

Steve Osmani-Edwards
Ofgem
9 Millbank
London
SW1P 3GE

9 November 2016

Dear Steve,

Response to 'Prepayment meters installed under warrant: final proposals'

Robin Hood Energy is a not-for-profit gas and electricity supplier. We have been set up by Nottingham City Council with the aim of tackling fuel poverty. In September 2015 we started offering variable and fixed tariffs to UK customers. In November 2015 we introduced a competitive offering for prepayment customers in the UK.

We have read with interest the consultation on 'Prepayment meters installed under warrant' and we support the outcomes that Ofgem intends to achieve as a result of these proposals. We agree with the suggested approach for vulnerable customers and with the debt proportionality principle. We do not however think that Ofgem is taking the correct approach in proposing a restriction on the level of warrant charges that can be applied to any customer at either £100 or £150.

As Ofgem's analysis has indicated, a cap on warrant costs set at either £100 or £150 is below the average warrant costs that suppliers incur. This means that suppliers have no option but to redistribute the warrant costs across their wider customer base. Although we agree that the level of cost redistribution is likely to be relatively small, we question whether it is fair to impose this cost burden on the wider customer base.

Whilst we support increased protections for vulnerable customers, we do not understand why customers with no reasonable explanation for not engaging with their supplier should become protected from the warrant process. A warrant costs cap may further reduce the limited incentives that these customers currently have to engage with their supplier as part of the debt recovery process. We suggest that Ofgem replaces the proposal for a cap on warrant costs with a principle that requires suppliers to keep their warrant costs as low as possible and to only charge for costs incurred.

In the Appendix that follows we provide our answers to the specific policy questions listed in the consultation. If you wish to discuss the contents of this letter further, please do not hesitate to contact either Matthew Robson at matthew.robson@robinhoodenergy.co.uk or myself at ruben.pastor-videdo@robinhoodenergy.co.uk.

Yours sincerely,



Ruben Pastor-Vicedo
Regulation and Compliance Manager
Robin Hood Energy

Appendix: Response to 'Prepayment meters installed under warrant: final proposals'

Question 1: Do you agree with the outcomes intended as a result of our policy?

We agree with the outcomes that Ofgem are trying to achieve. As a not-for-profit supplier with a commitment to tackle fuel poverty, we support any policy that seeks to improve the market for prepayment and/or vulnerable customers.

In regards to the warrant process, our credit management policy aims to achieve similar outcomes. Our warrant costs are cost-reflective, with only those costs incurred by our debt collection agency taken into consideration. We do not add our own internal costs and apply a maximum threshold to protect our customers from high charges even when we incur them. We also encourage customers to cooperate with us by not charging for certain activities if they subsequently engage after we have begun, but not completed, the warrant process. In addition, we always seek to reduce our warrant costs as much as possible for our customers, and ensure that we are transparent in our charges.

Question 2: Do you agree with our preferred option?

We agree with the preferred option for vulnerable customers and with the debt proportionality principle. We do not agree with the warrant costs cap proposed by Ofgem. One reason being that we already have incentives to avoid the warrant process where possible. As stated above, we only ever charge on the basis of cost-reflectivity for warrant activities. This does not include our own internal processing costs, only those that we are charged by our debt collection agency. This means that regardless of the customer, we will always incur a cost as a result of the warrant process. This is compounded by the fact that we waive certain charges for customers and set a maximum threshold, in order to protect our customers from excessive charges.

We understand that other suppliers may not follow similar practices, but do not think that prescriptive regulation on all suppliers is the correct approach. We would instead suggest that Ofgem introduces a new principle that focuses on the outcome by requiring suppliers to have a general responsibility of keeping their warrant costs as low as possible. This is something that we currently aim to do, both for ethical and financial reasons. We note that this would complement Ofgem's intention to rely more on principles-based regulation.

Despite this, we welcome greater clarity from Ofgem on their intended approach. We note that there appear to be inconsistencies in the consultation on the scope of the warrant costs cap (compare paragraphs 2.8 and 2.17).

Question 3: Do you have views on any further unintended outcomes?

We have concerns that the warrant costs cap may increase the number of disconnections that other suppliers make for unpaid charges. This would not affect our customers, as we operate a policy of not disconnecting or limiting the supply of gas or electricity to our customers. However, we worry that other suppliers that take decisions only on financial considerations might prefer to disconnect than to engage in the warrant process at a financial loss.

We acknowledge that vulnerable customers are protected to an extent under the Energy UK Safety Net and Standard Licence Conditions (SLCs) 27.9 to 27.11. However the Safety Net is voluntary and only the six largest suppliers are currently signatories. In addition, SLCs 27.9 to 27.11 only prohibit disconnection

to a subset of customers during the Winter Moratorium. We note that the SLCs do require suppliers to offer a PPM to customers in payment difficulty, but this does not necessarily require suppliers to initiate the warrant process.

We do not support the view that introducing a cap on warrant costs increases our incentives to charge up to the specified level. We would continue to ensure that we only charge on the basis of cost-reflectivity, up to the level of the cap, for warrant activities.

Question 4: Do you agree that the cap should be applied when the warrant process is not completed and that no further detail is necessary?

Whilst we do not agree with the warrant costs cap, we see no reason for why the cap should not be applied consistently across customers. In regards to further detail, we query whether the cap would apply to customers going through the warrant process more than once during a 12-month period. As an example, we initiate the warrant process for a customer who subsequently agrees a repayment plan before the PPM is installed. They may then begin to fall further into arrears after several months have passed, with a PPM install under warrant the only remaining option.

Question 5: Do you agree with the proposal for a new debt proportionality principle?

We agree with the debt proportionality principle and welcome further principles-based regulation by Ofgem. We do not anticipate that the debt proportionality principle will have a significant impact on our operations, predominantly because it is not commercially viable to engage in the debt recovery process for customers who owe small monetary amounts.

We would normally only engage with customers once they have reached an amount that suggests they may be in payment difficulty, although we note that smart meters will provide us with greater opportunities to monitor for customers in payment difficulty. Those owing higher amounts are already protected from excessive charges by our existing voluntary threshold.

Question 6: Do you agree with our definition of “under warrant” to mean a warrant that would authorize the installation of a PPM. Do you have any views on unintended consequences of this narrow scope?

We are unsure over where the definition for this question is, and therefore suggest that Ofgem provides clarification. If the definition is that which is used in the consultation, paragraph 1.5, we agree this may be suitable. We do however note that this is not currently defined in the draft SLCs, and would expect that any final drafting clearly outlines the intended scope.

Should Ofgem proceed with the current definition, we would advise that they confirm whether or not the draft SLCs will be applicable to both smart and traditional meters. We note that a smart meter operating in prepayment mode would be included in the definition of ‘prepayment meter’.