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Dear Steve

Prepayment meters installed under warrant

Thank you for the opportunity to respond on the proposals on warrant costs and prepayment installation. SSE understands that the use of warrants to install prepayment meters should be a last resort. However, in order to ensure suppliers have a mechanism to keep debt under control, it is important this option still be readily available in certain circumstances. There is a risk that intervention in this area could have unintended consequences, for example on bad debt levels - Ofgem is already aware that any resulting cost impact will have to be socialised across all customers.

SSE also shares the position that has been raised by Energy UK and other suppliers regarding the lack of legal basis for this proposed intervention. There is a clear foundation in primary legislation that suppliers can recover the charges involved. This is covered in section 2(1) of Schedule 4 of the Utilities Act (which introduces a new Schedule 6 into the Electricity Act 1989) and section 7(3) of Schedule 2B to the Gas Act 1986. In each section it states that suppliers can 'recover any expenses incurred in… installing a pre-payment meter or disconnecting the premises'.

Section 26 of The Energy Act 2010 can allow the secretary of State to create secondary legislation to adjust charges to help a disadvantaged group of customers but this relates specifically to energy charges and not to the installation of prepayment meters.

While Ofgem could proceed in introducing new licence conditions to limit the charges passed to customers for the installation of a prepayment meter under warrant, the statutory right to recover any expenses incurred would still exist. Ofgem should therefore be mindful of how the proposed licence conditions will interact with the applicable primary legislation.

Our response to the individual consultation questions can be found below.

Question 1: Do you agree with the outcomes intended as a result of our policy detailed in paragraph 2.4?

SSE agrees that warrants ought to be avoided where possible and should only be used as a last resort. This should certainly involve careful consideration of vulnerability, and seek to avoid any additional detriment. Ofgem states that its policy intent is to increase the incentive for suppliers to engage with customers in debt. This appears to misunderstand or fail to acknowledge that warrants are typically a result of customers not responding the extensive efforts we already make.

This effort is also extended to the transparency of the charges we apply. As part of the notices we provide for pre-warrant visits, we give the details for both the action that we have carried out and also the costs that will be applied for any activity required as a result of us receiving no response from the customer.

It is also unclear when faced with the absence of any customer engagement as to how suppliers will be able to identify circumstances of severe financial vulnerability.

Our goal in any collections process would be to help customers manage their debt by arranging a payment plan or by voluntarily agreeing to have a prepayment meter installed. Obtaining a warrant is only referred to as an option when the customer has failed to engage with us despite repeated attempts and visits to their property. There is a balance that needs to be achieved between avoiding unnecessary additional cost for the customer, whilst also maintaining a deterrent for the small group of customers that may choose to avoid payment.

SSE also has consideration to the use of prepayment meters being an interim measure while a debt is recovered. In 2015, we stopped applying a charge for removal of prepayment meters. If the customer passes a credit check and agrees to a payment plan, then we can install a credit meter with no additional cost. In addition, should a prepayment meter become impractical or otherwise inappropriate for a customer after it is installed, e.g. if a customer later becomes vulnerable, then SSE would remove the meter without charge

regardless of whether the full debt had been recovered at the point of removal. It is worth noting though that many prepayment customers prefer this payment method as a lifestyle choice to help with household budgeting.

The charges that are applied to customers during this process should be cost reflective, linked directly to the work necessary and easily and clearly accounted for. SSE has recently reviewed its pricing in this area to ensure that this is being achieved for customers in practice.

Question 2: Do you agree with our preferred option as detailed in paragraphs 2.8 to 2.11?

Whilst SSE is strongly supportive of the underlying policy objectives, we do have some concern with the preferred option as it stands. We have split our answer to address each element of Ofgem's proposal.

