situations** including protection from both costs and process which would exacerbate harm.

- A possible indirect outcome of these policy changes is an increased incentive for suppliers to install smart meters as an alternative to "dumb" PPM. This would be a welcomed outcome as we view smart meters as a solution to many of the issues of PPM in general. Smart meters allow more convenient ways to top-up PPM credit and allow remote switching of payment method so much of the cost and invasive harm of the PPM process would be removed although a warrant may still be required.

Refinement of Options

1.15. A range of policy options have been considered including the option to do nothing.

1.16. Some suggested options, such as the complete removal of charges for PPM installation under warrant for non-payment of debt, were discarded as they were considered disproportionate and likely to result in unintended consequences (as highlighted by stakeholders in their responses to our December 2015 consultation), such as a decrease in consumer engagement with debt. Others, such as a high cap on charges to tackle extreme cases, were discarded as they did not address all of the market issues identified.

1.17. In this initial impact assessment we have focussed on three distinct policy options:

- prohibition of charges for consumers in certain vulnerable situations,
- a principle of proportionality of charges and process across all debt recovery activities and
- a cap on warrant charges applicable for all consumers.

These policy options are described and considered independently and in combination to create measures that together address the target outcomes.

1.18. For the prohibition option, some aspects of the impact are difficult to estimate, such as the prevalence of certain consumer vulnerabilities. These details are clearly specified in the draft licence conditions but the complexity of unpacking consumer vulnerability means that it is challenging to arrive at accurate estimates. The impact will be estimated using the best available data and with a transparent set of assumptions.

1.19. For the option of a cap on warrant charges, a range of cap levels are considered and analysed to enable a recommendation for the level of the cap. We have proposed two possible levels of cap and described the purpose of setting the cap at those levels.

1.20. Individual policy options are presented but we have also considered some options in combination with others. The prohibition of charges to consumers in certain vulnerable situations is a policy targeted at a subset of vulnerable consumers to protect them (outcome 3). The other policy options are applicable for all consumers and targeted more at outcomes 1 and 2. In order to manage the scope of this impact assessment, a subset of option sets has been produced which allow for comparison of different broad policy approaches.

Option sets for analysis

1.21. The options sets for analysis are:

Option number	Policy Title	Policy description
0	Do nothing	Status quo. This analysis does not include the impact of the CMA market remedies package however this is discussed in paragraphs 1.60-1.61.
1	Prohibition	Prohibition applying to PPM installation under warrant and warrant charges for consumers in relevant vulnerable situations
2	Proportionality	Proportionality principle which applies to action taken and charges applied by suppliers across all debt recovery activities for all consumers
3	Cap	A cap on warrant charges applicable for all consumers
4	Prohibition + Proportionality	Combination of prohibition applying to PPM installation under warrant and warrant charges for consumers in relevant vulnerable situations and proportionality applied to action taken and charges applied by suppliers across all debt recovery activities for all consumers
5	Prohibition + Cap	Combination of prohibition applying to PPM installation under warrant and warrant charges for consumers in relevant vulnerable situations and a cap on charges for all other consumers
6	Prohibition + Proportionality + Cap	Combination of prohibition applying to PPM installation under warrant and warrant charges for consumers in relevant vulnerable situations, a cap on charges for all other consumers and proportionality applied to action taken and charges applied by suppliers across all debt recovery activities for all consumers

1.22. The option of a two-tier cap which was included in the initial policy consultation is included as the "prohibition + cap" combination where it is assumed that the lower tier cap would likely be set to zero in order to achieve the protection of consumers in vulnerable situations.

Analysis of options

1.23. In this section we describe the approach taken to the analysis before presenting analysis of each option in turn. The impact of the CMA remedies relevant to PPM and the impact of smart meters are discussed as part of the status quo but are not included in the analysis. Finally, impacts on competition and distributional effects are discussed before the conclusions and preferred option are given.

Type of IA: Not Qualified under Section 5A UA 2000.

Approach to analysis

1.24. For the purposes of this analysis, the status quo is considered to be a continuation of suppliers' existing charging practices and the same number of PPM installations for non-payment of debt under warrant as in 2015. Data from 2015 is the most recent available year of data and provides the most up-to-date baseline for comparison. It is appropriate to use a complete year of data because customer debt is influenced by seasonal energy consumption (particularly increased gas consumption in winter) so there is a possibility of seasonality to the warrant process.

1.25. The assessment of each option is made up of an analysis of the expected impact on charges applied to different groups of consumers and a review of alignment of each option with the identified target policy outcomes. The administrative cost of the policy options is discussed and compared although we are seeking more information on this via the consultation process.

1.26. The primary effect of our policy options is to remove or reduce cost to consumers in the warrant process. We refer to this effect as the direct saving of each option set. Suppliers have indicated that any reduction in charges would likely be socialised to the wider consumer base so the net monetised cost to consumers as a whole is zero. However, the socialisation of costs away from consumers in the warrant process should result in significant benefits to those consumers in excess of the detriment caused when that cost is socialised across a large group of consumers.

1.27. The target policy outcomes are used to make an assessment of the particular benefits resulting from each policy option. This assessment is mainly qualitative although some aspects of the analysis is quantitative eg direct savings for consumers in vulnerable situations.

1.28. The complex nature of supplier and consumer incentives in their interaction during the debt process leading up to installation of PPM under warrant is included as a qualitative assessment of the likely changes to incentives and therefore the change to costs and benefits as a result of each option set.

Direct savings of options relative to the baseline

1.29. Each policy option set is primarily defined by the expected changes to charges recovered from consumers. The effect of each policy option set relative to the baseline is calculated by comparing the baseline level of charge recovery with the recovery of charges under each option set.

1.30. This is a quantitative calculation of the charges recovered from consumers. The baseline level of charges recovered is calculated from data received from suppliers in response to our RFI issued to suppliers in May 2016. The RFI provides detailed data on the monetary value of charges applied and the number of times that each charge was applied to consumers in 2015. Each supplier has also given details of the costs incurred for completing each stage of the warrant process. The total charges at this baseline are calculated by aggregating charges applied by all suppliers.

1.31. The aggregation of supplier costs incurred gives an indication of the level of cost recovery present in current practice and analysis of cost of individual warrant activities for different suppliers allows a view of cost efficiency and consistency across the industry.

