

Impact Assessment

Self-disconnection and self-rationing – draft Impact Assessment

Division:	Consumers and Markets	Type of measure:	Consumer protection
Team:	Vulnerability and Consumer Policy, Future Retail Markets	Type of IA:	Not Qualified under Section 5A UA 2000
Associated documents:	Self-disconnection and self-rationing final proposals – statutory consultation	Contact for enquiries:	Daniel Roberts, Manager Arina Cosac, Senior Manager CDconsultations@ofgem.gov.uk
Coverage:	Full coverage		

We welcome views from stakeholders on the draft Impact Assessment. Please see 'Self-disconnection and self-rationing final proposals – statutory consultation' which accompanies this Impact Assessment for instructions on how to respond to the consultation and further context on the policy proposals.

Please note the analysis that underpins the draft Impact Assessment and consultation document was carried out before the onset of the COVID-19 crisis. We have taken into account initial impacts of COVID-19 where appropriate.

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What is the problem under consideration? Why is Ofgem intervention necessary?

Self-disconnection occurs when prepayment meter (PPM) customers go off supply because the credit on the meter has been exhausted or the credit is not easily accessible. We have been concerned about the number of PPM customers self-disconnecting each year and the significant negative impacts that this can have on customers, particularly those in vulnerable circumstances. PPM customers are more likely to be vulnerable¹ and fuel poor² than customers on other payment methods.

The COVID-19 crisis has caused additional challenges for some PPM customers, particularly those who have experienced difficulty in topping-up their PPM whilst self-isolating and those who have been impacted financially as a result of the crisis.

We believe that Ofgem intervention is necessary given the number of PPM customers experiencing self-disconnection has failed to reduce since data recording began in 2014.³ Our 2019 Consumer Engagement Survey indicated that 14% of PPM customers self-disconnected at least once a year, an increase on the previous year.⁴ This equates to an estimated 479,000 gas and 607,000 electricity customers. It is important to note that there are likely to be some overlaps in these customer numbers as customers will have a PPM for both gas and electricity and may disconnect from both fuel types at one time. Consequently, the overall detriment experienced by one person would be high as they are likely to be self-disconnecting from two fuels.

We also believe intervention is necessary as the level of individual consumer harm experienced can be significant. While PPM customers self-disconnect for a number of reasons⁵, our evidence suggests that the detriment experienced as a result of self-disconnection can be severe, ranging from the physical impacts of living in a cold home to the emotional impacts of dealing with financial stress and increased anxiety. Self-disconnecting due to a lack of funds is a key reason why customers may self-disconnect,

¹ Citizens Advice [consumer survey](#) found 41% of all PPM customers reported health issues, including 15% reporting mental health issues.

² In England for both gas and electricity, twice as many fuel poor households pay their energy bills by prepayment compared to all households, with around 27% of households paying via PPM in fuel poverty in 2017. See BEIS (2019) [Annual Fuel Poverty Statistics Report](#).

³ Citizens Advice (2014) [Topping-up or dropping-out: self-disconnection among prepayment users](#)

⁴ Ofgem (2020) [Consumer Engagement Survey 2019](#)

⁵ See our [policy consultation](#) for more detail on key reasons for self-disconnection

with Citizens Advice data showing 21% of households surveyed self-disconnecting for affordability reasons. It is particularly concerning that 88% of these households contained a child or someone with a long term health condition and 50% reported suffering from mental health issues. Moreover, PPM customers who are in debt are more likely to self-disconnect, showing the links between payment difficulties and self-disconnection.⁶

In addition, when carrying out our review into self-disconnection, we received evidence that there was variation in the levels of support offered to customers who were self-disconnecting, or struggling to pay bills, by suppliers and that the level of support offered by some suppliers fell short of our expectations. We therefore consulted on proposals to address these concerns in August 2019. The proposals aimed to raise standards regarding suppliers' identification of customers who were self-disconnecting; increase consistency regarding the provision of short-term support credit to customers in difficulties; and to ensure that suppliers were taking into account the customers' ability to pay when offering support.

The accompanying statutory consultation sets out a refined package of proposals, designed to ensure that all suppliers are taking steps to identify and provide support to customers who are experiencing financial difficulties, including those who are at risk of self-disconnection.

What are the policy objectives and intended effects including the effect on Ofgem's Strategic Outcomes?

Our policy objectives are to reduce the level of self-disconnection by bringing a sustained reduction in the number of customers self-disconnecting each year and to reduce the detriment caused by self-disconnection.

While customers may self-disconnect for a number of reasons, the severity of the self-disconnection can vary with the length and frequency that the self-disconnection occurs. For the purposes of this work, we differentiate between self-disconnection as a result of short-term situations and self-disconnection as a result of ongoing situations. We believe that those experiencing self-disconnection on an ongoing basis will require a different type of support from those who self-disconnect as a one-off.

⁶ Citizens Advice (2018) [Switched on: support for prepayment consumers who've self-disconnected](#)

The intended effects of our policy are for customers to be identified quickly when they are self-disconnecting and be provided with the appropriate support depending on their circumstances. Customers who are self-disconnecting as a result of a short-term issue will be able to limit any physical and/or emotional impacts by preventing the risk of going off-supply or by returning to supply quickly should this occur, through access to credit facilities. These customers will also be provided with the necessary information to access short-term support, which is likely to reduce the risk of repeated instances of short-term self-disconnections.

As a result of Ofgem’s intervention, we expect that customers who are self-disconnecting because of an ongoing vulnerable circumstance are not only able to get quickly back on supply to limit any physical or emotional impacts, but can avoid self-disconnection occurring at the outset through tailored plans that suit their individual needs, such as manageable repayment rates for existing debt on the meter. This sustainable support can minimise the risk of repeat self-disconnections in the future.

Our self-disconnection policy is aligned with our statutory duty and one of our three strategic priorities, that of protecting consumers, especially the vulnerable, as outlined in Ofgem’s 2019-23 Strategic Narrative.⁷ Energy is an essential service and we require all suppliers to treat consumers in vulnerable circumstances fairly. This effort is coordinated by our Consumer Vulnerability Strategy 2025, which considers the outcomes we want to see in the market in the near future.⁸

One of the key outcomes we want to see in the market as part of CVS 2025 is better support for consumers who are at risk of self-disconnecting and a decrease in the number of self-disconnections. A closely linked outcome we want to realise is to ensure consumers in payment difficulty are proactively supported, including by being put on an affordable payment plan.

⁷ Ofgem (2019): [Strategic narrative: 2019-23](#)

⁸ Ofgem (2019) [Consumer Vulnerability Strategy 2025](#)

What are the policy options that have been considered, including any alternatives to regulation? Please justify the preferred option (further details in Evidence Base)

- Option 1: **Do nothing**
- Option 2: **Identification of self-disconnection and short-term support through mandated credit functions**
- Option 3: **Identification of self-disconnection and ongoing support through updated Ability to Pay principles**
- Option 4: **Identification of self-disconnection, short-term support through mandated credit functions and ongoing support through updated Ability to Pay principles (preferred option)**

We considered four policy options to improve outcomes for customers who are self-disconnecting. Option 1 considered keeping the status quo with no new regulatory requirements, which means a continuation of existing market practices.

Option 2 considered one aspect of the problem identified, aiming to address short-term self-disconnection through the identification of self-disconnection and provision of emergency credit, friendly-hours credit, additional support credit for consumers in vulnerable situations (previously referred to as 'discretionary credit'), and increased awareness of these PPM credit functions. This would be achieved through introducing new regulatory requirements on suppliers. As part of changes to the proposals at statutory consultation stage, we have updated the terminology of the 'discretionary credit' definition to better reflect our policy intent and the obligatory nature of the requirement for customers in a vulnerable situation.

Option 3 aimed to address the more frequent and prolonged self-disconnection by customers in vulnerable circumstances through the identification of self-disconnection and the introduction and update to the Ability to Pay (ATP) principles for customers who are in financial difficulties by introducing new requirements on suppliers.

Our preferred option (Option 4) is to introduce a set of targeted measures encompassing identification, short term and ongoing support for customers. This would require suppliers to identify PPM customers who are self-disconnecting from their energy supply,

accompanied by proposals to reduce the level and impact of temporary self-disconnection through the formalisation of the emergency, friendly-hours and additional support credit for consumers in vulnerable situations credit functions. Finally, to address the level and impact of ongoing self-disconnection, the updating and incorporation of existing ATP principles into the supply licence conditions is expected to strengthen current protections for all customers in payment difficulties.

We consider the pros and cons for each option in this impact assessment and believe that the broad package of proposals under Option 4 best satisfies our policy objectives and will most likely deliver our desired outcome of providing holistic protections to customers who experience self-disconnection.

Preferred option - Monetised Impacts (£m)

Business Impact Target Qualifying Provision	Non-qualifying
Business Impact Target (EANDCB)	N/A
Net Present Value (benefit to GB consumer minus industry costs)	-£370,000 to -£770,000

The net benefit to GB consumers figure outlines the range of consumer savings over the five-year period between 2021-2025 as a Net Present Value (NPV), calculated with a discount rate of 3.5%. This NPV figure only considers the monetised benefits associated with our credit function proposal and not the other policy areas as the impacts of these, although significant given the physical and emotional nature, are hard to monetise. The benefit for the consumer is quantified by the potential consumer savings made through no longer requiring alternative sources of financing to fund energy consumption, in this case we use payday loans as one of the possible sources of alternative financing.

