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27 September 2019

Dear Arina,

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

We welcome the opportunity to comment on this consultation which sets out Ofgem's proposals to strengthen protections and improve outcomes for customers at risk of self-disconnecting or self-rationing.

We are generally supportive of the aims of Ofgem's proposals, namely to ensure consumers receive consistent protections and support regardless of their supplier. We do however have significant concerns regarding the process Ofgem has followed in consulting on the proposals, and we do not agree with Ofgem's view that the proposals are all aligned to existing voluntary principles. In particular, we believe Ofgem should do an impact assessment (IA) of the proposals and allow for a longer consultation period - and, if needed, delay the proposed 'early 2020' implementation date to allow full consideration of the output from the impact assessment. We set out more detail of this and our other points in our answers to the consultation questions in Annex 1.

Ofgem consultation process – timescales

We welcome Ofgem's decision to allow us an additional week to respond to the consultation, but we still consider a four week (or five week with extension) time period too short for a consultation of this nature. Such a short time period for stakeholders to consider the proposals and respond is inconsistent with Ofgem's guidance which states that 'major issues of wide interest' will be subject to 12 weeks' consultation, and 'issues of more specific interest' to 8 weeks' consultation. We believe Ofgem should have allowed at least an 8 week consultation period to allow sufficient consideration.

Ofgem consultation process – impact assessment

We also have concerns regarding Ofgem's decision not to undertake an IA of the proposals. Ofgem's justification appears to be largely based on the assumption that the proposals are aligned with existing voluntary principles, meaning that the costs of implementation will be low. However we do not agree that all the Ofgem's proposals are

of this nature, with some clearly introducing additional requirements on suppliers, most obviously the obligations relating to self-rationing. Indeed, we believe a number of Ofgem's proposals could impose material costs on suppliers, and that a full IA should therefore be carried out before they are imposed.

To assist Ofgem we have provided in Annex 2 an estimate of the potential range of costs that could be incurred based on the information provided in the consultation document. We would note however that additional clarity from Ofgem around expectations of what would constitute "all reasonable steps" would be required in order to refine any estimate of costs. We would encourage Ofgem to conduct a proper IA of these proposals and, if necessary, defer the proposed March 2020 implementation date for the proposed licence changes.

Interaction with the Default Tariff Price Cap methodology

A further reason for Ofgem to undertake an IA is to ensure that where the new obligations place material additional costs on suppliers, this can be taken into account in the Default Tariff Cap (DTC) methodology – bearing in mind that the DTC may remain in place until the end of 2023. To be clear, we are not in principle opposed to new obligations that impose material additional costs, but it would be inconsistent with the spirit of the Tariff Cap Act not to allow for them in setting the level of the cap.

Identification of self-rationing

Identification of self-rationing is much more challenging than self-disconnection (as Ofgem appears to recognise). An issue specific to self-rationing is the length of consumption trend data required to assess statistically significant changes in customer consumption. As noted in the consultation, detecting self-rationing necessitates a good understanding of a customer's "normal" consumption level to assess where deviations may be indicative of self-rationing and from our initial assessment we think there will be a significant level of analysis and engagement with consumers required to establish sufficient patterns and evidence to identify self-rationing. We estimate that the costs could be significant (potentially circa £[X] in year 1 for ScottishPower) and we believe it is important Ofgem considers both the costs and benefits of alternative options within an impact assessment.

Minimum standards in relation to "All reasonable steps" and "Appropriate support"

Whilst we recognise the benefit of allowing suppliers flexibility (and scope to innovate) in the way that they deliver on the high level objectives, we would also note that this could potentially detract from Ofgem's objective that customers experience a consistent level of protection and support regardless of their supplier. It may also lead to divergent levels of compliance with the licence condition with associated impacts on competition.

We therefore believe it may be helpful for Ofgem to be able to provide, from time to time, more specific guidance to suppliers as to what minimum standards of compliance it considers are required by the 'all reasonable steps' and 'appropriate support' obligations, for both self-disconnection and self-rationing. This would provide a more robust basis for Ofgem to take enforcement action, if required, and could help promote sharing of best practice and a consistent customer experience. For example, Ofgem could include an additional provision in SLC27A.1 to the effect that '*Ofgem may, from time to time, issue guidance on how it expects licensees to comply with this condition, such guidance to be consulted on and impact assessed.*' This would have the advantage that as new capabilities or options become available, potentially with material cost implications,

Ofgem could undertake an IA at a point in time where there is greater clarity over the costs and benefits.