1.32. In response to a specific question in our RFI, most suppliers have indicated that they do not expect all of the debt added to PPMs to be ultimately repaid. In some circumstances, some suppliers will waive a portion of PPM debt at a point after it is applied to the meter. In other circumstances, suppliers are unable to continue recovering debt from a PPM e.g. after the occupant of a property changes. A range of recovery proportions were provided by different suppliers. For the purposes of this analysis we use a proportion of 55% recovery which represents an average of responses received weighted by the volume of charges applied. This factor demonstrates that the costs recovered from consumers are significantly lower than the charges applied and suggests that 45% of the warrant charges applied to PPMs are never paid back. This factor is used to scale the impact of each policy option to reflect ultimate recovery of charges achieved by suppliers.

1.33. When costs are removed from one group of customers we assume that the costs are socialised across the wider consumer base. Indeed, in our initial policy consultation several suppliers responded to confirm that this is how they would approach a restriction on cost recovery. Due to the difference in competitive pressure in different market segments it is likely that the cost would be socialised onto the least competitive market segments which are typically prepayment customers and standard variable credit customers. There is a risk that removing cost from one group of consumers in vulnerable situations in the warrant process could result in increased cost for a wider group including other consumers in vulnerable situations. The wider group is likely to be much broader so the cost increase is expected to be relatively small.

Benefits as measured against target outcomes

1.34. The overall benefits of each policy option are described as an assessment against the target outcomes. This assessment will be quantitative where possible (eg protection for consumers in vulnerable situations from charges) but will be substantially qualitative as the outcomes of protection for consumers from the warrant process, appropriate outcomes and avoidance of warrants are difficult to quantify.

1.35. For each policy option, we give a description of the result against each outcome and a summary for comparison with other options.

Regulatory and Administration Burden

1.36. Implementation and monitoring cost for each policy package will be a qualitative and comparative assessment. Our data for analysis here is limited so we are seeking further information via the consultation process.

Effects on consumer and supplier incentives

1.37. Each change in charging policy could have an effect on consumer engagement with the debt process and a parallel effect on suppliers' incentives to engage effectively with consumers. As part of our recent RFI to suppliers, we requested any available data on the strength of existing incentives for consumer and supplier engagement.

1.38. We have found very little data to demonstrate or quantify the strength of the incentive for consumers to engage as a result of warrant charges although the consensus from suppliers is that the prospect of warrant charges provides an incentive for consumers to engage. It is difficult to distinguish between the incentive provided by the warrant charges, the PPM installation itself and supplier engagement efforts when analysing the reduction in customer numbers through the debt and warrant process. Therefore this cannot be used as evidence of an effective incentive provided by the charges.

1.39. Some suppliers did offer specific evidence of consumer incentives relating to warrant charges. One supplier described increased engagement following letters mentioning charges while another claimed increased engagement since transparency of charges in letters had been improved. Another offered that engagement improved once external debt collectors began working on each case but again it is difficult to isolate the effect of the incentive provided specifically by the possibility of charges as opposed to the effectiveness of supplier engagement efforts.

1.40. The incentive for suppliers to engage more effectively with consumers to avoid warrants is linked to reducing suppliers cost from the warrant process and more effective overall recovery of debt. Several suppliers pointed out that they are already incentivised to avoid warrants as they do not pass through all of their costs; they said they do not ultimately recover a significant proportion of charges applied. Some suppliers, however, acknowledged that their main focus is to recover the energy debt and to end the accrual of further energy debt. To this end, the warrant process provides a significant benefit to suppliers and we are still concerned that some suppliers might pursue a warrant when an alternative resolution is possible and in the better interests of the consumer.

1.41. Given the complexity of modelling incentives, we have not included these effects in our quantitative analysis of impacts. The broad direction and relative strengths of incentives is discussed to inform comparison of policy options.

Summarising costs and benefits to enable decision

1.42. All qualitative and quantitative costs and benefits will be summarised and a comparison of all options will inform a decision as to the most effective policy solution.

Baseline - Analysis of the "do nothing" option

Direct savings

1.43. This section is an assessment of the baseline, or what would happen were we to take no action. We use this as a reference against which to compare the impacts of our other policies. We consider the direct saving of the status quo option to be zero and use it as a baseline for comparison with other options. The detail of the status quo option allows us to understand the baseline from which our policies are applied.

1.44. Data collected in the recent RFI suggests that the costs incurred by suppliers for warrant applications and executing warrants were £43.4m in 2015. This compares to a total of charges applied for warrant application and execution equal to £29.7m showing that suppliers' existing policies result in incomplete charging of costs incurred in the warrant process (68%) with £13.7m in costs socialised.

1.45. This incomplete charging for costs incurred is the result of self-imposed policies introduced by suppliers and is separate to the 55% ultimate recovery of charges applied mentioned above (paragraph 1.32). Some suppliers seek to recover all of their cost from consumers whereas other suppliers either cap charges at a level below the cost incurred or waive charges to consumers in certain circumstances. Some suppliers with low levels of warrant activity do not apply warrant charges at all[12].

1.46. In some cases, the data provided does not include internal costs[13] and is a direct representation of the cost charged to suppliers by external debt collection contractors. If internal costs were included in the analysis then the degree of charging for costs incurred would be even lower.

1.47. When we exclude the proportion of debt and charges which is not ultimately paid by consumers, this decreases the recovery of costs further. Applying the 55% proportion means that only £16.6m is ultimately repaid which represents only 38% of the costs faced by suppliers.

Total costs faced by suppliers (£m)	43.4
Total charges applied to consumers (£m)	29.7
Proportion of charging for costs incurred (%)	68%
Proportion of charges ultimately recovered from consumers (%)	55%
Charges ultimately recovered (£m)	16.4
Proportion of total costs recovered from consumers (%)	38%

[12] Two suppliers out of the 16 which installed at least one PPM under warrant in 2015

[13] Internal costs including additional administrative costs incurred by the supplier in addition to costs of external debt collection contractors

1.48. We also asked suppliers to tell us how many customers at each stage of the warrant process had been identified as vulnerable and how many of those consumers had warrant charges applied to them. The specific approaches taken by each supplier to identify and record vulnerability vary but the majority of suppliers refer to either Ofgem's Consumer Vulnerability Strategy[14] or EnergyUK's Safety Net[15]. While we are encouraged to see that most suppliers have detailed and considered approaches to identifying consumers in vulnerable situations, our communication with consumer groups suggests that there are still situations where consumer vulnerability is not adequately recognised and where suppliers could do more.