This NPV figure also takes the average cost imposed on industry as a result of introducing the new requirements. We have set out a series of estimated costs for industry based on 2019 supplier request for information (RFI) data, consumer survey data, and standard cost modelling. For the purposes of this assessment, we assume that the ongoing costs of the new Ability to Pay principle will remain constant throughout the five-year period and consider this a likely overestimation of costs. We distinguish between ongoing costs and upfront cost in the assessment where applicable.

Taking the annual costs and benefits per year, we estimate that the direct costs on industry through implementing proposals to improve outcomes for consumers who experience self-disconnection to range between £300,000 – £510,000 per year, with the monetised consumer benefits ranging from £60,000 - £535,000 per year. Taking an average of the yearly costs and benefits over the five-year period for assessment, and adopting a mid-range and high-range estimate, leads to a total NPV range of -£370,000 to -£770,000. All monetary values within this impact assessment are based on real 2019 values adjusted for inflation, unless otherwise stated.

We have considered some of the potential wider costs for society as a result of implementing these policy proposals, such as estimating increased carbon costs. For more details, see paragraph 3.31.

Preferred option - Hard to monetise impacts

Describe any hard to monetise impacts, including mid-term strategic and long-term sustainability factors following Ofgem IA guidance

The monetised figures do not represent the full benefits to consumers. In addition to the quantified monetised impacts, we expect that this package of reforms will have a significant impact on consumers' physical and emotional health. We also identified a number of hard-to-monetise impacts on suppliers.

The objective of the self-disconnection policy is to reduce the number of self-disconnections and the level of consumer detriment. There are a number of benefits to consumer welfare which we have considered under our hard to monetise assessment.

We expect that the implementation of our preferred option will reduce physical impacts of self-disconnection such as feeling cold, living in a damp home and/or not being able to wash. We believe this will both reduce the likelihood of customers developing a cold, respiratory and circulatory illnesses or poor physical health as a result of short and long-term protections and reduce the risk of exacerbating existing health problems as a result of the long-term protections. This will particularly have an impact on households with children and/or elderly as they are more likely to be negatively impacted by living in a cold home. We also consider that our preferred option will lead to a reduction in negative emotional impacts on consumers such as stress from practicalities of topping-up, financial stress, and feelings of shame or embarrassment. This will particularly have an impact on households experiencing financial difficulties and/or mental health problems as they are more likely to be negatively affected by living in a cold, dark home.

In terms of the hard-to-monetise impacts on suppliers, we have identified a number of impacts, which include:

- The one-off, upfront costs to updating IT systems to allow for real-time identification of self-disconnection for smart meters in PPM mode.
- The additional costs (and resulting benefits) of providing customers friendly-hours credit.
- The additional costs (and resulting benefits) of engagement after a customer has been identified as self-disconnecting.
- The additional costs (and resulting benefits) of providing other suitable support to customers who are unable to benefit from the credit facilities due to the technical constraints of certain meter types.

We are aware that a number of suppliers have already put systems in place or were already planning to implement these changes as part of the smart meter roll out. We highlight these additional costs as a result of implementing these proposals and consider the benefits to consumers to outweigh the costs. The interdependent nature of these costs also mean that through time by achieving the policy objectives, we will see a stabilisation of costs relating to identifying and supporting these customers.

Key assumptions/sensitivities/risks

- We estimate the anticipated reduction in the number of customers self-disconnecting as a result of this policy intervention and quantitatively assess cost and benefits based on these reductions.
- Based on historical data on the number of self-disconnections, we assume that without policy intervention the number of customers self-disconnecting will remain stable.
- We assume that suppliers will continue to provide the same amounts of emergency and additional support (discretionary) credit if it were to remain a voluntary practice, based on the data submitted in the 2019 RFI. All suppliers in the RFI already provide emergency and additional support credit on a voluntary basis.
- We rely on data provided by eight suppliers from the 2019 RFI to make assumptions on the average value of emergency and additional support (discretionary) credit provided per customer, per year.
- We assume for the purposes of the analysis that if customers do not access the supplier credit function facilities they would need to borrow credit from other sources in order to stay on supply – such as payday lenders, friends or family.
- We assume that the ongoing costs associated with the identification and Ability to Pay proposals remain constant year on year.

Key risks

- The smart meter rollout progress will impact on the effectiveness of real time identification.
- Inconsistent data may lead to some under estimation or over estimation of costs to industry.

Will the policy be reviewed? Yes, as part of our outcomes-based assessment of the Consumer Vulnerability Strategy 2025	If applicable, set review date: By 2025
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In summary, we expect the main benefits of these proposals to fall on those customers who currently experience self-disconnection or are at risk of doing so. We expect them to gain greater access to the provision of repayable credit from suppliers and also through unquantified reductions in wider consumer detriment, such as health and social impacts. We believe that such customers are disproportionately likely to be in a vulnerable situation.

Through the estimates outlined in this assessment, we predict that the total net costs to suppliers across the industry by 2023 will be £1.1m. There are currently 8.3m gas and 9.2m electricity customer accounts on fixed tariffs in GB.⁹ If suppliers choose to pass on these costs promptly to the rest of their customer base rather than through an uplift in PPM tariffs at the end of the cap period, these figures suggest that the average bill of a fixed tariff customer could increase on average by £0.02p per account, per year (nominal value). However, it should be noted that this customer segment is the most engaged and sensitive to price increases, so suppliers may be more cautious about adopting this strategy in isolation.

⁹ Ofgem (2020) For details on the distribution of customers by tariff type for individual large and medium suppliers see [Ofgem data portal – prices and profits](#).

1. Problem under consideration

Section summary

In this section, we set out the problem under consideration and the justification for intervention providing information on scale of the problem, existing market practices and characteristics of the PPM market. We also outline relevant insights from the response to COVID-19 so far.

Context

1.1. This impact assessment focusses on proposals to address issues associated with prepayment meter (PPM) customers self-disconnecting from their energy supply. There are a reported 4.3 million and 3.4 million electricity and gas PPM consumers respectively.¹⁰ We know that customers who use PPMs are more likely to be vulnerable¹¹ and fuel poor¹² than customers on other payment methods.

1.2. Self-disconnection refers to the scenario where PPM customers experience an interruption to their electricity and/or gas supply because of a lack of credit on the meter or the credit is not easily accessible.

1.3. Strengthening protections for consumers who are self-disconnecting and for those who are in financial difficulties are key priorities for Ofgem as outlined in our Consumer Vulnerability Strategy 2025.¹³

¹⁰ Ofgem (2019) Supplier RFI – data correct as of October 2019

¹¹ Citizens Advice [consumer survey](#) found 41% of all PPM customers reported health issues, including 15% reporting mental health issues.

¹² See BEIS (2019) [Annual Fuel Poverty Statistics Report](#).

¹³ Ofgem (2018) [Consumer Vulnerability Strategy 2025](#)

Scale of self-disconnection

1.4. We are concerned about the number of customers self-disconnecting each year and the significant negative impacts this can have on customers, particularly those in vulnerable circumstances. Our 2019 Consumer Engagement Survey indicated that 14% of PPM customers self-disconnected at least once last year, an increase on the previous year where 10% of PPM customers identified as having self-disconnected.¹⁴

1.5. To build on this evidence, we asked suppliers for data on the number of customers who are self-disconnecting each year. While monitoring of self-disconnection remains limited and in most cases uses non-vending as a proxy for self-disconnection¹⁵, supplier data shows similar and, in some cases, higher incidence of self-disconnection cases.

Reasons for self-disconnection

1.6. There are a number of reasons why a customer may self-disconnect and we have seen that an inability to top-up and stay on supply can relate to both customers' characteristics or circumstances as well to a supplier's delivery of its services. We have characterised these into five non-mutually exclusive risk factors: affordability, customer awareness (including forgetfulness and being unaware the meter is low on credit), accessibility, technical constraints and customer choice.¹⁶

1.7. While customers may self-disconnect for a number of reasons as discussed above, the severity of the self-disconnection can vary with the length and frequency that the self-disconnection occurs. For the purposes of this work, we differentiate between self-disconnection as a result of short-term situations and self-disconnection as a result of ongoing situations. We believe that those experiencing self-disconnection on an ongoing basis will require a different type of support from those who self-disconnect as a one-off.

¹⁴ Ofgem (2020) [Consumer Engagement Survey 2019](#)

¹⁵ Non-vends are defined as whereby there is no record of the customer transferring credit to a prepayment meter through topping up. Customers who have not vended for a period of time may potentially be off supply.

¹⁶ See our [policy consultation](#) for more detail on key reasons for self-disconnection

Impacts of self-disconnection

1.8. The negative impacts of self-disconnection and self-rationing are well documented. Throughout our evidence gathering stage, stakeholders highlighted the significant physical and emotional impacts that self-disconnection and self-rationing can have on customers, with higher detriment experienced by those who are self-disconnecting or self-rationing regularly or for longer periods.

1.9. Citizens Advice research found that half of those who self-disconnected cited negative impacts on their physical and emotional wellbeing.¹⁷ The main physical impact of feeling cold was experienced by 59% of all those reporting a negative impact. This was closely followed by having a dark home and not being able to wash.

