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Dear Arina

Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage and energy supply to end users. We have around five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy is fully committed to providing appropriate support to customers who are experiencing financial difficulty, including those who may experience self-disconnection and self-rationing. This includes both short term support, to ensure customers can continue with their supply, and identifying longer term support based on customer's individual circumstances.

Ofgem must acknowledge the broader affordability issue that goes beyond the energy industry, with an increasing number of people in financial difficulty. Suppliers do have a central role in supporting customers, including in those areas considered in the consultation and short term support for those facing immediate difficulties. Our wider objective is to support our customers to remain debt free. It is for this reason that we fully support the Ability to Pay principles being put in to licence, especially if Ofgem has any concerns that any suppliers are not complying with these.

As is recognised in the consultation, the legacy prepayment metering infrastructure can make it difficult to identify customers who may be self-disconnecting. The way to overcome this is to install smart pay as you go (PAYG) SMETS2 meter, which is a primary reason why this is a focus for EDF Energy. This will ensure we are better able to identify customers who may need help and offer more tailored support to those who require it.

We welcome the proposal to require all suppliers to offer emergency and friendly credit, to ensure customers do not go off supply at inappropriate times. This represents a positive step in ensuring a minimum standard of service across the energy market. While we agree that discretionary credit can be helpful for customers at certain times, this should be assessed on a case by case basis, and

not made mandatory in all circumstances. As drafted, the supplier is required to offer this to the customer, even if it may not be wanted, needed or appropriate. We urge Ofgem to consider more appropriate wording to only require suppliers to offer the discretionary credit function when suitable.

The proposals around self-rationing look to address an important policy area. We support the need to consider what more can be done for customers who may self-ration. Notwithstanding this, intervention in this space must be carefully thought through, to ensure it is targeted at those customers who need and want it. Ofgem must make certain that the licence allows suppliers to provide support that is in the customer's best interests, including ensuring that customers who self-ration receive a broadly consistent level of support.

We do not agree with Ofgem's proposals to require suppliers to identify self-rationing as drafted. The definition of self-rationing, provided by Ofgem, does not allow for a distinction between those who have reduced their usage by being more energy efficient or through rationally and safely controlling their energy costs, and those who are putting themselves at risk by severely limiting their consumption. Further consideration is required to ensure that it is customers in the latter group that are identified as self-rationing, and that all customers are not confused by potentially conflicting messaging on these important issues. EDF Energy would recommend that Ofgem hold a workshop on this topic with suppliers and consumer groups, to explore this issue further. We therefore do not support any definition of self-rationing being included in the licence until this issue has been considered much more fully, in order to avoid the likelihood of this change causing customer and supplier confusion and potentially perverse outcomes. On such an important policy area we would highlight that the short period of time allowed for suppliers to respond to the consultation and the lack of an impact assessment are particularly concerning.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Claire Clark, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink that reads 'R. Beresford'.

Rebecca Beresford
Head of Customers Policy and Regulation

Attachment

Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing

EDF Energy's response to your questions

Q1. Do you agree with our proposal to require suppliers to identify prepayment self-disconnection and the associated proposed licence conditions?

We agree with Ofgem's proposal and the associated licence conditions, to require suppliers to identify prepayment self-disconnection. This will ensure customers who have experienced self-disconnection are supported regardless of their chosen supplier.

The information included in the consultation document provides useful insight into ofgem's expectations of suppliers when monitoring and identifying self-disconnection for both legacy prepayment and smart pay as you go (PAYG) SMETS2 meters.

The rollout of smart metering will further assist suppliers in identifying self-disconnection. The insight gained from SMETS2 PAYG meters will enable suppliers to make more effective interventions, and provide more tailored communications to customers. SMETS2 PAYG will also provide new functionality to allow customers to auto top-up their meter balance and help to prevent self-disconnection due to forgetfulness.

Q2. Do you agree with our proposal to require suppliers to identify self-rationing and the associated proposed licence conditions?

We do not agree with Ofgem's proposals to require suppliers to identify self-rationing. Further consideration is required on how to ensure customers are not confused through potentially conflicting messaging on becoming more energy efficient, but not self-rationing. EDF Energy would recommend that Ofgem hold a workshop on this topic with suppliers and consumer groups, to explore this issue further. We do not support any definition of self-rationing being included in the licence until this issue has been considered much more fully or there is a risk of this change causing customer and supplier confusion and risks perverse outcomes.