1.49. For suppliers with a significant number of warrant executions in 2015, the proportion of consumers identified as being in vulnerable situations at the warrant application stage varied from 2% to 40% (average 10%) and at the warrant execution stage from 3% to 34% (average 15%). These wide ranges could be either a result of differences in suppliers' identification and recording of vulnerability or differences in suppliers' policies around progressing consumers to warrant when vulnerability has been identified. Consumer groups have reported that many consumers in vulnerable situations go through the warrant process.

1.50. We would have expected the proportions of vulnerable consumers identified in the warrant process to be higher than in the population as a whole due to the fact that vulnerable consumers are less able to protect their own interests in the market and therefore more likely to fall into a situation of debt. Also, some types of vulnerable situations will impair the ability of consumers to engage with suppliers over debt and therefore increase the probability of vulnerable consumers falling into the warrant process.

1.51. We are aware that some suppliers apply specific debt management approaches when they identify consumers in vulnerable situations and these steps could contribute to the proportion of vulnerability in the warrant process being lower than we would expect. However, we expect that many suppliers could do more to identify consumers in vulnerable situations and to offer them additional support to avoid the warrant process or to mitigate consumer detriment as a result of the warrant process.

1.52. It is also interesting to note that the majority of suppliers reported a higher proportion of consumers in vulnerable situations at the warrant execution stage (15%) than at warrant application (10%). Again, this could reflect more effective identification of vulnerability at the warrant execution stage when entry is made to the property (in some cases for the first time). Alternatively, it could reflect the fact that vulnerability impairs engagement with the warrant process so that those customers in vulnerable situations are more likely to progress to warrant execution.

---

[14] Ofgem: Consumer Vulnerability Strategy https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf
[15] The Energy UK Safety Net http://www.energy-uk.org.uk/files/docs/Disconnection_policy/Sept15_EUK_Safety_Net.pdf

1.53. For consumers in vulnerable situations (as identified by the suppliers) the total of costs faced by suppliers for warrant applications and executions in 2015 was approximately £5.6m compared to total charges applied to consumers of £1.9m, showing that suppliers' existing policies result in incomplete charging of costs incurred in the warrant process (34%). This shows that while consumers in vulnerable situations are charged by many suppliers, the proportion of costs applied as charges for these consumers (34%) is significantly lower than for the complete set of consumers in the warrant process (68%).

1.54. When we exclude the proportion of debts and charges which are not ultimately paid by consumers[16], the total of charges paid by vulnerable consumers is only £1.0m which is a relatively small proportion of the costs faced by suppliers (17%). This shows that the majority of the cost of the warrant process for consumers reported as vulnerable by suppliers is already socialised.

Total costs for consumers in vulnerable situations (£m)	5.6
Total charges applied to consumers in vulnerable situations (£m)	1.9
Proportion of charging for costs incurred to consumers in vulnerable situations (%)	34%
Proportion of charges ultimately recovered from consumers in vulnerable situations (%)	51%
Charges ultimately recovered from consumers in vulnerable situations (£m)	1.0
Proportion of costs recovered from consumers in vulnerable situations (%)	17%

1.55. Several suppliers report that they seek to recover a higher proportion of their costs from consumers in vulnerable situations than from all consumers. It could demonstrate that consumers in vulnerable situations are less able to protect their interests and require further protections.

Benefits as measured against target outcomes

1.56. **Warrant avoided wherever possible** – The effect of standard licence condition 27 of the supplier licence (customers in payment difficulty) sets out a number of services that must always be offered to customers in payment difficulties. Suppliers have to offer all of these services which include payments by a credit meter, deductions from social security benefits and instalments via a PPM. We have made it clear that the installation of PPM under warrant should always be a last resort[17]. The low level of recovery of costs from the warrant process gives suppliers some incentive to avoid warrants but we are concerned that the warrant process provides a simple solution to customers in debt which is in suppliers' interests but not necessarily always in the best interest of consumers.

---

[16] Due to the different charging practices of suppliers and the different proportion of charges ultimately recovered for different suppliers, the average proportion for consumers in vulnerable situations (51%) is lower than the proportion for all consumers (55%).

[17] Ofgem statement on prepayment meters installed under warrant https://www.ofgem.gov.uk/publications-and-updates/ofgem-statement-prepayment-meters-installed-under-warrant

1.57. **Appropriate outcomes** – Suppliers have a statutory power to recover the costs of warrant activities from consumers so charges must reflect these costs. The charges applied by suppliers vary significantly and there is also a lack of transparency of charges. We are also aware of some cases of extremely high charging and occasions when charges are applied in excess of the value of the debt. The warrant charges allow suppliers to give a strong incentive for consumers to engage with their debts and seek to recover as much of their costs as they see fit. We acknowledge that this is a complex area but would like to see more consistency and transparency as well as lower charges overall.

1.58. **Protection for consumers in vulnerable situations** – The protection for consumers in vulnerable situations is provided by suppliers' own policies but there is inconsistency between suppliers approaches and consumer outcomes. Some suppliers appear to provide substantial protection to vulnerable consumers while others appear to take a minimal approach.

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
0	Do nothing	Low level of cost recovery and encouragement to use PPM as a last resort provide some incentive	Charges must be cost based but are not subject to competitive pressures. Charges are inconsistent and not transparent. Charges can be high compared to debt	No specific protection for vulnerable

Regulatory and Administration Burden

1.59. Suppliers are encouraged to use installation of PPM under warrant for non-payment of debt only as a last resort which should include multiple attempts to engage with the consumer via correspondence, phone and house visit. Suppliers are also required to assess whether a PPM is "safe and reasonably practicable" for the consumer before installation which should involve a thorough investigation of consumer circumstances and potential vulnerability. We would welcome additional information on the administrative cost of meeting these requirements which would form a basis for assessing the additional administrative cost of our policy proposals.

Impacts of CMA market remedies package

1.60. The CMA PPM safeguard tariff cap should reduce the cost of standard PPM tariffs and provide some protection from high tariffs for PPM consumers. A part of the detriment caused by installation of PPM under warrant is caused by the poor choice of tariffs available to PPM customers. The safeguard tariff will reduce this detriment. The safeguard tariff will also make PPM a less attractive solution for suppliers when trying to resolve situations of credit customers in debt and will contribute towards encouraging suppliers to avoid warrants if possible.

1.61. The gas tariff pages reallocation[18] should enable more competition and therefore improved PPM tariffs and reduced detriment for PPM consumers.