1.10. In addition to physical impacts, customers have also cited negative emotional impacts. Citizens Advice research found that the main emotional impact was financial stress, experienced by 27% of all those reporting a negative impact, which was closely followed by stress from the practicalities of topping up and feelings of shame and embarrassment.¹⁸

Gaps in consumer protection

1.11. In our policy consultation we highlighted our concern at the lack of consistency across suppliers when supporting customers. Evidence of self-disconnection suggests existing protections aren't applied consistently or sufficient enough to prevent it from occurring. The type of support needed by customers who are self-disconnecting as a result of an ongoing situation is likely to be different from the support required by those who are experiencing temporary or short term self-disconnection.

¹⁷ Citizens Advice (2018) [Switched on Improving support for prepayment consumers who've self-disconnected](#)

¹⁸ Ibid.

Identification of self-disconnection

1.12. Traditional meters still account for the majority of PPM's in the market¹⁹, although we are seeing an increase in the number of smart meters being installed in prepay mode. Currently, suppliers can monitor traditional customers through non-vending patterns (ie the period of time where there is no record of the customer topping up their PPM) which can provide an indication of self-disconnection, allowing suppliers to contact customers when they have not vended for a period of time (eg 28 days).²⁰ Smart meters have the ability to monitor customers' top-up activity in real-time, such as amounts vended and consumption quantities. Suppliers are able to monitor off-supply alerts, which are provided on a half-hourly or daily basis when a meter disconnects. However, in early 2019 we identified only one supplier that was actively monitoring this.

Short term support

1.13. The type of meter installed can affect a consumer's ability to access certain functions and top-up channels. The credit functions available on a PPM (emergency, friendly-hours and additional support credit) vary between supplier, fuel and meter type. These credit functions are currently provided on a voluntary basis and are repaid by the customer. Traditional gas meter customers cannot access friendly-hours credit. Smart meters provide customers with added functionalities, with smart PPM gas customers being able to access friendly-hours credit. These meters can also display high and low consumption alerts or audible alerts to indicate low credit.

Ongoing support

1.14. For customers who are experiencing repeated and prolonged self-disconnections there needs to be more sustainable, long-term solutions considered alongside the immediate remedy that the temporary credit functions provide.

1.15. Customers facing affordability challenges such as repaying debt through their PPM, customers with debts in other areas, as well as customers reliant on electric heating are

¹⁹ See [2018 Social Obligations Reporting data](#): traditional PPMs account for 67% of gas and 68% of electricity PPMs in the market.

²⁰ Our RFI suggests that suppliers can wait between 14-111 days before contacting a customer.

likely to be at an increased and ongoing risk of self-disconnection and self-rationing over a longer period of time. In addition, customers who self-disconnect from their gas supply on a seasonal basis are more likely to do so because of an ongoing affordability issue.

Coronavirus (COVID-19) response

1.16. In light of the coronavirus (COVID-19) crisis, we have focused our efforts on protecting consumers, especially the vulnerable. This includes PPM customers who are at risk of self-disconnection. During the crisis, we have been working closely with government and consumer groups to implement emergency measures to help these customers.

1.17. In March 2020, the government agreed an emergency package with energy suppliers to protect vulnerable people during COVID-19.²¹ Suppliers have been supporting PPM customers and those in financial difficulties who have been directly or indirectly impacted by COVID-19 based on individual circumstances. The potential risks and impacts on PPM consumers have also been a priority for Ofgem’s monitoring of the market. Our analysis of domestic suppliers’ data through a weekly COVID-19 RFI, shows that energy suppliers have stepped up to the challenge and have supported PPM customers to stay on supply during this period through providing financial support, such as suppliers extending emergency credit, friendly-hours credit and sending out additional credit to be added to the account or pre-loaded keys or cards for those customers who were unable to top-up their meter in order to ensure that they remained on supply. This support peaked at the end of March-beginning of April and has since decreased and levelled out, although remained above pre-COVID-19 levels.

1.18. There have also been commitments to support customers who were impacted financially as a direct or indirect result of COVID-19. These measures have included considering reassessing, reducing or pausing debt repayment and bill payments for domestic customers in financial distress. We expect suppliers to continue to uphold the voluntary agreement with BEIS, and to provide support to impacted customers. This

²¹ BEIS (2020) [Government agrees measures with energy industry to support vulnerable people through COVID-19](#)

includes ensuring that any debt management processes are fair and that repayment plans take account of ability to pay.

1.19. In April and May 2020, we ran consumer polls to understand customers' experiences in relation to energy usage and bills, which suggested that 22% of PPM customers surveyed had used emergency credit on their meter.²² Peak PPM financial support response to COVID-19 took place at the end of March 2020, the number of discretionary credits remained more stable while there was a greater increase in the number of preloaded keys and cards. The vast majority of this financial support was provided as repayable credit, although we have seen instances of credit provided as a goodwill gesture.

1.20. In this draft impact assessment and statutory consultation, we have considered insights from the COVID-19 crisis so far where applicable. While we believe our final proposals are appropriate to address the problems of self-disconnection and affordability that existed pre-COVID-19 as well as addressing some of the challenges during the lockdown period, we will also continue to monitor the medium and long-term consumer risks associated with COVID-19 and take regulatory action where needed.

²² Ofgem (2020) [What are consumers' energy experiences during the Covid-19 pandemic? April/May 2020 update](#)

2. Summary of options

Section summary

In this chapter we set out our options for assessment, separating our policy proposals into different potential combinations for intervention and outline our estimates for a reduction in the levels of self-disconnection as a result of implementing each option. This section contains summary tables of all costs, benefits and consumer outcomes we assess.

Summary table for all options

2.1. As outlined in the summary of options table below, we have considered a number of different options for intervention. These options display different scenarios in which a combination of the three policy proposals could be implemented in an effort to achieve our policy objectives.

2.2. We have decided to include the identification proposal in each option, as we believe that regular monitoring and subsequent identification is necessary to allow suppliers to take the most appropriate action to support customers, whether this is short-term or longer-term support. We considered 'Credit functions + Ability to Pay' as an option but we do not think that this is appropriate given the reliance on the customer to trigger any impacts in this scenario.

2.3. As part of changes to the proposals at statutory consultation stage, we have updated the terminology of the 'discretionary credit' definition to better reflect our policy intent and the obligatory nature of the requirement for customers in a vulnerable situation. The proposed legal definition of 'additional support credit' is used interchangeably with 'discretionary credit' throughout this document.

2.4. Each proposal and subsequent option for intervention has been assessed separately in Chapter 4 and summary tables of expected consumer outcomes and of costs and benefits are presented below.

Table 1: Summary of options

Option number:	Policy title:	Policy description:
1	Do nothing	Status-quo: The continuation of current market practices. An inconsistent approach to identifying customers who are self-disconnecting, voluntary short-term protections and inconsistent application of applying the Ability To Pay principles.
2	Identification + Credit functions	Suppliers are required to identify customers self-disconnecting and provide them with short-term support through the provision of credit functions.
3	Identification + Ability to Pay	Suppliers are required to identify customers self-disconnecting and strengthen existing Ability To Pay protections for customers in debt/financial difficulties to reduce risk of ongoing self-disconnections.
4 Preferred option	Identification + Credit functions + Ability to Pay	Suppliers are required to identify customers self-disconnecting, provide them with short-term support through the provision of credit functions and strengthen existing protections for customers in debt/financial difficulties to reduce risk of ongoing self-disconnections.

Summary tables of consumer costs and benefits, supplier costs and benefits

Summary table 2: Monetised consumer benefits per year

2.5. The table below contains the annual monetised consumer benefits set out in this impact assessment, split by each option for intervention. All monetary values within this impact assessment are based on real 2019 values adjusted for inflation.

Table 2: Monetised consumer benefits per year

Description of monetised consumer benefits	Option 1 <i>Do nothing</i>	Option 2 <i>Identification + credit functions</i>	Option 3 <i>Identification + Ability to Pay</i>	Option 4 <i>Identification + Credit Functions + Ability to Pay</i>
Consumer benefit of supplier financing emergency credit		£230,000 - £280,000		£260,000 - £350,000
Consumer benefit of supplier financing additional support credit		£12,000 - £17,000		£12,000 - £17,000
Total:	N/A	£245,000 - £300,000	N/A: Hard-to- monetise assessment	£270,000 - £370,000

Summary table 3: Hard-to-monetise consumer benefits

2.6. This table sets out the hard to monetise consumer benefits set out in this impact assessment, split by the potential options for intervention. We attribute a high, medium and low impact rating to each benefit.

Table 3: Hard to monetise consumer benefits

Description of hard-to-monetise consumer benefits	Option 1 <i>Do nothing</i>	Option 2 <i>Identification + credit functions</i>	Option 3 <i>Identification + Ability to Pay</i>	Option 4 <i>Identification + Credit Functions + Ability to Pay</i>
Access to friendly hours credit, preventing or reducing duration of self-disconnection		High		High

Increased awareness of the credit functions, likely to lead to fewer repeat self-disconnections		Medium		Medium
Reduced short-term physical impacts (eg developing colds, respiratory illness)		Medium		High
Reduced long-term physical impacts (eg exacerbating existing health problems, poor physical health)			Medium	
Reduced short-term emotional impacts (eg financial stress, mental health problems)		Medium		High
Reduced long-term emotional impacts (eg social isolation)			Medium	

Summary table 4: Monetised industry costs per year

2.7. This table sets out the associated estimated annual costs faced by industry, split by each potential option for intervention.