Definition of friendly, emergency and discretionary credit

We do not agree with Ofgem's definitions of emergency, friendly and discretionary credit in the proposed SLC 27A, which refers to them as "interest free (fixed) loans". The current licence does not prevent suppliers charging interest on any other element of consumer debt, and we do not believe it appropriate for Ofgem to do so in this instance, particularly when it has not discussed the reasons for doing so in the consultation. In any case, the proportionality principles for debt recovery in SLC 28B.5.b should provide sufficient consumer protection in this respect.

Issues of affordability

We welcome the introduction of a more consistent framework for all suppliers in providing support to consumers struggling to pay for their energy by providing short term credit to mitigate the health and safety implications of self-disconnection. However we feel strongly that broader engagement across industry including with Ofgem, Government and consumer bodies is required to understand the support that is needed for those customers with long-term financial vulnerability - it is not appropriate for suppliers to bear all of this responsibility.

To tackle the wider issue of long-term financial vulnerability, we believe both Government and customers have roles to play in ensuring appropriate outcomes are achieved. We note also that the proposed Breathing Space regulations place some responsibility on the debtor and highlight that there is no obligation on the customer to utilise the help available and engage with the supplier to seek a sustainable solution.

If you have any comments or queries on any aspect of this response please do not hesitate to contact me, Lisa Cunningham (lisa.cunningham@scottishpower.com) or Haren Thillainathan (hthillainathan@scottishpower.com).

Yours sincerely,



Richard Sweet
Head of Regulatory Policy

PROPOSALS TO IMPROVE OUTCOMES FOR CONSUMERS WHO EXPERIENCE SELF-DISCONNECTION AND SELF-RATIONING – SCOTTISHPOWER RESPONSE

Chapter 3. Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing

Question 1: Do you agree with our proposal to require suppliers to identify prepayment self-disconnection and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

We agree with Ofgem's rationale for requiring suppliers to identify prepayment meter customers who are likely to have self-disconnected. We also support the aim for sharing of best practice regarding identifying self-disconnection. As Ofgem notes, there is an important role for Ofgem and other third parties to play in facilitating this sharing of information.

Whilst we recognise the benefit of allowing suppliers flexibility (and scope to innovate) in the way that they deliver on the high level objectives, we would also note that this could potentially detract from Ofgem's objective that customers experience a consistent level of protection and support regardless of their supplier. It may also lead to divergent levels of compliance with the licence condition with associated impacts on competition.

We therefore believe it may be helpful for Ofgem to be able to provide, from time to time, more specific guidance to suppliers as to what minimum standards of compliance it considers are required by the 'all reasonable steps' and 'appropriate support' obligations, for both self-disconnection and self-rationing. This would provide a more robust basis for Ofgem to take enforcement action, if required, and could help promote sharing of best practice and a consistent customer experience. For example, Ofgem could include an additional provision in SLC27A.1 to the effect that:

'Ofgem may, from time to time, issue guidance on how it expects licensees to comply with this condition, such guidance to be consulted on and impact assessed.'

This would have the advantage that as new capabilities or options become available, potentially with material cost implications, Ofgem could undertake an IA at a point in time where there is greater clarity over the costs and benefits.

At this stage we have the following observations on the all reasonable steps and appropriate support requirements:

All reasonable steps

- **Access to half-hourly data** – The consultation document is clear that Ofgem expects suppliers to utilise smart meter data for the purposes of identifying self-disconnection and we agree that this is an important source of information to suppliers in this regard. We would note that to be able to do so, suppliers must have consent from customers to access their half-hourly data and use it for this purpose. In addition, while our initial view is that existing consents should allow half-hourly consumption data to be used for this additional purpose, suppliers will need to confirm this internally and also consider how often suppliers would be expected to engage smart prepayment customers to review the consent.