1.62. Charges for installation of PPM under warrant are not addressed by the CMA remedies package.

Impacts of smart meter roll-out

1.63. Smart meter roll out means that we expect the majority of the issues around warrant costs, and measures to address them, to be interim in nature. This is because a warrant will not be required to enter the property to switch meter modes remotely (exact process under smart is yet to be determined).

Analysis of option 1: Prohibition of PPM installation under warrant and prohibition of warrant charges for consumers in relevant vulnerable situations

1.64. This option set consists of a prohibition of warrant action and warrant charges for consumers in relevant vulnerable situations.

1.65. To estimate the impact of this prohibition we need to estimate the number of consumers in relevant vulnerable situations who would qualify for exemption from charges or installation under warrant. The warrant process would be expected to concentrate vulnerability from the general population so the proportion of vulnerability could be high. Some suppliers already apply alternative debt recovery practices for vulnerable consumers such as specialist vulnerability debt teams and vulnerability house visits.

1.66. In response to our RFI, suppliers informed us that 10-15% of warrant activities were for customers in vulnerable situations. This value is lower than expected, however it does give a view of the impact that the prohibition could have under current supplier practices in identifying vulnerability.

1.67. It is difficult to determine whether the level of vulnerability reported by suppliers is an accurate reflection of consumer circumstances. Also, our prohibition is targeting a subset of consumers in vulnerable situations so the binary vulnerability data (vulnerable/not vulnerable) collected from suppliers does not give sufficient detail. On one hand it is possible that the proportion of consumers with relevant vulnerable situations who would qualify for the prohibition is higher and suppliers are not identifying and recording vulnerability with sufficient rigour. On the other hand, it is possible that the number of consumers in vulnerable situations relevant to the prohibition is lower than the total reported because the prohibition focusses only on a subset of vulnerable situations.

[18] The reallocation of tariff code pages for gas PPMs which are currently disproportionately held by a few large suppliers. Reallocating the tariff pages between suppliers will enable a greater range of suppliers to offer tariffs to PPM consumers and should improve competition in the PPM segment.

1.68. At this stage we do not have data to estimate the proportion of consumers in vulnerable situations who would be included under the prohibition so have taken the assumption that the prohibition applies to all consumers in vulnerable situations as identified by suppliers. We appreciate that this may not be the case in practice.

1.69. In addition, one of Ofgem's enforcement priorities[19] in 2016-17 is "Taking action where industry behaviour fails to meet obligations for consumers in vulnerable circumstances" so this may result in additional supplier focus and an improvement in the identification of consumers in vulnerable situations.

Direct savings of options relative to the baseline

1.70. The impact of the prohibition depends on the number of consumers in relevant vulnerable situations in the warrant process. As described above, the best data we have is the proportion of consumers in vulnerable situations as reported by suppliers in our May 2016 RFI (10-15% of warrant activities were for customers in vulnerable situations) although this estimate is subject to the uncertainties described.

1.71. If the prohibition applied to this proportion of consumers, it would result in the total of warrant charges decreasing by £1.9m and the ultimate repayment of charges decreasing by £1.0m.

Direct savings impact (£m)

Charges applied (change from 'do nothing')	0.0 (-1.9)
Charges applied to consumers in vulnerable situations (change)	0.0 (-1.9)
Costs recovered (change)	0.0 (-1.0)
Costs recovered from consumers in vulnerable situations (change)	0.0 (-1.0)
Key risk: Proportion of relevant vulnerable situations is unknown and could be higher or lower than the estimate used here	

Benefits as measured against target outcomes

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
1	Prohibition	Prohibition strengthens incentive to avoid warrants for those with relevant vulnerabilities as costs can't be recovered	Improved fairness for vulnerable but inconsistency, lack of transparency, high charges would remain for non-vulnerable	Prohibition provides protection for consumers in certain vulnerable situations

[19] Annual Enforcement Priorities 2016/17 https://www.ofgem.gov.uk/publications-and-updates/annual-enforcement-priorities-201617

Regulatory and Administration Burden

1.72. The assessment of consumer vulnerability is an admistrative cost for suppliers. The prohibition relies on suppliers maintaining a record of consumer vulnerability. Several other supplier responsibilities rely on suppliers maintaining an up to date record of consumer vulnerabilities such as the Priority Services Register. Although there is some overlap, eg disability, the relevant vulnerable situations for the prohibition are not exactly the same eg financial vulnerability.

1.73. Some suppliers have processes in place to identify consumer vulnerability and, although these suppliers could do more, we would not expect costs to rise significantly for these suppliers. Other suppliers do not appear to have adequate processes in place so we would expect an increase in costs for these suppliers to meet their responsibilities for this and other consumer vulnerability requirements.

1.74. Overall, we expect that the administrative costs for suppliers could rise as a result of this policy requiring the identification of specific types of relevant vulnerable situations. This may increase the complexity of identification of vulnerable consumers but improved understanding of consumer situations could also help suppliers in other areas such as risk management.

1.75. It is also likely that costs will increase for those consumers for whom warrant action is prohibited. Where the supplier is not permitted to pursue a warrant due to the vulnerable situation of the consumer, alternative debt recovery approaches would be used which may have higher debt management cost than the installation of PPM under warrant.

1.76. We welcome views on all of these potential additional administrative costs of the prohibition proposal above the cost of current practice.

Effects on consumer and supplier incentives

1.77. The prohibition risks removing charges as an engagement incentive from some consumers but we consider that our focused definition, defined in the draft licence conditions, of the relevant vulnerable situations will ensure that only those consumers who cannot engage or who would suffer severe detriment are protected. The prohibition should also incentivise suppliers to avoid warrants for consumers in vulnerable situations as they would not be able to recover any of their costs.

1.78. There is a risk that suppliers would be incentivised to not identify consumers in relevant vulnerable situations so some monitoring and enforcement action may be required to prevent this. If they do not identify vulnerability then they can continue to apply charges and recover cost from consumers. Further work is required to facilitate understanding of vulnerability so that suppliers can thoroughly investigate customers' circumstances and make a robust assessment of vulnerability. This could be achieved by sharing best practice and further use of consumer data[20].

Analysis of option 2: Proportionality of warrant process and charges

1.79. This option consists of a principle of proportionality intended to mitigate high costs by ensuring that the action taken and the costs that suppliers seek to recover from all consumers throughout the debt recovery process are proportionate to the level of the original debt (eg the costs being recovered cannot be higher than the amount of the original debt). It is also intended to ensure suppliers take a stepped approach to the warrant process with due consideration to the level of consumer debt and the time allowed for engagement at each stage of the process. We intend this to specifically act on warrant costs but would also apply to any debt interactions with suppliers including debt objections.