Table 4: Monetised industry costs per year

Description of monetised costs to industry	Option 1 <i>Do nothing</i>	Option 2 <i>Identification + credit functions</i>	Option 3 <i>Identification + Ability to Pay</i>	Option 4 <i>Identification + Credit Functions + Ability to Pay</i>
Ongoing costs associated with identification of self-disconnection	N/A	£35,000 - £55,000	£35,000 - £55,000	£35,000 - £55,000

Additional cost of financing emergency credit	N/A	£115,000 - £130,000	N/A	£125,000 - £145,000
Additional cost of financing additional support credit	N/A	£5,000 - £7,000	N/A	£12,000 - £17,000
New Ability to Pay Principle: Re-engaging with customers	N/A	N/A	£241,000	£241,000
Total:		£140,000 - £185,000	£275,000-£295,000	£400,000 - £460,000

Summary table 5: Hard-to-monetise costs to industry

2.8. This table outlines the hard-to-monetise costs faced by industry, split by potential options for intervention. These are likely to be dependent on current individual supplier practices. We attribute a high, medium and low impact rating to each cost.

Table 5: Hard to monetise costs to industry

Description of hard-to-monetise costs to industry	Option 1 <i>Do nothing</i>	Option 2 <i>Identification + credit functions</i>	Option 3 <i>Identification + Ability to Pay</i>	Option 4 <i>Identification + Credit Functions + Ability to Pay</i>
The additional costs of providing friendly-hours credit.		Low		Low
The one-off, upfront costs to updating IT systems to allow for smart meter identification of self-disconnection		Medium	Medium	Medium

The additional costs of engagement after a customer has been identified as self-disconnecting.		Medium	Medium	Medium
The additional costs for providing customers with an alternative means of accessing short-term support where emergency or friendly- hours credit cannot be provided (eg wind-ons).		Medium		Medium
Additional costs as a result of updates to existing ATP principles			Low	Low

Summary table 6: Hard-to monetise supplier benefits

2.9. The table below describes the hard to monetise benefits suppliers are likely to experience as a result of implementing these proposals. We attribute a high, medium and low rating for each impact.

Table 6: Hard to monetise benefits to industry

Description of hard-to-monetise supplier benefits	Option 1 <i>Do nothing</i>	Option 2 <i>Identification + credit functions</i>	Option 3 <i>Identification + Ability to Pay</i>	Option 4 <i>Identification + Credit Functions + Ability to Pay</i>
Decrease in customer contact as a result of greater consumer awareness in access of credit provisions		Low		Low

Better quality industry data assess trends and improve customer service.		Low	Low	Low
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Impact of options

2.10. Figure 1 below outlines the estimated effectiveness of each option for intervention within this impact assessment. We measure the reduction through the percentage of the total PPM customer base self-disconnecting from their energy supply at least once a year and assess this over a five-year period. We assess the impacts over a five-year period as we believe this is an adequate amount of time to allow implementation of the policy and the intended effects to fully take place.

2.11. These projections are estimates based on historical data. Through this data we know that the majority of self-disconnections are a result of short-term issues and therefore assume that the short-term focus through Option 2 will result in a faster rate of reduction than the longer-term remedies which are targeted on through Option 3. We predict that the rate of reduction will be the most effective through Option 4, where solutions to the short-term and ongoing reasons for self-disconnection are combined. These projections are estimates and will enable us to review the effectiveness of the policy should the indicative reductions not be achieved in the specified time period.

2.12. We acknowledge that it will be challenging to achieve a situation where there are zero self-disconnections, as there will always be an element of customer choice and unforeseen circumstances leading to a meter going off-supply (eg hospitalisation). We have not considered these figures as acceptable levels of self-disconnection but consider that stabilisation at 5% over time is a realistic assumption through our policy intervention. As noted, this assessment is based on historical data. We are aware that there will still be some unknown effects that could cause incremental increases or decreases to the number of self-disconnections which we have been unable to predict in this assessment.

2.13. We believe that by adopting the status-quo (Option 1) scenario of current market practices, there would be no reduction in the number of customers experiencing self-disconnection. We consider this a conservative estimate based on historical data dating back from 2014, from which we have failed to see a reduction in the number of self-

disconnections. It is evident that current market conditions have not enabled a natural decrease in the number of customers self-disconnecting and highlights the importance of further intervention.

2.14. We recognise that the smart meter roll out is likely to be a factor in the declining self-disconnection rate. We consider the benefits of smart meters in relation to self-disconnections to fall particularly on the customer awareness and accessibility reasons for self-disconnecting. Government have consulted on a smart meter policy framework post-2020 that confirms a new 4-year framework will be implemented, which will set minimum annual installation targets for energy suppliers.²³ This period aligns with our period of assessment in this impact assessment. We consider it reasonable to suggest that the benefits of the smart meter roll out will increase incrementally each year as the roll out continues and as the rate of self-disconnection declines through our estimates.

2.15. Option 2 focusses on the short-term incidence of self-disconnection, by improving identification of self-disconnection and providing additional credit to stay on supply. This is complimented by a policy of increased awareness of the credit functions provided by suppliers. Evidence suggests that a significant proportion of self-disconnections are related to short-term issues,²⁴ which would be averted by provision of small amounts of further repayable credit to keep the meter on supply. Therefore, we suggest that through Option 2 over a period of five years, the number of self-disconnections could half, which equates to 303,000 electricity and 239,000 gas customers no longer experiencing self-disconnection. This is dependent on the duration of time it takes for all customers to become familiarised with the credit functions. However, this option does not account for customers experiencing ongoing affordability problems.

2.16. Option 3 places a focus on resolving the longer-term, more frequent self-disconnection occasions through improving identification of self-disconnection and strengthening protections for those at risk of self-disconnection because of financial difficulties through the incorporation and update of the ATP principles. Evidence suggests

²³ BEIS (2019, 2020): [Smart meter policy framework post 2020](#)

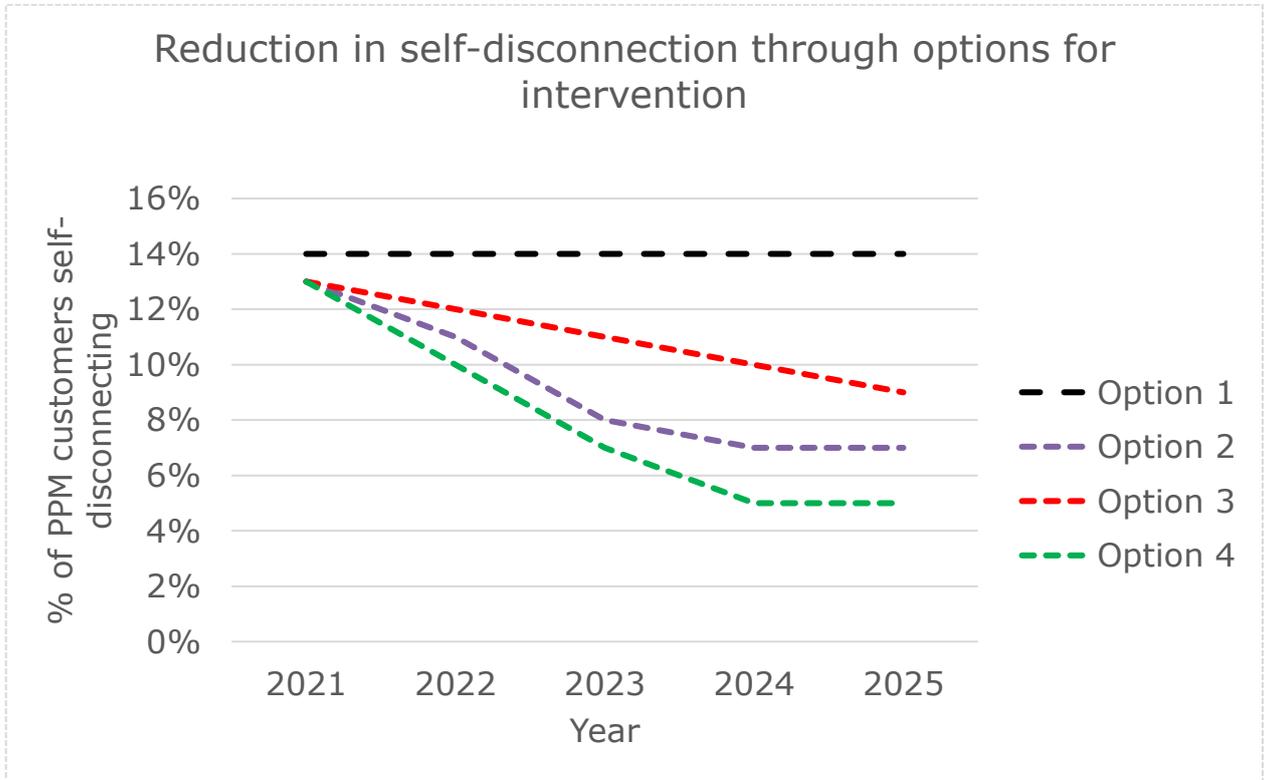
²⁴ Citizens Advice [consumer survey](#) suggests that 47% of customers forgot to top-up their PPM and were disconnected as a result and 32% did not realise that they were low on credit. 8% were waiting for benefit payments and could not top-up before this.

that this could account for approximately 21% of those who self-disconnected in 2018, equating to 127,500 electricity and 100,500 gas customers.