The aim of the governments smart meter roll out is for customers to become more aware of their energy consumption and make small changes to reduce the amount of energy they use. It is possible that the positive action taken by a customer in this regard, may conflict with suppliers expectations of the amount of energy it anticipates should be used for a property of that type (usually based on historic usage patterns). In these instances any specific actions taken by suppliers, could be misunderstood by customers as suppliers monitoring usage and trying to drive up usage to a "norm" which is not the policy intent. This is especially challenging due to the varying levels of energy efficiency for householders. An energy efficient premises requires much less energy to retain adequate levels of warmth. There are also many demographic impacts on the amount of

energy required; such as size of households and the periods that customers are actually in the property. More consideration is required before Ofgem include such a definition as 'self-rationing' in the licence. This is exacerbated by the short period of time allowed for suppliers to consider this important issue as part of this consultation and the lack of an impact assessment.

However, we do recognise that severe self-rationing is detrimental to customer's health and wellbeing. Where this is identified, generally through customer contact, suppliers should take actions to help those customers by offering links to appropriate support including third party agencies, energy efficiency advice and reviewing any debt repayments that a customer is paying. As part of the support we offer to customers who are in financial difficulty, we help them understand how they can appropriately reduce their consumption to make their energy more affordable.

The definition of self-rationing, provided by Ofgem, does not allow for a distinction between those who have reduced their usage by being more energy efficient, and those who are putting themselves at risk by severely limiting their consumption. Customers may choose to manage their energy consumption in relation to their available funds to ensure they have money for other areas. The proposed licence condition does not define the level of reduction that would be considered as self-rationing, indicating any reduction in consumption would fall under the definition.

Monitoring and subsequently identifying self-rationing for customers with a traditional credit meter is more difficult again. In most cases, we are unaware of a customer's energy usage until we receive a meter reading or the customer self identifies as needing support. When we receive a meter reading we will validate the customer's consumption against what we expect them to use, in line with our requirements of Supply Licence Condition 21B.2, and if necessary will take all reasonable steps to contact the customer to obtain a new meter reading from them. At this point, in discussion with the customer, we have the opportunity to ensure they are not at risk of detriment. However, there is no guarantee that we will have the opportunity to discuss this with the customer, particularly if they chose not to or will not engage with us

Q3a. Do you agree with our proposal to require suppliers to offer emergency and friendly credit functions for all customers?

We agree with the proposal to require all suppliers to offer emergency and friendly credit. Requiring all suppliers to offer these functions is a positive step in ensuring a minimum standard of service across the energy market.

We currently offer both emergency and friendly credit functions, where it is technically feasible. We agree with Ofgem's assessment that emergency and friendly credit functions can provide useful short term support to customers. However, it is imperative, alongside providing short term support to these customers, more sustainable solutions are also identified such as signposting to third parties who may be able to offer additional support, benefit entitlement reviews and the Warm Home Discount scheme.

In drafting the licence conditions, it is important that Ofgem recognises that some customers can become reliant on these functions which may be moving them further into debt. The long term impact of these short term support functions should be clearly understood by customers and Ofgem. In instances where customers are becoming reliant on these functions, we offer support to manage the debt in a more sustainable way e.g. longer term repayment plans.

As highlighted in the consultation, there are technical issues in providing these services for certain legacy electricity and gas meters. Many of these issues will be overcome as smart meters replace such legacy meters. We agree that any licence condition, in relation to emergency and friendly credit, should reflect this and Ofgem should not place a requirement on suppliers to make costly changes to legacy technology that is in the process of being decommissioned.

Q3b. Do you agree with our associated proposed licence conditions?

We agree that where suppliers are aware a customer is unable to repay emergency and/or friendly credit, the customer's ability to pay should be considered for any repayments. The existing legacy prepayment infrastructure provides suppliers with limited flexibility surrounding the emergency and friendly credit functions as we are reliant on customers self-identifying in order provide support. In most cases, other than when we are informed by the customer, we are not aware that a customer has used emergency or friendly credit until after the event.