1.80. Consumer groups, and our 2015 review indicated cases of disproportionate warrant charges and process, but we do not yet have data indicating the scale of these issues. The impact of this principle could be small because it essentially formalises a principle of good practice and for the majority of suppliers could result in only a modest adjustment of approach. Any further information as to the likely applicability of this principle and potential administrative costs would be appreciated to inform a more detailed impact analysis.

Direct savings of options relative to the baseline

1.81. The lack of data specific to this principle means that we are not in a position to quantify the resulting savings. This principle could be expected to have a direct impact on charges applied by encouraging suppliers to take a staged approach to debt recovery and assessing the size of debt when determining the appropriateness of warrant charges. This impact is expected to be comparatively small. The staged approach to debt recovery will be especially relevant where debt is accruing slowly and will result in an avoidance of warrants relating to low levels of debt and a possible overall reduction in the number of warrants. The assessment of high charges will result in some socialisation of costs in cases where suppliers do not seek to recover all of their costs, but the extent of these cases is unclear so we have not made an estimate.

Direct savings impact (£m)

Charges applied (change from ‘do nothing’)	Unknown (possibly small negative)
Charges applied to consumers in vulnerable situations (change)	Unknown (possibly small negative)
Costs recovered (change)	Unknown (possibly small negative)
Costs recovered from consumers in vulnerable situations (change)	Unknown (possibly small negative)
Key risk: We have limited data to assess the number of cases where proportionality principle would have an impact	

[20] Citizens Advice: Data sharing to target fuel poverty https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/DataForFuelPovertyTargetingReport.pdf

Benefits as measured against target outcomes

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
2	Proportionality	Proportionality of action should ensure that every opportunity is given to avoid warrant although incentive for supplier could be stronger	Should tackle some inconsistency and some, but not all cases of high charges.	Proportionality of action and charges provides some protection for vulnerable but some detriment would remain

Regulatory and Administration Burden

1.82. This policy is expected to add minimal additional administrative cost to suppliers. We expect suppliers to be aware of the level of consumer debt when seeking to recover that debt and also to be able to consider the proportionality of their approach without additional burden.

1.83. It is possible that additional monitoring will be introduced to enable visibility of some metrics relevant to this policy (eg minimum debt at warrant application stage, minimum debt at warrant execution stage, number of cases where warrant charges exceeded level of debt etc.) and these would add administrative cost to suppliers.

1.84. Due to the uncertainty around the scale of impact for this proposal there is uncertainty around the regulatory and administrative cost although this is expected to be small. We welcome views to inform an assessment of this cost via the consultation process.

Effects on consumer and supplier incentives

1.85. The proportionality principle is unlikely to affect consumer engagement incentives but should mean that suppliers are incentivised to avoid some warrants and high costs. Consumers would still have the prospect of proportionate charges to encourage engagement. Proportionality of action should mean that suppliers take appropriate action to encourage consumer engagement and give adequate opportunity for consumer engagement and the avoidance of warrants.

Analysis of option 3: A cap on warrant charges applicable for all consumers

1.86. This option consists of a cap on warrant charges applicable for all consumers. For dual fuel customers we assume that the cap is applied per customer as opposed to per fuel so a dual fuel customer would only pay the capped charge once.

1.87. The level of the cap is the key factor in determining the impact of this policy option. We have considered several options to determine the level of cap which best meets the target policy outcomes.

1.88. A low cap (eg below £50) would provide more protection for consumers in vulnerable situations and would strongly incentivise suppliers to avoid warrants if possible. But the fairness of this option is questionable as it would significantly restrict suppliers' ability to recover costs of the process and would result in almost all of the costs from warrant PPM installations for "won't pay" customers being socialised thus increasing costs for other consumers who could be vulnerable by a small amount. We would also be concerned that a low cap would reduce the incentive for consumers to engage with debt and could, therefore, lead to an overall increase in the number of warrants.

1.89. A high cap (eg above £200) would be close to or above the average of single fuel warrant charges. It would protect dual fuel consumers but would provide limited protection for single fuel consumers. A cap at this level would reduce the socialisation of costs to a minimum but would not provide the protection required for consumers in relevant vulnerable situations or provide a noticeable change in the incentive for suppliers to avoid the warrant process.

1.90. A cap set at a medium level could achieve a balance of beneficial outcomes including encouraging suppliers to avoid warrants, resolving any unfairness from cases of high charges, incentivising suppliers to control the cost of the warrant process and maintaining an engagement incentive for consumers.

1.91. The major drawback of a cap operating with no other policy interventions is that the protection provided to consumers in relevant vulnerable situations is not considered adequate as charges could still cause detriment.

1.92. The court fees[21] represent the external cost of the warrant process although there are clearly additional internal costs to the process. Most suppliers say that two separate warrants are needed for dual fuel consumers but some suppliers say that some courts will issue a single warrant for both meters.

1.93. In our May 2016 RFI to suppliers, we collected data on unit costs for warrant applications, executions and associated activities. To establish an indicitative cost of warrant activities we have taken the minimum cost of each stage ignoring outliers. For the warrant application stage this is around £50 and warrant execution is around £160.

1.94. A combination of both stages suggests an indicitative cost of around £210 and therefore a cap set in the region £50-200 would allow suppliers to recover all of the external costs and a varying proportion of internal costs for the warrant process and would provide an incentive for further operational efficiencies. There are several suppliers who already apply charges at a level below or within this range but for other suppliers this would represent a significant discount on current charges.