2.17. Whilst this intervention will have an effect on the more serious circumstances leading to a customer self-disconnecting, it excludes a large proportion of customers who would avoid self-disconnection should there be more robust short-term protections in place. We estimate that this option would create a steady decrease year on year but fail to address the entire self-disconnecting PPM population, stabilising at around 9%, a reduction of around 54,600 electricity and 43,000 gas customers. This option will have a greater impact on the level of consumer detriment, with longer and more frequent impacts carrying a significant risk of harm for customers off-supply.

2.18. Our preferred option for intervention (Option 4) illustrates the largest estimated decrease in self-disconnection. We believe that this package of proposals will create a situation whereby both short-term instances and ongoing issues such as affordability, which can result in ongoing occurrences of customers self-disconnecting from their energy supply, reduce simultaneously. We expect to see a combination of the two preceding options with the short-term protections leading to a consistent reduction over the five years, complemented by a steady reduction in ongoing cases through consumers benefiting from engaging with sustainable support to reduce the risk of going off-supply. We estimate that this option would result in 396,000 electricity and 300,000 gas self-disconnections being avoided.

Figure 1: Estimated reduction in the number of PPM self-disconnections per year through options for intervention



3. Methodology

Section summary

In this section we outline our guiding methodology and any associated risks or uncertainties associated with this intervention. We explain the methods used to calculate our estimates and any limitations with the data.

Overarching approach to the draft impact assessment

3.1. We have conducted the impact assessment in accordance with Ofgem’s Impact Assessment Guidance²⁵ and the HM Treasury Green book.²⁶

3.2. Ofgem’s approach to impact assessments draws upon the principles that underpin the Government’s Better Regulation agenda. These principles recommend that an impact assessment should:

- concisely summarise the impacts, including the qualitative and quantitative costs and benefits
- keep the process transparent
- be comparable to other assessments, without unnecessary detail or duplication
- be consistent so that impacts can be compared across proposals
- follow government best practice guidance.

3.3. Throughout this impact assessment, we take a proportionate approach when assessing the intended benefits of each intervention. When presenting calculations for estimated costs associated with each option, we outline our assumptions and limitations where applicable.

²⁵ Ofgem (2016) [Impact Assessment Guidance](#)

²⁶ HM Treasury (2018) [The Green Book: Central Government guidance on appraisal and evaluation](#)

Consideration of policy options and scope

3.4. As outlined in the summary of options table in Chapter 2, we have considered a number of different options for intervention. These options display different scenarios in which a combination of the three proposals could be implemented. They consider the aggregated costs and benefits of each proposal. The monetised costs and benefits take the average value across five years and are presented with a range of high and low estimates where appropriate.

3.5. This impact assessment treats each option separately for the purposes of examining the impact of implementing the proposals outlined in the statutory consultation. We have decided to include the identification proposal in each option, as we believe that regular monitoring and subsequent identification is necessary to allow suppliers to take the most appropriate action to support customers, whether this is short-term or longer-term support. We don't consider it viable to assess an option which relies solely on proactive contact from the consumer, as this is considered in the baseline scenario.

Determining the baseline for assessment of impacts

3.6. Our impact assessment assesses the relative impact of a set of policy options that are considered against the baseline scenario where we do not implement any of the proposals or options set out here. For the purposes of the analysis, this would be considered the continuation of existing supplier practices. We refer to this as Option 1 in following chapters.

3.7. In relation to identifying customers who self-disconnect, suppliers would continue to use traditional meter non-vend reports with varying timeframes for initiating engagement. We are aware of only a few suppliers who are monitoring real-time smart self-disconnections. The emergency, friendly-hours and additional support credit functions would remain voluntary practices in the market. We outlined in our policy consultation that we believe not all suppliers are consistently applying the Ability to Pay principles or considering the customers' ability to pay when dealing with customers in financial difficulties or those repaying debt. The baseline scenario assumes that this would continue.

3.8. Where possible, we have assessed impacts against the baseline and therefore the existing costs for providing current arrangements are already accounted for and not included in this assessment. The costs illustrated in this impact assessment are those adding to the baseline scenario.

Key impacts and stakeholders identified

3.9. Our assessment below assesses each option individually. We examine the impact on consumers, businesses and wider market impacts where applicable. We have monetised these impacts where possible. Where not possible, we have used a logical assessment to determine which option would result in the greatest net benefit for consumers and have provided a high, medium or low weighting to the impact.

Sources of evidence

3.10. Our analysis of the impacts of the self-disconnection proposals are based on data and information gathered from a number of sources, including:

- Responses to our Call for Evidence in November 2018 and August 2019 policy consultation.^{27 28}
- Data collected from suppliers through a formal information request²⁹
- Consumer survey data collected from Ofgem³⁰ and Citizens Advice³¹
- Existing energy market data held by Ofgem³²
- Other publicly available information
- In relation to COVID-19: data collected through a formal information request, regular consumer group engagement and survey data, and social media monitoring

3.11. The evidence base above contains a variety of data samples and with it brings various strengths and weaknesses, which are summarised in the table below:

²⁷ Ofgem (2018) [self-disconnection and self-rationing: a call for evidence](#)

²⁸ Ofgem (2019) [Proposal to improve consumer outcomes of self-disconnection and self-rationing](#)

²⁹ In January 2019, we requested information from 19 suppliers serving the PPM market, which accounted for 99% of total PPM customers.

³⁰ Ofgem (2018) [Consumer Engagement Survey](#)

³¹ Citizens Advice (2018) [Switched On – Improving support for prepayment consumers who've self-disconnected](#)

³² Ofgem (2019) [Social obligations annual data report](#)

Table 7: Summary of evidence base

Source:	Strengths of data:	Limitations of data:
Citizens Advice Consumer Survey (2018)	Report explores the current experience of PPM users with particular focus on the experience of households who lack funds to keep their meters topped up.	Limited sample size: Data based on 1,226 survey responses
Ofgem Call for Evidence (2018)	Twenty confidential and non-confidential responses with information on scale, customer impacts and current supplier practices.	Anecdotal evidence provided by respondents. Limited quantitative evidence to support this.
Ofgem Consumer Engagement Survey (2018, 2019)	Information recorded on: <ul style="list-style-type: none"> • Self-disconnection occasions • Duration of self-disconnection • Reason for self-disconnection (provided as verbatim comments in 2019) 	Limited sample size: Data based 556 survey responses.
Ofgem Policy Consultation (2019)	33 confidential and non-confidential formal responses, providing feedback on proposals and further qualitative information on supplier practices.	No cost estimates on potential implementation provided by suppliers.

Source:	Strengths of data:	Limitations of data:
Ofgem Request for Information (2019)	<p>RFI from nineteen gas and electricity suppliers who serve 99% of PPM market.</p> <p>Data provided on: number of customers self-disconnecting, value of emergency and discretionary credit provided to customers and explanation of current monitoring and identification methods</p> <p>Qualitative evidence on current market practices and processes</p>	<p>Inconsistent data: Only six suppliers provided traditional meter data by fuel type (37% PPM market). A further three suppliers were not able to separate between fuel types.</p> <p>Three of the largest suppliers did not provide data on the scale of self-disconnection.</p> <p>Data on self-disconnections mainly reflects non-vends given difficulty to monitor self-disconnection for traditional meters so may not reflect true numbers of customers self-disconnecting.</p>
Ofgem Social Obligations Reporting - Annual data (2019)	<p>Includes a variety of information provided by suppliers relevant to their dealings with domestic customers, including information about payment methods, levels of debt, debt repayments and prepayment meters. This information enables us to understand how suppliers are meeting the needs of consumers in vulnerable situations.</p>	<p>Proposed new indicator to assess scale of self-disconnection will be introduced from 2021.</p>
Other publically available (various)	<p>Sources of research on wider, indirect impacts associated with self-disconnection (eg financial detriment, emotional impacts)</p>	<p>Assumptions created to frame findings in context of self-disconnection project.</p>

Methodology: calculating costs and benefits

Assessing relevant supplier's costs

3.12. We provide each cost as a total cost to industry, we do not split these costs by supplier. When calculating these costs, we have taken the number of PPM suppliers in the market at the time of our information request (31). For costs associated to the ATP principles, we have used the total number of suppliers operating in the market (61) at the time of this assessment (Q3 2019) to reflect total industry cost due to the wider coverage of credit and PPM customers that this policy proposal relates to.

Calculating ongoing administrative costs

3.13. To evaluate potential additional ongoing costs faced by suppliers, we have used the Standard Cost Model³³ as a basis for measuring the administrative costs associated with identifying and monitoring self-disconnection and undertaking new engagement with customers as a result of introducing one new principle into the Ability to Pay principles.

