



Prepayment meters installed under warrant: Final proposals

OVO Energy's response

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1. Introduction

- 1.1. OVO welcomes the opportunity to respond to Ofgem's consultation on "Final proposals for prepayment meters installed under warrant". In our response to Ofgem's prior consultation on "Proposals to improve outcomes for prepayment customers" (**OVO's previous response**) OVO recognised that the current regime is not delivering the right outcomes for customers in vulnerable circumstances, and that significant change is needed.
- 1.2. OVO's response called upon Ofgem to put the onus on suppliers to minimise warrant-related charges for all customers - whether vulnerable or otherwise. This would include, for example, incentivising suppliers to install smart meters as a more effective long term solution to some of the problems associated with the warrant process, and finding ways to reduce bad debt in general.
- 1.3. OVO was hopeful that, as part of Ofgem's work on future retail regulation, it would consider addressing some or all aspects of warrant charges through principles rather than through prescriptive rules. We feel that a principles-based approach would require suppliers to deliver better outcomes for customers - for example, reducing number of warrant installs.
- 1.4. We are concerned that applying arbitrary caps to warrant charges is not the right approach because, put simply, it will not deliver better outcomes. In the following section we reiterate our specific concerns.
- 1.5. In short, we call on Ofgem to consider carefully the likely impact of warrant charge caps on all customers before proceeding with its proposal.

2. Specific concerns with proposals

- 2.1. First and foremost, introducing caps might reduce warrant charges for some customers, but suppliers will be forced to recover any excess costs over-and-above the cap through increased tariffs. Therefore all customers will suffer the consequences.

- 2.2. From a policy perspective we do not believe this is the right outcome for customers. We question why customers who are not in vulnerable circumstances and who are capable of paying but choose not to ("**won't pay**" customers) should receive the benefit of a cap, and why diligently paying customers should be subsidising them.
- 2.3. In any event, by applying an arbitrary cap, suppliers are not incentivised to reduce warrant installs and bad debt in the first place. Instead they will simply work out how best to recover excess costs.
- 2.4. The domestic water market provides a cautionary tale of removing incentives to minimise debt. We understand that retail water suppliers have limited tools to take action against customers who are in arrears and recover debt. The result is that the cost to all water customers of bad debt has risen by 40% in the five years between 2009 and 2014 according to Ofwat¹. The same Ofwat report estimated that the annual cost to all domestic water customers of bad debt in 2014/15 was £21 per customer, which equates to between 4% and 7% of the average water bill².
- 2.5. If the same percentage cost for bad debt was applied in the energy market it would result in an increase of between £42 and £72 in the cost of the average standard variable tariff offered by the Big Six³. Such a cost would be significantly higher than the current cost of a number of environmental and social levies paid by domestic energy customers.
- 2.6. If Ofgem is insisting on setting a cap, then OVO believes it should be only for the most vulnerable customers who genuinely cannot pay, and suppliers should be able to recover a nominal amount of say £50. OVO wishes to reiterate however that our suggestion to cap charges in this way is conditional on Ofgem's continued efforts to improve how vulnerable customers are identified, for example through a centralised database.

¹ Ofwat's Affordability and Debt 2014-15 report (December 2015), page 8.

² Ofwat estimates that the average water bill varies significantly by region, ranging from £329 (Severn Trent Water) to £532 (South West Water) (Ofwat's Affordability and Debt 2014-15 report (December 2015), page 8).

³ OVO estimates the average price of the Big Six's standard variable tariff to be £1060 as at 1 November 2016, for a medium consumption profile 1 customer consuming 3,100kWh and 12,500kWh of electricity and gas per year respectively and paying by direct debit, averaged across all regions.

2.7. Identifying vulnerable customers and distinguishing between their circumstances remains extremely difficult for all utility providers, not just energy suppliers. Customers can be reluctant to share information and that information can quickly become out of date. Also the operational cost and administrative burden to suppliers of identifying vulnerable customers should not be under-estimated.