---

[21] £20 in England and Wales, £11 in Scotland
http://www.legislation.gov.uk/uksi/2014/875/pdfs/uksi_20140875_en.pdf
https://www.scotcourts.gov.uk/rules-and-practice/fees/j-p-court-fees

1.95. To establish the appropriate level for a cap we present analysis of a cap at £50, £100, £150 and £200.

Direct savings of options relative to the baseline

1.96. The direct saving impacts of a cap set at £50, £100, £150 and £200, assuming no other changes in supplier application of charges, are presented in the table below:

Direct savings impact, assuming no changes to supplier application of charges (£m)

Level of cap	£50	£100	£150	£200
Charges applied (change from 'do nothing')	8.2 (-21.5)	14.2 (-15.5)	18.6 (-11.1)	22.2 (-7.5)
Charges applied to consumers in vulnerable situations (change)	0.5 (-1.4)	1.0 (-0.9)	1.5 (-0.5)	1.7 (-0.2)
Costs recovered (change)	4.6 (-11.8)	8.0 (-8.4)	10.3 (-6.1)	12.2 (-4.2)
Costs recovered from consumers in vulnerable situations (change)	0.3 (-0.7)	0.5 (-0.5)	0.8 (-0.2)	0.9 (-0.1)

1.97. There is a risk that suppliers will view the cap as a recommended charge as opposed to an upper bound. This could result in an increase of charges applied by suppliers which currently charge less than the cap. It could also result in suppliers not waiving any charges for consumers and thus applying the capped charge to all consumers reaching the warrant execution stage. The direct savings impacts of the cap under these assumptions are decreased with some cases resulting in an overall increase in the charges applied.

Direct savings impact, assuming charges increase up to the cap (£m)

Level of cap	£50	£100	£150	£200
Charges applied (change from 'do nothing')	11.3 (-18.3)	19.5 (-10.2)	24.7 (-5.0)	30.1 (+0.4)
Charges applied to consumers in vulnerable situations (change)	1.2 (-0.7)	2.2 (+0.3)	3.2 (+1.3)	4.2 (+2.3)
Costs recovered (change)	6.5 (-10)	11.1 (-5.3)	13.9 (-2.5)	16.8 (+0.4)
Costs recovered from consumers in vulnerable situations (change)	0.7 (-0.3)	1.2 (+0.3)	1.8 (+0.8)	2.4 (+1.4)

1.98. This analysis suggests that with a cap set at £100 or higher without additional policies risks increasing charges for consumers in vulnerable situations. The risk of increased charges is higher for a cap set at a higher level. In fact, to balance the risk of increased charges the cap would need to be set at below £75.

1.99. The impact of the cap is distributed to suppliers which currently charge more than the cap. Some suppliers currently apply charges below the level of the proposed cap range in typical circumstances so the impact for those suppliers would be negligible. For other suppliers with current charging policies significantly higher than the range of caps analysed, the impact is potentially significant. For several suppliers, charges currently applied are in excess of £300 so the impact would be more than £100 for every warrant execution. This could result in socialisation, which may be a competitive disadvantage for those suppliers.

Type of IA: Not Qualified under Section 5A UA 2000.

Benefits as measured against target outcomes

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
3	Cap	Cap provides incentive for suppliers to avoid warrants as recovery of costs is limited. Lower level of cap provides a stronger incentive to suppliers	Cap would improve consistency and transparency of charges and mitigate cases of high charges. Cap does mean that a portion of costs for "won't pay" consumers are socialised	Some reduction of costs for vulnerable but some detriment remains through cost and process.

Regulatory and Administration Burden

1.100. The cap would be low impact in terms of administrative cost for suppliers as it would simply change the charges which they are able to apply for the warrant process. We would not anticipate any increase in administrative costs as a result.

Effects on consumer and supplier incentives

1.101. For the range of caps analysed, the charge should maintain an engagement incentive for consumers although the strength of this incentive could be reduced in some cases. At the lower end of the range (£50) there is a risk that the reduced incentive for consumers to engage could result in an increase in the number of warrants, however, it is considered that a charge of more than £100 should provide an adequate incentive for consumers to engage.

1.102. For suppliers which currently charge more than the level of the cap it would provide a significant incentive to manage the cost of the process and any efficiencies gained by suppliers would result in a decrease in socialisation of costs. At present there is limited incentive for suppliers to control cost of the warrant process apart from the risk associated with debt on PPM.

1.103. The reduction in charges as a result of the cap should increase the incentive for suppliers to avoid warrants where possible. We assume that the majority of costs which are not recovered from consumers in the warrant process are socialised across all consumers by increasing tariffs which ultimately reduces the competitivenesss of the supplier.

1.104. For suppliers which currently charge nothing for PPM installations under warrant or suppliers which currently charge less than the level of the cap, there is a risk that the cap could be seen as an acceptable level of charging to apply. The policies presented for consultation do not contain any components to address this risk.

Analysis of option 4: Prohibition plus Proportionality

1.105. This option set consists of a combination of prohibition of installation of PPM under warrant and warrant charges for certain consumers in vulnerable situations (option 1) and a proportionality principle which applies to application of warrant process and charges for all consumers (option 2).

Direct savings of options relative to the baseline

1.106. The direct reduction in charges as a result of this policy set is £1.9m which results in a £1.0m reduction in recovery of charges. This all results from the prohibition as the impact of the proportionality principle has not been quantified.

1.107. As highlighted in options 1 and 2, the key sources of uncertainty for the impact are that the proportion of consumers with vulnerabilities relevant to the prohibition could be higher than currently reported by suppliers and the fact that we have limited data to assess the number of cases where the proportionality principle would impact.

1.108. The proportion of vulnerability for the prohibition might be an underestimate because we suspect that some suppliers do not have a comprehensive process for identifying and recording vulnerability and we would expect practice in this area to improve for all suppliers. On the other hand, it might be an overestimate because the prohibition specifically focusses on a subset of vulnerable situations.

Direct savings impact (£m)

Charges applied (change from ‘do nothing’)	0.0 (-1.9) plus unknown impact from proportionality
Charges applied to consumers in vulnerable situations (change)	0.0 (-1.9) plus unknown
Costs recovered (change)	0.0 (-1.0) plus unknown
Costs recovered from consumers in vulnerable situations (change)	0.0 (-1.0) plus unknown
Key risk: Proportion of relevant vulnerable situations is unknown and could be higher or lower than the estimate used here	
Key risk: We have limited data to assess the number of cases where proportionality principle would impact	

Benefits as measured against target outcomes

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
4	Prohibition + Proportionality	Proportionality of action should ensure that every opportunity is given to avoid warrant and prohibition strengthens incentive to avoid warrants for those with relevant vulnerabilities	Improved fairness for vulnerable and proportionality should tackle some inconsistency and some, but not all cases of high charges.	Prohibition provides protection for consumers in relevant vulnerable situations. Proportionality provides some protections for vulnerable consumers not protected by prohibition.

Regulatory and Administration Burden

1.109. The prohibition relies on suppliers maintaining a record of consumer vulnerability as described previously and could result in increased administrative costs. There is also the potential increase in debt recovery costs due to the prohibition of pursuing a warrant for consumers in relevant vulnerable situations. The proportionality principle is not expected to result in a significant administrative cost to suppliers. We welcome additional information on this impact via the consultation process.