- **Analysis of smart data** – Based on our current portfolio, and assuming all existing prepayment customers agree to have a smart meter installed, ScottishPower could eventually have around 600,000 smart prepayment customers. The resultant half-hourly consumption data and payment/top-up information would be a substantial volume of data (even assuming only a proportion of customers give consent). One way of using this data would be to develop an algorithm to analyse the data to identify potential disconnection. We estimate (see Annex 2) that developing and maintaining such an algorithm for this volume of data would incur significant costs. Given the level of estimated costs involved, we believe it is essential that Ofgem undertakes an IA to analyse the relative costs and benefits of alternative approaches to fulfilling the “all reasonable steps” obligation, given that such measures would clearly represent a step change from current approaches using traditional PPM data;
- **Customer engagement** - we believe further assessment should be undertaken to understand expectations of what is reasonable in terms of contacting a domestic prepayment customer (traditional or smart), once they have been identified as possibly self-disconnecting, to confirm whether self-disconnection is occurring so that monitoring and support can be offered. This is a sensitive issue and in our experience prepayment customers may in fact view multiple attempts to contact them in a negative manner. Suppliers will need to take this into account in assessing the appropriateness of any contact strategy. Again, we have provided some tentative cost estimates in Annex 2.

Appropriate Support

- **Longer term vs short term support** – we believe that in most cases the reason for a customer self-disconnecting will be either a change resulting in short term crisis or a longer term vulnerable situation. The latter is likely to require a wider and more holistic set of supporting actions, for example, debt and budget management advice rather than (or as well as) measures narrowly focussed on mitigating self-disconnection in the short term. We would also note, as set out later in this response, that if customers are frequently experiencing self-disconnection, providing them with frequent credit through short term measures may exacerbate their situation by contributing to unsustainable debt levels and causing greater customer concern. In such cases, it may be that referring such customers to third parties who can help identify and address the root causes of the self-disconnection may be more beneficial.
- **Affordability** - we note that in the research referenced by the consultation, over a fifth of cases of self-disconnection were due to affordability reasons – and within this, the vast majority of those households had one or more indicators of vulnerability. In such cases, affordability goes beyond energy and in this context we believe it is important for Ofgem to clarify what is reasonably expected from suppliers in providing direct support rather than referring customers to third parties to provide wider support.
- **Broader engagement** - we feel strongly that broader engagement across industry including with Ofgem, Government and consumer bodies is required to understand the support that is needed for those customers with long-term financial vulnerability - it is not appropriate for suppliers to bear all of this responsibility.

Question 2: Do you agree with our proposal to require suppliers to identify self-rationing and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

We broadly agree with Ofgem's proposal to introduce a requirement for suppliers to take all reasonable steps to identify customers who may be self-rationing however would highlight that this is a much more difficult outcome to monitor for than self-disconnection which Ofgem itself appears to recognise within the consultation document.

We have similar comments on this proposed licence conditions to those set out in response to Question 1 on self-disconnection, in particular our suggested addition to the licence condition to enable Ofgem to issue more specific guidance from time to time (subject to consultation and IA as appropriate) as to what minimum standards of compliance it considers are required by "all reasonable steps" and "appropriate support".

We would make the following additional points with regards to self-rationing:

- We would highlight that this obligation goes beyond existing requirements within the licence conditions, with Ofgem itself noting that no supplier is currently monitoring for potential self-rationing by customers. Accordingly we believe it is essential that Ofgem undertakes an adequate IA to understand the costs of the proposals and the benefits to consumers before such aspects of the obligation are imposed on suppliers.
- We think the issues we have highlighted in our response to Question 1 are likely to be more acute for self-rationing than self-disconnection, in that it is much harder to identify self-rationing with confidence, therefore greater resource will be required and due to the focus on vulnerability within this licence condition, customers will need to be engaged with greater care. Furthermore, self-rationing is likely to be symptomatic of inherent and long term affordability issues that are more appropriately addressed by Government and other agencies than only energy suppliers.
- An issue specific to self-rationing is the length of consumption trend data required to assess statistically significant changes in customer consumption. As noted in the consultation document, detecting self-rationing necessitates a good understanding of a customer's "normal" consumption level to assess where deviations may be indicative of self-rationing, and from our initial assessment we think there will be a significant level of analysis and potentially engagement with consumers required to establish sufficient patterns and evidence to identify self-rationing. As we set out in Annex 2, we think the potential costs of this could be significant, depending on what is considered to be required by all reasonable steps and as noted we believe it is important Ofgem considers both the costs and benefits of alternative options within an impact assessment.
- Taking this into account, it might be appropriate for any guidance published by Ofgem (see above) to specify how quickly suppliers would be expected to identify self-rationing subject to the amount of historic consumption data available for that customer. Furthermore, our potential approach will be to use a spectrum of indicators not only consumption information to narrow down the risk of false positives and focus efforts on those consumers most likely to need support.
- We think there are additional risks around customer contact for self-rationing in addition to those raised for self-disconnection in response to Question 1. Understanding the individual circumstances of a customer is essential to understanding the reasons why there may be changes in a customer's energy usage. However, even with the potential improved data on customer usage from smart metering, suppliers are likely to have

limited information on the wider context of a customer's life and how this may impact on their consumption. For example, households may reduce their energy usage for any number of reasons, such as wanting to be more energy efficient or other changes of circumstances that do not relate to vulnerability.