Currently, friendly credit and emergency credit is added to the customer's meter as a debt, and we automatically take payment for that debt when the customer next adds credit to their meter. For electricity this is done in full and for gas this is based on a 70/30 split ratio, where 70 percent of the credit amount is allocated to the debt and 30 percent added as available credit. It is important to note that although the process for gas gives the customer some available as credit, it does create uncertainty for some customers as to when the whole debt is repaid. This has often resulted in customer complaints.

For customers who contact us to advise they are unable to repay the amount in full, we consider this on a case by case basis to agree an affordable repayment plan, in line with their ability to pay. For those customers with a traditional prepayment meter this involves resetting the meter and sending further instruction, via the top up outlet, to add the amount to the meter for collection at the agreed rate.

While we agree that where a customer identifies that they cannot afford to repay the full debt that has accrued from a build-up following the use of emergency and friendly credit, their ability to pay should be taken into account when setting a longer term repayment plan. At the same time we may consider that removal or reduction of further available emergency credit is appropriate, to ensure that the customer doesn't move further down a debt spiral.

Q4a. Do you agree with our proposal to require suppliers to offer discretionary credit for customers in vulnerable circumstances?

We agree that discretionary credit is another short term function to either maintain or get customers back on supply. It is important that customers are able to access a range of services based on their needs, which at times includes the use of discretionary credit. However, in order to ensure that offering discretionary credit is the most appropriate support for these customers, this should be assessed on a case by case basis, and not made mandatory for all.

Our focus, as a responsible energy supplier, is aligned with Ofgem's desire to support customers in becoming debt free as soon as is practicable. We are conscious that repeated use of discretionary credit can create circumstances where customers get further into debt.

Where a customer is facing a one off change in circumstances, such as a change to universal credit, discretionary credit can be a beneficial short term aid to ensure the customer remains on supply. In these circumstances any discretionary credit applied is done so with the understanding that this will be repaid over a reasonable period of time, based on the customer's ability to pay.

Q4b. Do you agree with our associated proposed licence conditions?

While we support the policy intent, we do not agree with the proposed licence conditions regarding discretionary credit. It is important that suppliers can provide the support necessary for those customers who have a genuine need, including the provision of discretionary credit. However, suppliers should have the flexibility to decline a request for discretionary credit, where this is no longer an appropriate support function for the individual customer.

There is a risk that adding this as a requirement of the supply licence, and publicising the discretionary credit function to customers prior to or when a prepayment meter is installed, could lead to some customers considering discretionary credit to be an entitlement. This potentially becomes unhelpful for suppliers who are making efforts to understand the root cause of the issue and identify what longer term support would be more appropriate. The draft licence condition states *'the licensee must offer discretionary credit to that customer'*. As drafted, the supplier is required to offer this to the customer, even if it may not be wanted, needed or appropriate. We urge Ofgem to consider more appropriate wording to require suppliers to offer the discretionary credit function when suitable.

We note that the current drafting of the licence condition and corresponding definition of discretionary credit are not aligned. The proposed licence condition places a requirement on suppliers to offer discretionary credit to customers in a vulnerable situation who experience an event of self-disconnection and/or self-rationing. However, the definition of discretionary credit states this is provided to customers in a vulnerable situation when their prepayment meter runs out of credit. Therefore, the licence condition should be amended to remove any reference of self-rationing, as discretionary credit should be focussed on those who are off supply.

Q5. Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence?

We agree with the proposal to incorporate the Ability to Pay principles in the licence. The principles offer important guidance for suppliers. Incorporating these principles into the licence will ensure customers receive a consistent level of support regardless of their chosen supplier.

Q6. Do you agree with our proposal to update the Ability to Pay principles to reflect changes in supplier debt recovery practices? Are there other changes that we should implement?

The current principles ensure suppliers are providing a good level of support to customers but we agree that the principles should be regularly updated to ensure they remain up-to-date and reflect the latest market developments.

We welcome Ofgem's views on the potential changes to the ability to pay principles and are welcome further discussion on this. We encourage Ofgem to seek supplier views, reflect best practice seen by suppliers and consider any additional costs that would be incurred by suppliers against the benefit to customers when drafting their proposals.

EDF Energy
September 2019