Effects on consumer and supplier incentives

1.110. The issues with incentives as identified for options 1 and 2 would still apply. The combination of proportionality with prohibition would mean that the incentive for suppliers to avoid warrants is stronger than for prohibition alone.

Analysis of option 5: Prohibition plus Cap

1.111. This option consists of prohibition of installation of PPM under warrant and warrant charges for consumers in relvant vulnerable situations (option 1) and a cap on warrant charges (option 3). As with the analysis for the cap alone, we analyse the impact of a cap set at £50, £100, £150 and £200.

Direct savings of options relative to the baseline

1.112. The direct saving impacts of a cap set at £50, £100, £150 and £200, assuming no other changes in supplier application of charges, are presented in the table below. The prohibition of action and charging to consumers in relevant vulnerable situations is unchanged across all three levels of cap and therefore the impact for consumers in vulnerable situations is unchanged.

1.113. In reality, there may be cases where a relevant consumer vulnerability which would qualify for exemption from charges is hidden or not picked up by the supplier. In these cases a lower cap would result in a lower level of detriment to the vulnerable consumer.

Direct savings impact, assuming no changes to supplier application of charges (£m)

Level of cap	£50	£100	£150	£200
Charges applied (change from 'do nothing')	7.6 (-22.0)	13.2 (-16.5)	17.1 (-12.6)	20.5 (-9.2)
Charges applied to consumers in vulnerable situations (change)	0.0 (-1.9)	0.0 (-1.9)	0.0 (-1.9)	0.0 (-1.9)
Costs recovered (change)	4.4 (-12.0)	7.5 (-8.9)	9.6 (-6.9)	11.3 (-5.1)
Costs recovered from consumers in vulnerable situations (change)	0.0 (-1.0)	0.0 (-1.0)	0.0 (-1.0)	0.0 (-1.0)
Key risk: Proportion of relevant vulnerable situations is unknown and could be higher or lower than the estimate used here				

1.114. As with the cap alone there is a risk in this policy approach that the cap might be viewed as a recommended charge as opposed to an upper bound. This could result in an increase of charges applied by suppliers which currently charge less than the cap. It could also result in suppliers not waiving any charges for consumers who do not qualify under the prohibition policy. The direct savings impacts of the cap under these assumptions are decreased but the prohibition policy ensures that those consumers with relevant vulnerabilities are protected from increased charges.

Direct savings impact, assuming charges increase up to the cap (£m)

Level of cap	£50	£100	£150	£200
Charges applied (change from 'do nothing')	10.1 (-20.0)	17.3 (-12.8)	21.5 (-8.6)	25.9 (-4.2)
Charges applied to consumers in vulnerable situations (change)	0.0 (-1.9)	0.0 (-1.9)	0.0 (-1.9)	0.0 (-1.9)
Costs recovered (change)	5.8 (-10.8)	9.9 (-6.7)	12.1 (-4.5)	14.5 (-2.1)
Costs recovered from consumers in vulnerable situations (change)	0.0 (-1.0)	0.0 (-1.0)	0.0 (-1.0)	0.0 (-1.0)
Key risk: Proportion of relevant vulnerable situations is unknown and could be higher or lower than the estimate used here				

1.115. In this case of a cap combined with prohibition, the choice of the level of the cap is a balance between on the one hand need to keep socialisation of cost to acceptable levels and maintain consumer engagement and, on the other hand, incentivising suppliers to avoid warrants and find efficiencies, increasing consistency and protecting consumers from high charges.

Benefits as measured against target outcomes

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
5	Prohibition + Cap	Prohibition and cap combine to significantly strengthen incentive to avoid warrants as recovery of costs is limited. Suppliers would need to implement process to ensure this	Improved fairness for vulnerable and cap would improve consistency and transparency of charges and mitigate cases of high charges for non-vulnerable. Cap does mean that a portion of costs for "won't pay" consumers are socialised	Prohibition provides protection for consumers in relevant vulnerable situations. Cap provides protections for vulnerable consumers not protected by prohibition.

Regulatory and Administration Burden

1.116. As with the cap alone, it is not anticipated that the administration of a cap will add costs to suppliers.

1.117. As with the prohibition alone, the assessment of consumer vulnerability could add cost to some suppliers and will overall result in an increased administrative cost. There is also the potential increase in debt recovery cost due to the prohibition of pursuing a warrant for certain consumers in vulnerable situations. We do not have enough data to make a quantitative assessment of this impact and welcome views from stakeholders to inform an assessment.

Effects on consumer and supplier incentives

1.118. The issues with incentives as identified for options 1 and 3 would still apply. The combination of prohibition and cap would combine to increase the incentive for suppliers to avoid warrant to a greater extent than for prohibition or a cap acting alone.

1.119. All consumers would be protected from high charges so there is a risk that consumer engagement could decrease but this should be greater than the risk under a cap alone as the prohibition policy is targeted at consumers who would be unlikely to engage.

Analysis of option 6: Prohibition plus Proportionality and Cap

1.120. This option consists of prohibition of installation of PPM and warrant charges for certain consumers in vulnerable situations (option 1) , a proportionality principle which applies to application of warrant process and charges for all consumers (option 2) and a cap on warrant charges (option 3). As with the analysis for the cap alone, we analyse the impact of a cap set at £50, £100, £150 and £200.

Direct savings of options relative to the baseline

1.121. The direct savings of this option are the same as option 5 with additional unknown impact from the proportionality principle. The impact of the proportionality principle in this case would be less than in options 2 or 4 due to the fact that the cap removes high charges. The proportionality principle would have an impact by requiring suppliers to consider the amount of debt when pursuing a warrant. This could slow the warrant process in cases of low debt levels. Also, the proportionality principle, acting over the entire debt recovery process, would moderate charges applied in the pre-warrant debt recovery stage.

Benefits as measured against target outcomes

Option number	Outcomes / Policy Title	Warrant avoided where possible	Fair and appropriate outcomes	Protection for Vulnerable
6	Prohibition + Proportionality + Cap	Proportionality of action should ensure that every opportunity is given to avoid warrant and prohibition and cap both strengthen incentive to avoid warrants	Improved fairness for vulnerable. Cap and proportionality would improve consistency and transparency of charges and mitigate cases of high charges for non-vulnerable. Cap does mean that a portion of costs for "won't pay" consumers are socialised	Prohibition provides protection for consumers in relevant vulnerable situations. Cap and Proportionality provide protections for vulnerable consumers not protected by prohibition.