- We have some concerns that consumers could consider supplier contact as invasive given the nature of the conversation that will take place for example, where suppliers are querying a customer's usage a customer could interpret this as the supplier attempting to get the customer to increase usage and subsequently charges being paid to that supplier.

Chapter 4. Proposals to reduce level and impact of temporary self-disconnection and self-rationing

Question 3a: Do you agree with our proposal to require suppliers to offer emergency and friendly credit functions for all prepayment meter customers?

We support Ofgem's proposal to introduce this obligation on the basis it is intended to ensure there is consistent provision of friendly and emergency credit by all suppliers. We agree that, in general, provision of these forms of credit will be helpful to customers who find themselves self-disconnecting for temporary reasons e.g. inability to get to a top-up point.

We are pleased Ofgem has recognised the potential technical limitations of provision of these types of credit, eg friendly credit for traditional gas PPMs. That said we believe Ofgem should specify what it would consider reasonable alternative short term support where the provision of these short term credits is not technically feasible. In light of such details, we cannot make a full assessment at this point whether Ofgem's conclusion that this obligation would not impose material costs on the industry is correct.

Question 3b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

We do not agree with Ofgem's definitions of emergency and friendly credit within the proposed SLC 27A which refers to them as "interest free (fixed) loans".

First, we do not believe that there is justification or indeed it is necessary for Ofgem to introduce terminology that in effect prescribes the rate of interest on such amounts of credit provided to consumers. The current licence does not make any similar restriction on the interest rates that suppliers can charge for consumer debt, and we do not believe it appropriate for Ofgem to introduce such a significant policy change in this instance - particularly when there has been no discussion of this aspect of the proposals in the consultation. Furthermore we would note that the proportionality principles for debt recovery in SLC 28B.5.b should provide sufficient consumer protection in this respect.

Second, we also have concerns that the use of the word 'loan' could unintentionally bring these arrangements within the scope of FCA regulations. We would propose both are defined as "Amounts of credit that are recoverable..."

As mentioned in our response to Question 3a, we believe Ofgem should provide greater clarity on what it considers constitutes "all reasonable steps" to provide that customer alternative short term support in a timely manner" in SLC 27A.4.

Question 4a: Do you agree with our proposal to require suppliers to offer discretionary credit for prepayment meter customers in vulnerable circumstances?

Yes, we generally agree with this proposed obligation to ensure the availability of discretionary credit from all suppliers. We welcome Ofgem's recognition that provision of discretionary should be assessed on a case-by-case basis, this way suppliers can ensure discretionary credit is targeted at those vulnerable customers who find themselves at risk of temporary disconnection e.g. those returning from hospital and unable to get to pay-point. This approach will also enable suppliers to identify vulnerable customers with more acute and longer term problems who would better served being referred to third party organisations who can provide more holistic and wider support to address these issues.

Question 4b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

Please see our response to Question 3b, similarly we do not agree Discretionary Credit should be defined as "An interest free loan..."

Chapter 5: Customers in ongoing financial difficulties

Question 5: Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence?

We agree with Ofgem that incorporating the principles into the licence conditions should give the principles greater prominence and improve adherence by all suppliers. Ofgem suggests in paragraph 5.4 that smaller suppliers have a higher number of customers with debt repayments of larger amounts which could suggest they are not applying the ability to pay principles. In this context we note that Ofgem recently amended the supply licence application regulations in particular to ensure new applicants are able to demonstrate their ability to comply with their licence obligation and we believe that it is important that Ofgem includes the ability to pay principles within this part of the licence application process.

Question 6: 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?

We agree with the stated intent in paragraph 5.11 to update the principles to capture new practices and approaches adopted by certain suppliers, including to take account of the changes relating to the introduction of smart meters, but still recognising that existing practices in most cases will remain fit for purpose. Specifically, we note the example on providing information on how repayment rates are set where the repayment is a proportion of the top-up rather than a fixed amount. In this respect we would welcome clarification that such changes should not preclude suppliers setting repayments as fixed amounts.