3.14. All salaries referenced in this Impact Assessment were taken from ONS data on earnings³⁴ and include the 30% overhead factor as set out in the Standard Cost Model. We have taken assumptions on the amount of time, quantified in minutes and hours for completing various administrative tasks. We believe these estimates are proportionate given the task required and examples from pre-existing requirements undertaken by suppliers.

3.15. In our assessment of ongoing costs associated with the identification proposal, we take an average between current practices involving smart meters and traditional meter data. Traditional meter monitoring currently takes the form of monitoring “non-vends”,

³³ Cabinet Office (2005) [UK Standard Cost Model Manual](#).

³⁴ ONS (2019) [Earnings and hours worked](#)

whereby there is no record of the customer transferring credit to a prepayment meter through topping up. Customers who have not vended for a period of time may potentially be off supply. Our RFI showed that the period of time that suppliers use as a non-vend threshold before they investigate the account and begin engagement with the customer varies greatly between suppliers, with evidence suggesting this is between 7-111 days and dependent on factors such as fuel type or vulnerability of the customer.

3.16. The time delay between the transaction of top-ups being transferred to the PPM meter and the supplier receiving this data through industry data flows can prolong the ability to identify customers who have been off supply. Smart PPMs have the capability to provide almost real-time data giving the potential for much improved visibility on self-disconnections. However, our RFI revealed that most suppliers with a significant number of smart PPM customers tend to approach monitoring in the same way as for traditional PPM meters, missing the opportunity to harness the potential data available. We are aware of a few suppliers who are monitoring smart self-disconnections in real time. As part of our weekly COVID-19 RFI, eight suppliers have provided data on the number of smart meter self-disconnections, data is much more limited on the number of traditional self-disconnections. This suggests that more suppliers have put processes in place to monitor and record self-disconnection data, which can be used to develop more permanent measures.

Calculating the additional costs of financing emergency credit per year

3.17. To calculate the additional financing cost for suppliers, we have assumed the cost of capital to be 10% (pre-tax nominal), using the Weighted Average Cost of Capital (WACC) from the CMA. The CMA estimated a range of values for the WACC in retail supply, between 9.3% and 11.5%.³⁵ We adopted this methodology in the Default Price Cap³⁶ and do not consider that there is a reason to depart from the approach taken by the CMA at this time.

3.18. To assess the costs to the supplier of financing this credit for additional customers, we refer to the projected self-disconnections estimated through each option for intervention

³⁵ CMA (2016) [Energy market investigation: final report](#) (appendix 9.12)

³⁶ Ofgem (2018) [Default tariff cap – decision overview](#) (appendix 9 - EBIT)

(see Chapter 2). We assume that this fall in the self-disconnection rate can be attributed to the increased take-up of the short-term credit functions.

3.19. From data submitted by suppliers in response to our RFI, we have calculated that on average customers were provided with £55 worth of electricity and £15 worth of gas in emergency credit per customer in 2018. The data also suggests that around 1.6 million electricity and 1.5 million gas customers accessed emergency credit in 2018.³⁷

3.20. Using the average amount of emergency credit provided per customer in 2018, we spread this credit over 12 months to get an average of £4.60 worth of electricity emergency credit and £1.25 worth of gas emergency credit per customer, per month. For the purposes of this assessment, we assume that this sum will be repaid over 30 days to work out the additional financing cost faced by the supplier. These estimates account for the additional customers who would now access emergency credit to avoid an off-supply situation only, and not the existing customers already receiving emergency credit, a cost which is already accounted for.

Calculating the additional costs of financing additional support credit per year

3.21. To calculate the additional cost for suppliers financing additional support credit, we adopt the same approach as above and assume the cost of capital at 10% using the WACC methodology. We also assume that this part of the policy will affect a smaller proportion of customers, given the nature of the additional support credit provision for consumers in vulnerable situations.

3.22. From data submitted by suppliers in response to our RFI, we calculated that the average amount of additional support credit provided per customer was £26.81 for electricity and £25 worth of gas credit, which equates to £2.23 electricity and £2.12 worth of gas credit per month. We assume that the customer will repay this amount monthly, to work out the additional financing cost faced by the supplier. This estimate does not include the costs to suppliers when writing-off debts where suppliers are unable to recover payment of additional support credits owed by a customer.

³⁷ Ofgem (2019) Supplier RFI

3.23. For the purposes of the analysis, we take a proxy of customers who reported self-disconnection as a result of financial difficulty who would require access to additional support credit³⁸ (100,594 gas and 127,519 electricity customers). To calculate the additional cost to suppliers of financing this credit, we refer to the projected self-disconnections estimated through each option for intervention (see Chapter 2). We assume that this fall in the self-disconnection rate can be attributed to the increased take-up of the short-term credit functions. However, given the relationship between affordability problems and the use of additional support credit, we assume that self-disconnections associated with affordability issues would fall at a slower rate than for those with short-term issues. In this scenario we account for a 1% decrease in affordability related self-disconnections year on year, to calculate the additional customers who would now have access to this credit.

3.24. The data used to calculate the average value of additional support credit provided is devised from suppliers who provided data as part of the RFI. The rate of self-disconnection comes from the 2019 Ofgem Consumer Engagement Survey. The proportion of customers who are self-disconnecting for affordability reasons and the number of customers contacting their supplier were sourced from a Citizens Advice Consumer Survey.³⁹ Due to limitations in the data, we believe that this is an underestimation of the costs and benefits associated with additional support credit.

Calculating the consumer benefit of using emergency and additional support credit

3.25. When calculating the consumer benefit, we assess the relative cost benefit of being able to access emergency/additional support credit as opposed to alternative sources of financing to fund energy consumption. The benefit is therefore quantified as an opportunity cost between the hypothetical case of self-disconnecting and obtaining more expensive credit. For the purposes of this analysis, we use payday loans as the alternative source of credit.

3.26. With short-term affordability pressures and a shortage of funds, consumers have little choice but to borrow or go without money and self-disconnect from their meter.

³⁸ Citizens Advice consumer survey reported that 21% of all self-disconnections in 2018 were due to affordability concerns.

Evidence from consumer groups and charities suggest that consumers are turning to short term personal loans as a way to pay bills or living costs.⁴⁰ Research from Citizens Advice during the COVID-19 period suggests a higher incidence of consumers borrowing money from elsewhere than receiving financial support from their supplier.⁴¹

3.27. To calculate the alternative costs for consumers to avoid self-disconnection without availability or access to the credit functions, we use a borrowing rate of 0.8% per day to create the high range estimate.⁴² We base our estimates on the projected rate of reduction in self-disconnection outlined in Chapter 2. In this scenario, instead of these customers being able to access short-term credit through their supplier, they would need to source alternative financing.

3.28. With less customers self-disconnecting per year, through our estimated predictions in the reduction rate, we assume that a greater proportion of customers are likely to be accessing the credit functions. This means that a greater proportion of customers are avoiding the need for higher cost credit, as they can access this from their supplier. The total benefit to the consumer increases year on year, as more consumer's access emergency or friendly credit, rather than alternative funding.

3.29. We note the limitations of this assumption and calculate a mid and high range to mitigate this. When calculating the high range, we use the maximum amount a payday lender is able to charge on a daily rate (0.8%). We reduce this charge to 0.6% per day when calculating the mid-range estimate.

Calculating the potential distributional impact of the proposed policy

3.30. When calculating the potential distributional impact of the self-disconnection policy we assess the potential likelihood of suppliers passing these costs onto their customer base. We focus this assessment on suppliers' fixed tariff customer base, with the

⁴⁰ See [CAP \(2020\) Client Debt Report 2020](#): 39% of clients borrowed through a personal loan and 18% through short term, high cost credit loans.

⁴¹ Citizens Advice (2020) [The end of the beginning: How the retail energy market needs to support people in the next phase of COVID-19](#)

⁴² The FCA updated its price cap on payday lenders in 2017. Borrowers pay no more than 0.8% of the amount borrowed per day. See FCA (2017) [FS17/2: High-cost credit and review of the high-cost short-term credit price cap](#)

assumption that suppliers may wish to absorb the costs before the end of the price cap period (2023 at the latest). There are currently 8.3m gas and 9.2m electricity accounts on fixed tariffs. We estimate that the total net costs on industry by 2023 will be £2.1m. Therefore, on average, a fixed tariff customer could increase by 0.02p per account per year should these total costs be absorbed by customers on fixed tariffs equally (nominal value). The distributional impact is discussed in more detail in Chapter 5.

Carbon costs of the proposed policy

3.31. As part of our policy process, we have investigated the impact on carbon costs as a result of our proposals. In principle, energy consumption comes with carbon emissions. We naturally expect an increase in carbon emissions as a result of a decrease in self-disconnections. It is uncertain how much less energy is used as a result of each self-disconnection occurrence. We assume that 50% of the energy that could have been consumed during the disconnection incident is on hold, until the customer returns to supply.

3.32. Our estimates for the period of assessment (2021-2025) equates to a carbon cost of around 3,100 MWh (both fuels included). These carbon costs are as a result of a reduction in customers self-disconnecting and therefore no longer being off-supply. The social cost of this carbon ranges between £9,000 (low estimate) and £28,000 (high estimate). We assume a scenario where consumers postpone 50% of their typical usage when off supply and that 50% of this usage is never consumed upon returning to supply. The social cost of carbon range is based on the latest published assumptions for carbon prices as outlined in BEIS' carbon cost methodology.⁴³ The estimates do not consider the various implications of self-disconnection, which could cause the consumer to ultimately increase energy usage to levels higher than previous, had they avoided self-disconnecting in the first place.

