

09 November 2016

Steve Osmani-Edwards
Senior Policy Advisor
Consumer Vulnerability Strategy
Ofgem
9 Millbank
London SW1P 3GE

Email: alisonrussell@utilita.co.uk

By email only

Dear Steve,

Re: Prepayment meters installed under warrant: Final proposals

Thank you for the opportunity to comment on the above consultation, this letter forms Utilita's non-confidential response.

Utilita has been operating in the prepayment market since 2008, and specialises in offering smart prepayment to our customers. This core product gives our customers access to our best tariff with maximum convenience. As has been noted by the CMA, Ofgem and BEIS, smart meters offer significant benefits to prepayment customers. Smart prepay is flexible, offers a range of convenient payment options and via the IHD, greater control and understanding of energy consumption.

In our view, many customers actively select prepayment. Where they do not, and are experiencing payment difficulty, prepayment offers a real, viable alternative to more draconian approaches such as disconnection.

The consultation document in our view is too broad and we urge Ofgem to reconsider its proposals. We welcome Ofgem's subsequent clarification that the proposed approach to warrant charges is not intended to apply to prepayment meters installed as a result of revenue protection activity/abstraction of energy. However, when Ofgem's decision document is published, we believe that this needs to be clearly restated.

We are members of Energy-UK and fully support the general submission prepared. The E-UK submission sets out our general concerns clearly, and in particular correctly identifies many of the unintended consequences of the proposals. However, given our detailed experience of prepayment, we have also provided further comments below on the consultation questions.

We agree that the most vulnerable need sensitive management and extra support, but it is important to consider the needs of all vulnerable customers as well as non-vulnerable customers.

Prior to even considering installation of a PPM under warrant, Utilita will have made numerous attempts to engage with our customer to address the debt, this will be by a combination of routes including letter, telephone and visits. Consumers do bear some responsibility to engage with these approaches and to pay for the energy consumed. Utilita will only look to move to warrant where we have been unable to engage with the customer through these routes to find a path to resolution. In addition, the document does not recognise that because the customer has failed to engage with the supplier, the supplier may not know that the customer is vulnerable. In this context, the licence drafting poses an unacceptable level of risk to suppliers, who cannot be expected to know the customer is vulnerable when all attempts to engage the customer in dialogue have failed.

It should be noted that the cap proposals will not impact all suppliers equally, and can be expected to have a more detrimental effect on smaller players due to their ability to manage such costs down. The cap approach, by applying a total level significantly below normal costs risks applying perverse incentives, it also fails to recognise the necessary variation in costs depending on individual circumstances, which may have an adverse impact on safety.

We would not oppose a requirement that all warrant costs must be evidenced, or possibly a range being stipulated for each element of cost e.g. court cost, locksmith, dog handler, which would be additive depending on the circumstances. We would also support a cap (and socialisation of the unrecovered balance) for only the most vulnerable, but this would require significantly clearer drafting.

The proposals set out in the document do not distinguish vulnerability from refusal to engage, this results in proposals which are too broad. The approach above would provide a more balanced outcome. We believe that the breadth of these proposals, and in particular the failure to target accurately those most in need, may well lead to unintended consequences and increased cost for all customers, including the vulnerable customers Ofgem is trying to help.

We welcomed the workshop hosted on these proposals, and believe that with the support of those who attended the workshop, it would be possible to find a more targeted approach which would provide the necessary support to the most vulnerable, while maintaining a fair and equitable approach for all customers.

We would welcome the opportunity to work with Ofgem and suppliers to develop alternatives. We suggest that Ofgem would be well placed to host a working group on this issue. We propose that Ofgem should delay a decision on this matter, pending the formation of a working group, and the group bringing forward an alternative approach.

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

Utilita fully supports the intent behind the policy approach set out. However, we believe that to a large extent these outcomes are already in place. As above, we avoid installations under warrant where possible, and where a warrant approach is necessary, apply only a pass through approach to costs.

The proposals however, do not address some important related issues. Suppliers need to be able to manage debt responsibly for all their customers, and it is not clear under these proposals how Ofgem suggests vulnerable customers with large amounts of debt should be managed. The proposed approach will mean that supplier costs will rise for all customers including the most vulnerable due to the socialisation.

The proposed model limits supplier flexibility to assess situations on a case by case basis, while affording those who refuse to engage scope to avoid fair charges. The definitions set out in respect of vulnerability and original debt need greater precision.

Utilita uses warrant installation as a last option in the debt recovery path, and one which cannot be avoided if the customer has refused to engage either via phone, email where possible, letter, or site visit. In the majority of cases we are also unable to perform meter inspections or gather reads on these sites making accurate billing and meter safety inspections impossible. Utilita installs smart meters with an IHD on all warrant activity at no extra cost to the customer. This will in future allow accurate meter information to be obtained as well as providing flexibility for the customer and an IHD to help them use energy more efficiently.

We believe that this approach is better for consumers who may be vulnerable or, in particular, at risk of becoming vulnerable, than allowing debt to build to insurmountable levels, which may be more detrimental in the long run than enforcing the installation of a PPM.

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

Utilita does not support Ofgem's preferred option. We believe that the potential for unintended adverse consequences is significant and that this has not been adequately considered.

Currently, suppliers use warrant installations of prepayment meters as part of the debt path when other methods have failed. Capping charges for the most vulnerable, in conjunction with the proposed proportionality principle offers additional protection for those most in need.

The proposed approach of capping all charges for warrant installation of PPM reduces supplier flexibility to target charges appropriately and may reduce customer incentives to engage. We have found a significant number of customers who have ignored all previous attempts to engage, do respond to the last letter prior to warrant application. We believe that this is due to the potential cost.