Regulatory and Administration Burden

1.122. The regulatory and administrative cost is as for a combination of options 1,2,and 3. The prohibition could result in some increase in administrative costs.

Effects on consumer and supplier incentives

1.123. The issues with incentives as identified for options 1, 2 and 3 would still apply. The combination of all three policies would provide a strong change to supplier incentives. The impact of proportionality in this case would be to moderate supplier actions and charges in the pre-warrant and early warrant (application) stages which could give more opportunity for consumers to engage with debt and avoid warrant.

Conclusions and preferred option

1.124. The preferred option is the prohibition and a cap on warrant charges set at either £100 or £150. We are also considering whether to include the principle of proportionality.

1.125. The prohibition is considered necessary to ensure the protection of consumers in vulnerable situations and contributes towards improved fairness of warrant charging and an overall increase in the incentives for suppliers to avoid the warrant process if possible. The prohibion targets specific subsets of vulnerable consumers and with the data that we have available it is difficult to make an accurate assessment of impact on charges applied but our estimate is that the prohibition policy will reduce charges applied by around £1.9m and reduce the costs ultimately recovered by around £1.0m. In addition, we do not have data to estimate the regulatory and administrative cost associated with this policy but we assume that it is small compared to the benefit to consumers in vulnerable situations. We welcome stakeholder views to inform an assessment of this administrative cost.

1.126. We recommend the cap is set at £100 or £150 to ensure protection for all consumers especially those in vulnerable situatons that are not included under the prohibition of charges. The cap set at this level will ensure that the majority of suppliers are incentivised to avoid using the warrant process if possible and to approach the warrant process with a view to efficiency and minimising cost. The cap will result in a reduction of charges applied of between £8.6m-16.5m which is around half of the charges currently applied.

1.127. Suppliers currently only recover around 38% of the costs of the warrant process and these policies will decrease that cost recovery still further and will result in some additional socialisation of costs across the wider consumer base. We have estimated this at between £4.5-8.9m and we consider this level of socialisation to be reasonable considering the potential consumer detriment caused by high charges and the inherantly vulnerable situation of consumers in debt.

1.128. In addition, we are also considering whether to include a proportionality principle, aimed at ensuring proportionate action and cost in the whole debt path is needed alongside the cap and the prohibition proposals.We have not attempted to quantify this throughout the document and welcome information to help quantify this.

Competition impacts

Consumer competition impacts

1.129. Any reduction in charges applied to consumers will result in a reduction in debt repayment levels and periods, and an improved ability for consumers to switch supplier. A reduction in high warrant charges applied to PPM would result in a decrease in the number of consumers with debts over £500 who are unable to switch supplier under the Debt Assignment Protocol.

1.130. On the other hand, any reduction in charges applied to consumers in the warrant process would reduce the proportion of warrant costs which suppliers ultimately recover. As described previously, the proportion of recovery of costs is already low (38%) and we assume that the unrecovered costs are already socialised across the wider consumer base. Suppliers will either absorb costs, affecting profit margins, or seek to socialise the cost by increasing tariffs and affecting competitiveness. The consumers likely to bear the cost of this socialisation are those on the least competitive tariff types such as Standard Variable Tariffs.

Supplier competition impacts

1.131. Generally, suppliers fall into three groups:

- Large suppliers with a relatively high level of warrant activity and charges at a relatively moderate level;
- Small independent suppliers with very low levels of warrant activity who do not apply warrant charges; and
- Larger independent suppliers who apply warrant charges but, due to their lower levels of activity in comparison to the six largest suppliers, their costs and charges tend to be quite high.

1.132. The cap has a relatively higher impact per completed warrant for those independent suppliers with relatively high charges and could have an adverse effect on competition. However, the majority of independent suppliers have lower levels of warrant activity per customer than the six largest suppliers so the impact socialised across the wider consumer base is not significantly higher.

1.133. The prohibition has a higher impact for those suppliers with a high proportion of consumers in vulnerable situations identified in the warrant process. As discussed previously, it is unclear whether suppliers which identify a high number of consumers in vulnerable situations either have an approach which fails to help consumers in vulnerable situations to avoid the warrant process or undertake a more thorough investigation of consumer circumstances. Also, some suppliers already waive charges to many consumers in vulnerable situations so the additional impact of the policy for those suppliers will be lower.

1.134. The cap has a high impact on those suppliers with high charges. The suppliers with low charges or charges at a level similar to the cap would see little impact.

Distribution impacts

1.135. These policies are specifically targeted at redistributing some of the cost of the warrant process from consumers in the process to the wider consumer base. Our analysis of current practice shows that there is already a significant level of socialisation with only 38% of costs faced by suppliers in 2015 expected to be ultimately recovered from consumers in the warrant process.

1.136. Cost reduction from one group is socialised to others so net impact is zero. In reality the socialisation is not applied to all customers but typically results in increased costs in less competitive market areas. This could result in reduced costs to consumers in the warrant process resulting in a small increase in costs for consumers in vulnerable situations outside the warrant process. However, the relatively small number of consumers in the warrant process and the large numbers of overall consumers should ensure that the increased cost for consumers outside the warrant process is relatively small.

1.137. The prohibition is particularly targeted at consumers in vulnerable situations with specific restrictions in the wording of the draft licence condition to target a subset of vulnerable situations relevant to the warrant process. The reduction of cost for these consumers forms a large part of the overall benefit of the proposed policy package.

Section 5A Declaration

1.138. An impact assessment is a tool to help to explain the impacts of regulatory proposals on consumers, industry participants and wider society. It allows the costs of proposals to be balanced against the benefits of action.

1.139. For Ofgem, there is a distinction to be made between Impact Assessments that are required by Statute (these are "important" within the meaning of Section 5A of the Utilities Act 2000) and those that are provided for information. Our approach to determining what is "important" within the meaning of section 5A is set out in our Impact Assessment Guidance. This includes, for example, significant impacts on consumers or on people involved in the supply of gas and electricity in Great Britain.

1.140. We have decided that this is **not** a Section 5A Impact Assessment because the proposals do not involve a major change in the activities carried out by Ofgem and they do not have a significant impact on Great Britain. However, on this particular occasion, we have decided that it would still be appropriate to produce an impact assessment.