We note that Ofgem has at this point not provided any proposed drafting of the licence conditions proposed to be implemented, particularly around the proposed amendments to the existing principles. We would highlight that suppliers and other stakeholders must have sufficient opportunity to review these during the consultation process, and in particular would note that normal practice is for draft licence conditions to be issued for policy consultation ahead of statutory consultation.

**PROPOSALS TO IMPROVE OUTCOMES FOR CONSUMERS WHO EXPERIENCE
SELF-DISCONNECTION AND SELF-RATIONING
– SCOTTISHPOWER IMPACT ASSESSMENT**

As noted in Annex 1, we disagree with Ofgem’s decision not to undertake an impact assessment (IA) of its proposals. Ofgem’s justification appears to be largely based on the assumption that the proposals are aligned with existing voluntary principles meaning that costs of implementation will be low. However we do not agree that all of the proposals are of this nature, with some clearly introducing additional requirements on suppliers, for example the obligations relating to self-rationing.

We believe the proposals set out in the consultation document could impose material costs on suppliers, and believe that for each proposal, in order to make an informed decision on the proposals including a consideration of any additional allowance that would be recoverable through the default tariff cap, a full IA is necessary.

To assist Ofgem, and to demonstrate the potential materiality of the costs, we set out in Tables 1 and 2 our tentative estimates of the range of costs that could potentially be incurred, based on the information in the consultation document, and in relation to those obligations which go beyond current practice. We would note however that additional clarity from Ofgem around expectations on what would constitute “all reasonable steps” would be required in order to refine any estimate of costs.

Table 1 – Possible cost implications of self-rationing obligation

	Explanation/assumptions	Estimated cost
Identification	System changes to automate identification of potential self-rationing.	£[redacted] (one off)
Operational costs	<ul style="list-style-type: none"> We estimate the potential volume of customers that may be facing self-rationing using Christians Against Poverty research that finds 59% of households with multiple vulnerabilities are more likely to go without or limit use of essentials like fuel. We then apply this percentage to the subset of our customer base with more than one vulnerability flag recorded. We estimate the cost to engage per customer as an average cost per contact (letter or email). Using the demand profiles from similar communications we estimated a [redacted]% demand rate and multiplied this by the average cost of contact to estimate potential reactive costs. Finally, the volume remaining from initial population of customers contacted, minus the contact received, leaves the total volume of site visits required, which is multiplied by the cost per visit. 	£[redacted] (ongoing, annual)
Monitoring	Costs include those in relation to monitoring of customer activity following discovery of concern along with internal audit activity.	£[redacted] (ongoing, annual)
Total		£[redacted] (Year 1)

Table 2 – Possible cost implications of self-disconnection obligation

	Explanation/Assumption	Estimated costs
Identification	System changes to automate identification of self-disconnecting by customers with smart meters	[£] (one-off)
Operational Costs	The new identification system using smart data will mean that situations where the customer has exhausted credit will be more readily detectable. We have assumed for the purposes of illustration that this increases the number of instances detected by a factor of three, and hence incur incremental costs as shown.	[£] (ongoing, annual)
Total		£[£] (Year 1)

We would make the following points in relation to our estimates:

- Due to the short timescales for responding to this consultation we have had to make assumptions based on our experience of the market and previous changes to our IT systems. However, at this point we believe these should provide an illustration of the possible magnitude of the costs.
- As set out above, we believe further clarity from Ofgem is required around what would constitute “all reasonable steps” and “appropriate support”, therefore the costs below represent a range of possible options to inform the wider impact assessment that we strongly believe Ofgem should undertake.
- We have based our estimates assuming we retain a similar proportion of customers in vulnerable circumstances to those already recorded on our customer records.
- We have based our estimates using our experience of previous similar activities in terms of IT build and or forecasted volumes.
- We would note that traditional dumb meters have limitations in relation to identification of both self-disconnection and self-rationing. For dumb meters we can only measure based on a set time period whether we consider a customer may have potentially self-disconnected. Even with this approach we may in fact contact customers that are on supply because the information we are using is transported entirely through prepayment industry flows that are communicated via top ups and the meter and the data needs the opportunity to pass over. With smart meters, we will have real time data (subject to customer consent), and we believe this will allow identification of customers we had no way of identifying through traditional meter data and this will lead to an increase in volume of self-disconnection alerts.

ScottishPower
September 2019