Suppliers have robust licence conditions which ensure that they should engage sensitively with customers in difficulty offering a range of options and advice. The conditions also require that they act fairly towards all their customers.

If Ofgem believes that these conditions are not being fully adhered to, we believe that Ofgem should be engaging with those suppliers to challenge their individual processes. Under a more principles based approach, this will provide scope to address issues where they arise, to provide a better outcome for consumers as a whole.

In addition, it is important to consider how these proposals will interact with the proposed prepayment cap from the CMA remedies. This cap is extremely tight and will have a significant effect on suppliers.

We expect that the prepayment cap would act to constrain suppliers' ability to socialise unrecovered warrant costs to the generality of prepayment customers. Suppliers would not be able to 'socialise' the costs of subsidising particular prepayment customers through retail prices under the cap. This will impact suppliers unequally according to the proportion of prepayment customers on the portfolio. We believe that this would also further reduce competitive incentives in the prepayment sector to the detriment of all prepayment customers.

In combination, the points above would have the effect of focusing socialisation of costs into the credit market, excluding direct debit and newly permitted acquisition tariffs. As in absolute terms, there are more vulnerable customers and customers in fuel poverty in the credit (standard variable) sector, we believe the cap would further disadvantage a population of customers already identified by the CMA as being in need of help.

3. Do you have views of any further unintended outcomes which could be realised in addition to the risks outlined in paragraphs 2.47 to 2.50?

As set out above and in the E-UK letter, we believe that there is potential for significant unintended consequences. These fall into several categories:

- a) Socialised costs increase costs to all consumers. While Ofgem has identified this risk, we believe the scope may be underestimated. The socialisation of costs through overheads will impact rates for all customers including the most vulnerable.
- b) General increase in bad debt. The approach will reduce incentives on customers who refuse to engage with their supplier. As bad debt rises, this will again impose extra cost on the generality of customers.
- c) Potential increase in disconnection and other methods to manage debt exposure. As a mainly prepayment supplier, we have considerable experience in helping customers manage their debt via prepayment meters. A flexible approach to recovery can be used for example proportions of top ups rather than fixed amounts, reflecting seasonal issues if customers experience temporary difficulty etc. Where such options are reduced, we believe there is a risk some suppliers may consider alternative approaches which may lead to disconnection or court action to recover the debt.
- d) Delay in intervention to manage debt – please see below.

4. Do you agree that a cap could should be applied when the warrant process is not completed and that no further detail is necessary? (See paragraph 2.55)

We do not support this approach, any cap should only be applied on a case by case basis and application must exclude both cases of theft, and where the consumer forcibly prevents exercise of the warrant.

Utilita do not currently pass through charges on warrants unless the warrant is completed through to installation, we believe that other suppliers may take a similar view. The cap may discourage such an approach, incentivising suppliers to recover costs for all aspects of warrant activity as far as they are able to reduce socialisation. This may therefore increase charges for a wider range of consumers.

5. Do you agree with the proposal for a new debt path proportionality principle (as detailed in paragraphs 2.59 to 2.66), in 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 view on unintended consequences of this broad scope?

We are in general agreement with this proposal. However, we believe that caution is still needed. The most efficient and economic approach to managing debt, which also leads to the best outcome for the consumer, is to encourage suppliers to try and intervene to help customers at the earliest stage. This is true whether the consumer is vulnerable or not.

Unless the text is carefully drafted, we believe that there is a risk of further unintended consequences. If the provision acts to constrain supplier flexibility too much, there is a risk that intervention may be delayed until the debt reaches a higher level. This might mean that instead of an earlier installation

where the debt is more manageable and can be quickly repaid, the customer is in a worse position overall.

Many customers who have difficulty in managing favour prepayment meters for their budgeting value once they are installed. In addition, the smart meters we provide allow for remote switching of payment method, and hence increased flexibility and choice.

In addition, as identified above, much greater clarity is needed on the definition of 'original debt'. We believe the current drafting is more constraining than intended. The proportionality principle needs to apply to the customer's total debt in relation to energy supply. The current drafting suggests it is only the sum that provoked the action to recover debt that could be considered, not any subsequent failure to pay.

It should also be recognised that in prepayment mode, the Debt Assignment Protocol applies, requiring suppliers to facilitate debt transfer of sums up to £500 per fuel.

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?

We are in general agreement with the definition, however we would like to understand how this would relate to the costs proposed to be included within the cap. As noted in the E-UK submission, the IA does not provide sufficient detail on how the cap has been arrived at. The sum of £100-£150 does not reflect supplier costs, nor the ability of suppliers to negotiate such costs.

It may be possible, if a more detailed definition is specified to provide a robust guideline to constrain the costs which can be passed through to a customer. This might also assist smaller players in managing such costs.

We suggest that the approach should reflect where costs are standard or can reasonably be planned in advance – and hence can be negotiated, and where costs cannot be planned and so 'reactive' rates will apply. For example, court costs will be standard, and a supplier will always need a locksmith to attend, however a supplier may not know a dog handler is needed until arrival and hence cannot plan for the cost in advance. Equally, while a locksmith will be required, it will not be clear in advance whether new locks are needed. If the locks on site are ineffective on arrival, new locks may need to be supplied to leave the customer's home secure – this may in fact leave the customer safer than before.

We hope this submission has been useful and we would be happy to discuss any points in more detail. As set out above, we would be happy to work with Ofgem and the community to bring forward a more targeted solution which would help the most vulnerable, while reducing the risk of unintended consequences.

Kind regards,

Yours sincerely,

By email

Alison Russell
Head of Regulatory Affairs