Key risks and uncertainties

Data limitations

⁴³ BEIS (2019) [Valuation of energy use and greenhouse gas](#)

3.33. As noted in the key assumptions at the outset, due to limited data provided by industry we have applied a number of evidence-based assumptions in the analysis when attempting to provide an indicative quantification of the potential direct and indirect impacts. These are detailed throughout our analysis of the options below.

3.34. We acknowledge that each of the sources on the scale of self-disconnection has certain limitations. Consumer surveys may have weaknesses due to their sample size or selection bias and are unlikely to include the disconnections due to vacant homes. At the same time, supplier non-vend data will not account for disconnections for less than the period set by suppliers and are unlikely to identify cases where customers are forgetting to top-up. It also useful to note that we are using data from different sources of information to make estimates and assumptions in some calculations, these are highlighted where necessary.

3.35. Whilst we do not expect the provision and further uptake of credit functions to eradicate the need for payday loans entirely and recognise there are wider financial pressures that could require a consumer to take out a payday loan⁴⁴, we focus our analysis on the proportion of credit taken to pay for energy consumption. We acknowledge there may also be other unknowns such as the use of energy credit functions leading to an additional credit facility being used by some consumers in addition to other sources of funding and the potential indirect effect that this may have on the customer's management of any outstanding debt.

⁴⁴ Over half of borrowers (52%) said they had to take out a payday loan because they suffered an unexpected increase in expenses or outgoings whilst almost 1 in 5 (19%) said it was due to an unexpected decrease in income. See [Payday loan statistics](#)

4. Assessment of options

Section summary

In this section we present our assessment of each option for intervention. Within this, we outline the monetised and hard-to-monetise costs and benefits of each and provide a justification of our preferred option.

Option 2: Identification + Credit functions

4.1. This section assesses the costs and benefits of Option 2, which includes placing new requirements on suppliers to take all reasonable steps to identify customers who are self-disconnecting and provide short-term support through provision of emergency, friendly-hours and additional support credit. Please note, as part of the statutory consultation, we propose to update the terminology of 'discretionary credit' to better reflect our policy intent and the obligatory nature of the requirement for customers in a vulnerable situation. For more information, please see the accompanying statutory consultation.

4.2. We expect that as a result of implementing Option 2, customers who are self-disconnecting will be identified quickly and provided with appropriate short-term support as a result of new requirements on suppliers. This includes information and provision of emergency, friendly-hours and additional support credit for vulnerable consumers as well as other support where it is not technically feasible to offer one of these options.

4.3. We expect this will have an impact on all PPM customers who are self-disconnecting or at are at risk of self-disconnecting, and particularly those who are in vulnerable situations. These protections will be of particular benefit to those in short-term financial difficulties who are more likely to be on low incomes, disabled or experiencing mental health problems, minimising consumer detriment that would otherwise be experienced by these customers. As a result of the new information provision requirements placed on suppliers, customers (and third parties) will have a better awareness of credit functions and will be able to access these quickly or automatically and in some cases before an event of self-disconnection occurs. We expect this will have an impact in particular on those who are self-disconnecting due to lack of awareness or forgetfulness.

4.4. On the supply side, we expect Option 2 will impact the majority of suppliers in relation to upfront system change costs for smart meter self-disconnection identification. We know that a small number of suppliers already have these systems in place and that a number of suppliers were already planning to implement changes prior to these policy proposals. For a smaller subset of suppliers there will be additional costs through the requirement to provide customers friendly-hours credit.⁴⁵ Option 2 will also impact on engagement with customers following identification of self-disconnection. If this is not part of existing supplier practices, this could potentially increase operational costs. We are aware that the majority of suppliers already trigger engagement with the customer through monitoring periods of non-vend on traditional PPMs.

Monetised impacts

4.5. The table below displays the estimated annual costs and benefits as a result of implementing Option 2. For each cost we provide a range (mid to high estimate) and take an average of these values over the five-year period to arrive at the estimates shown.

Table 8: Option 2 Average annual costs and benefits

Option 2: Average annual costs and benefits (2021 – 2025)			
Cost (to industry)	Value per year (£)	Benefit (consumer)	Value per year (£)
Ongoing costs associated with identification and monitoring of self-disconnection	£35,000 - £55,000	Benefits from accessing additional emergency credit from suppliers	£230,000 - £280,000
Additional cost of financing emergency credit	£110,000 - £130,000	Benefits from accessing additional support credit from suppliers	£15,000 - £17,000

⁴⁵ 2 of the 19 suppliers who provided data in our request for information confirmed they did not provide friendly-hours credit.

Option 2: Average annual costs and benefits (2021 – 2025)			
Additional cost of financing additional support credit	£5,000 - £7,500		
Average annual cost to industry	£120,000 - £195,000	Average annual monetised benefits	£245,000–£300,000
NPV 2021 – 2025	£470,000 - £700,000		

Benefit: Consumers can access additional emergency credit from suppliers

4.6. We have quantified the consumer benefit of accessing additional emergency credit provided by suppliers through assessing the relative cost of alternative options available to the customer if this provision was not introduced. We assume that the customer would face the option of going off-supply or borrowing money from elsewhere to use for energy consumption. There are unquantifiable options, such as borrowing funds from friends or family (which we discuss under our hard to monetise analysis). For the purposes of this analysis we use the option of seeking funds through payday lenders.⁴⁶ Research suggests that 53% of payday loans are taken out to cover expenditure such as groceries and utility bills.⁴⁷

4.7. With suppliers providing their customers credit to remain on supply, there is an indirect benefit of removing the need for any potential payday loan to include amounts for energy consumption. The total value of the loan could decrease, which we quantify through the consumer benefit in our assessment.

4.8. As outlined in previous chapters, through Option 2 we estimate that we will see a reduction in the self-disconnection rate to 7% of PPM customers by year five of the self-disconnection policy being in place. We attribute this reduction in the rate of self-disconnection due to the increased access of the short term protections the credit functions

⁴⁶ Figures from June 2018 suggest that [over 5.4 million payday loans](#) were taken out in the first half of 2018.

⁴⁷ Finder (2018) [Payday loan statistics](#)

provide. We acknowledge that this does not account for other potential incremental increases or decreases in the self-disconnection rate.

4.9. We suggest that the number of customers using the emergency credit facilities will increase at the same time that the rate of self-disconnection and take-up of alternative sources of finance (such as payday loans) decreases. We calculate the consumer benefit through taking the customers who will now no longer self-disconnect by having access to the credit functions. This equates to around an additional 390,000 electricity and 308,000 gas customers now accessing the credit functions in total by year five.

4.10. Over the five-year period, we estimate a consumer benefit between £190,000 - £280,000 per year through access to cheaper energy credit through their supplier.

4.11. We acknowledge that although energy spend may be a contributing factor for taking payday loans, this may not necessarily remove the need for payday loans in other areas.⁴⁸ In this assessment we focus on the energy specific benefits of the customer being able to stay on supply, which payday loans are sometimes used for. We have calculated a high and mid-range benefit based on these assumptions, to account for the proportion of customers self-disconnecting, who would use this source of financing.

Benefit: Consumers can access additional support credit from suppliers

4.12. Similar to emergency credit, we have quantified the benefit of consumers being able to access additional support credit from suppliers. We have replicated the methodology above, assessing the relative cost of alternative options available to the customer should the credit facility not be provided by the supplier.

4.13. The increased uptake in the additional support credit provision is lower than the emergency credit function due to a total number of customers requiring this type of support to be a smaller proportion of the self-disconnecting population. We assume that only customers who have disconnected for affordability reasons would require this type of support and predict a slower rate of reduction assigned to the additional support credit

⁴⁸ Other reasons include car or vehicle expenses, general shopping such as clothes or household items and paying off a loan they have previously taken out.

function, as the requirement on suppliers will be to provide this additional support credit to customers identified as vulnerable.

4.14. We suggest that the number of customers using the additional support credit facility will increase at the same time that the rate of self-disconnection and take-up of alternative sources of finances decreases. Over the five-year period, we estimate a consumer benefit between £12,000 - £17,000 per year through access to cheaper energy credit as a result of the credit function facilities. This estimate is based on limited supplier data provided through an RFI and therefore is likely to underestimate the number of consumers who will access the additional support credit function.

4.15. As noted above, we acknowledge that payday loans are not always taken out to cover just energy related costs. In this assessment we focus on the energy specific benefits from sourcing cheaper credit through their energy supplier to stay on supply. We have calculated a high and mid-range to account for the proportion of customers self-disconnecting who would use this as alternative source of financing.

Cost: Additional upfront costs of financing emergency credit

4.16. We estimate the additional costs of financing emergency credit for suppliers. It is reasonable to assume that a proportion of customers will be repaying credit at the same time as suppliers are providing credit to others.

4.17. The average amount of emergency credit provided per customer in 2018 was £55 for electricity and £15.05 for gas.⁴⁹ We assume that these are credited to the customer across the year, resulting in amounts of £4.60 and £1.25 for electricity and gas per month respectively. For the purposes of the analysis, we predict that a customer would repay this monthly amount provided over a 30-day period, at a daily financing cost of 0.01% to the supplier. This allows us to provide an estimate of the total costs of financing the additional credit per year of £100,000 - £120,000 across industry.