1. Proposed Cap

The proposed cap of £100 or £150 is only compatible with a very narrow range of activity involved in the process of obtaining a warrant. Obtaining a warrant is not a standalone activity and must be considered within a process of visiting the property, which also has its own associated costs. More specialist requirements may also be included as part of these visits prior to and during the warrant execution as well depending on individual circumstances. Accordingly, it is clear that the cap is set at a level that will not recover the full costs of the warrant process. These unrecovered costs would ultimately be socialised across the whole customer base. Ofgem may wish to examine whether this outcome may have a disproportionate impact on smaller suppliers.

We would suggest a principle requiring cost reflectivity, combined with the proportionality principle may achieve a positive outcome in this area, without risking these unintended consequences.

2. Prohibition

SLC28.1A At the moment, SSE will not progress warrant proceedings against customers classified as vulnerable, where a prepayment meter would not be suitable (as already considered under licence 27.6(iii)). Ofgem proposes to go beyond this to include a highly subjective test whereby if it was "severely traumatic" for vulnerable customer where a warrant is exercised, then a supplier is prohibited from doing so. This subjective test will be extremely difficult to operationalise, particularly in relation to a group of customers who are generally unwilling to engage with us. In the absence of better clarity as to what "severely traumatic" means in practice, this licence condition is likely to encourage suppliers to err on the side of caution when considering which customers are caught by the prohibition. This is

not necessarily in the best interests of all of these customers as a likely outcome will be increasing levels of debt that the customer is unable to manage. In many cases, except where a meter is not suitable for the customer, a prepayment meter may well be in the customers best interests as it is the most effective way for a customer to manage their debt.

SLC28A.2 In addition, the widening of the definition of vulnerability in SLC 28A.2 to include those in severe financial vulnerability will add additional complexity. It is unclear what this constitutes in practice. For example, we consider that an outstanding balance in itself is not indicative of a customer being financially vulnerable. It is unclear how we would be in a position to know the customer's financial circumstances in the absence of good quality engagement. As stated, this group of customers are typically the least willing to engage with us.

At present SSE does already have processes in place to ensure that the most suitable decision is taken with the use of what we refer to as 'welfare visits'. These are instances where a warrant has been obtained but the prepayment installation itself is only carried out after our agents have liaised with their office based colleagues to review the circumstances found during the visit before finally deciding what action should be taken. We consider therefore that there are already good examples of supplier behaviour in this area and we have been unable to identify any strong rationale or evidence in support of intervention.

3. Proportionality Principle

We agree that the proportionality principle is appropriate.

Question 3: Do you have views on any further unintended outcomes which could be realised in addition to the risks outlined in paragraphs 2.47-2.50?

The potential outcomes outlined appear reasonable but there should also be consideration to how the potential warrant activity can influence a customer in continuing to avoid payment or engage with their supplier.

Through our collections activity, we do encounter a number of customers who have chosen to not make payment despite otherwise having the ability to do so. An outstanding balance is not itself indicative of a vulnerable customer. These circumstances can also come about as a result of the customer failing to engage or not prioritising payment for their energy consumption.

Ofgem notes that it wants to keep socialised costs at an acceptable level but it is unclear at which point socialising of costs becomes unacceptable. A cap on these costs might also suggest that a customer may go through the collections process on multiple occasions without incurring further charges. This point should be clarified in the licence drafting.

Being able to undertake warrant action is important for all customers. Without the warrant process, which facilitates a manageable payments solution for customers in debt, levels of unrecoverable debt will increase and eventually be reflected in costs for all customers.

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? (See paragraph 2.55)

We would assume that the cap applies regardless of whether the warrant is executed.

Question 5: Do you agree with the proposal for a new debt path proportionality principle (as detailed in paragraphs 2.59 to 2.66), in that this would not be limited to warrant activities and would require costs and actions relating to ALL debt recovery activities (including transfer objections) to be proportionate? Do you have any views on unintended consequences of this broad scope?

SSE considers that a debt path proportionality principle would be of benefit to customers and likely to have minimal unintended consequences.

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

Yes. However, we would point out that a warrant may be used for instances of energy theft or meter tampering. We have noted that Ofgem has already confirmed through its recent workshop activity that the proposals do not apply in these scenarios.

Kind regards

Josh Henderson
Regulation Analyst