4.18. This cost focusses on the subset of additional customers who are now accessing emergency credit. This does not include existing costs of providing emergency credit to

⁴⁹ Ofgem (2019) Supplier RFI

suppliers' current customers. Whilst suppliers' cost is increasing due to an increase in the amount of people accessing the credit facilities, the net benefit for the consumer is increasing, due to fewer customers needing to seek more expensive alternative finance.

Cost: Additional upfront cost of financing additional support credit

4.19. To calculate the additional costs of financing additional support credit, we assume the supplier is financing this at a rate of 10% through a weighted average cost of capital. It is also reasonable to suggest that some customers will be repaying the credit at the same time as suppliers are providing extra credit to other customers requesting this.

4.20. This estimate is based on average values of additional support credit provided per customer, per year from data submitted by suppliers in response to our RFI. These equate to £26 for electricity and £25 for gas⁵⁰, which results in an average of £2.25 for electricity and £2.15 for gas credit per month respectively. We assume that the customer will repay this monthly amount provided over a period of 30 days, at a financing cost to the supplier of 0.01% per day.

4.21. This allows us to provide an estimate average of the total costs of financing the additional credit per year of £5,000 - £7,000 on industry as a result of a fall in the self-disconnection rate through the increased availability and awareness of additional support credit. The cost to the consumer is decreasing as the benefit of accessing the supplier's credit facilities is increasing, preventing the consumer from further financial detriment.

Cost: Additional ongoing costs for associated with identification of self-disconnection

4.22. In order to implement the proposal of taking all reasonable steps to identify PPM consumers who are self-disconnecting, we expect suppliers will be undertaking ongoing monitoring and identification of PPM customers. We have provided estimates for the ongoing costs of the identification proposal. We believe that there will be differences in the

⁵⁰ Ibid.

costs for smart and traditional meter identification methods so we have taken an average between the two techniques and use 14 days as a proxy for monitoring in this analysis.⁵¹

4.23. We are aware of a number of traditional meter non-vend identification processes that are already in place, we assume that this practice will remain unchanged with the costs already accounted for. For smart meter identification we know from supplier responses to our consultation that identification could take place through off-supply alerts, which are provided on a half-hourly or daily basis when a meter disconnects if a supplier has the correct systems in place. We describe the hard-to-monetise implementation costs later in this chapter.

4.24. Once identification processes are in place, we assume that it will take one member of staff three hours, every two weeks to monitor self-disconnection incidents and trigger any subsequent engagement with customers suspected of self-disconnecting. We select this timeframe to account for the differences in smart meter and traditional meter identification and monitoring techniques for the period of the smart meter roll out. This two-week window suggests the potential time before engagement with the customer, support is likely to be provided much quicker than this, through the built-in credit functions on the meter. Use of the credit functions is also an indicator of a customer potentially at risk of going off-supply. Should the credit provisions be exhausted, we would expect suppliers to engage with the customer as soon as possible to understand the customer's circumstances.

4.25. For the purposes of this assessment, we assume that the member of staff will be in either an administrative role or a business associate professional role to provide a low and high estimate. We have assumed an administrative role has an hourly salary of £15.28 and a business associate professional role has an hourly salary of £22.24 based on the SCM methodology described in earlier chapters.

4.26. The ongoing cost across industry calculated is between £35,000 and £55,000 This is based on an activity cost of between £45.84 and £66.72 per occasion.

⁵¹ Traditional PPM disconnection often takes place through monitoring "non-vends", whereby there is no record of the customer transferring credit to a prepayment meter through topping up. Smart PPM's have the capability to provide almost real-time data, giving the potential for much improved visibility on self-disconnections.

Table 9: Spread of ongoing industry cost based on standard cost modelling

Role	Cost Impact
Administration	£36,947
Business associate professional	£53,776

Hard-to-monetise impacts

We have identified a number of impacts on consumers and suppliers which we were unable to monetise, included in the table below followed by a written assessment.

Consumer impacts

Table 10: Option 2 Hard-to-monetise consumer impacts

Option 2 policy objectives	Consumer impacts	Hard-to-monetise assessment
- Customers are identified quickly and provided with appropriate short-term support. This includes emergency, friendly-hours and additional support credit as well as other support when not technically feasible to offer one of these options. - Customers (and third parties) have better awareness of credit functions and	Access to friendly-hours credit preventing self-disconnection for longer durations such as overnight, at weekends and public holidays. This will particularly have an impact on households who forget to top-up or those who have affordability challenges in topping-up.	Consumer benefits - High
	Awareness of credit functions likely to lead to fewer repeat self-disconnections and give customers confidence in using these functions more often. This will particularly have an impact on customers who self-disconnect because of lack of awareness of extra support available as well as those experiencing short-term financial issues.	Consumer benefits - Medium

can access these quickly	Reduced short-term physical impacts such as feeling cold and/or not being able to wash and/or not having hot meals. Reduced likelihood of customers developing a cold, respiratory illnesses or poor physical health. This will particularly have an impact on households with children and/or elderly.	Consumer benefits - Medium
	Reduced short-term emotional impacts such as stress from practicalities to top-up, financial stress and feelings of shame or embarrassment. This will particularly have an impact on households experiencing financial difficulties and/or mental health problems.	Consumer benefits - Medium

Supplier impacts

Table 11: Option 2 hard-to-monetise supplier impacts (costs and benefits)

Option 2 policy objectives	Supplier impacts	Hard-to-monetise assessment
- Customers are identified quickly and provided with appropriate short-term support. This includes emergency, friendly-hours and additional support credit as well as other support when not technically feasible to offer one of these options.	The additional costs of providing friendly credit. This will particularly have an impact on a small number of suppliers who do not currently offer friendly-credit provision. All suppliers also likely to benefit from increased consumer awareness.	Supplier costs & benefits - Low
	The one-off, upfront costs to updating IT systems to allow for smart meter identification of self-disconnection. This is likely to have an impact on the majority of suppliers in the market, although to varying levels.	Supplier costs - Medium

<p>- Customers (and third parties) have better awareness of credit functions and can access these quickly</p>	<p>The additional costs of engagement after a customer has been identified as self-disconnecting. This will likely impact the majority of suppliers, however impact may vary depending on PPM customer bases and existing processes in place.</p>	<p>Supplier costs - Medium</p>
	<p>The additional costs for providing customers with an alternative means of accessing short-term support where emergency or friendly credit cannot be provided (eg wind-ons).</p>	<p>Supplier costs - Medium</p>
	<p>Awareness of credit functions may lead to fewer contacts from consumers and fewer customers to be contacted if they are not self-disconnecting. This will likely impact the majority of suppliers.</p>	<p>Supplier benefits - Low</p>
	<p>Better quality industry data assess trends and improve customer service.</p>	<p>Supplier benefits - Low</p>

Supplier costs and consumer benefits: Access to friendly-hours credit

4.27. Alongside the emergency credit and additional support credit provision, consumers will also have access to friendly-hours credit as part of proposals under Option 2. We have not been able to monetise the benefits of this feature given the limited data. However, we believe it will have a direct, positive impact on consumers by preventing self-disconnection at inconvenient times. Our evidence suggests that the friendly-hours credit feature is not provided by all suppliers in the market currently so compared to Option 1, this proposal would directly reduce the number of customers self-disconnecting by having this provision mandated.⁵² Friendly-hours credit could also reduce the duration of a self-disconnection

⁵² Ofgem (2019) Supplier RFI

and the associated customer impacts, averting a situation which could see a consumer off-supply for a long Bank Holiday weekend.

4.28. With the majority of suppliers already providing this feature voluntarily, we expect to see an increase in upfront costs to a subset of industry participants, which will vary across suppliers. In terms of ongoing costs, similar to the emergency credit function, we envisage ongoing costs to suppliers to remain minimal as customers are required to repay the credit used upon their next top-up in most cases.

Supplier and consumer benefits: Provision of information for credit functions

4.29. An important part of Option 2 is raising awareness of the credit functions by introducing a new requirement for suppliers to ensure that customers are given adequate information about the credit functions including what these are, when they can be used and how credit is repaid by the customer. For customers in financial difficulties, where suppliers become aware of customers' situation, they will be required to take into account that customers' ability to pay when repaying the emergency and friendly-hours credit. For additional support credit, they will be required to provide this extra credit to those in vulnerable circumstances and take into account customers' ability to pay the credit once it has been exhausted.

4.30. Credit functions are already widely available to consumers, however evidence suggests that customers (and third party representatives) are often unaware of availability and functionalities across different suppliers.⁵³ In addition, evidence suggests that customers in financial difficulties avoid using emergency and friendly-hours credit as they believe they might be charged more while in emergency credit.⁵⁴

4.31. The direct benefit for consumers here is that consumers (or their third party representatives) will be provided with better information and become aware of the functions available, know how to access these, understand the implications of accessing extra credit and any eligibility criteria. This in turn should lead to fewer customers self-disconnecting in the short-term. It should also help avoid situations where customers in

⁵³ Ofgem (2019) See [policy consultation](#)

⁵⁴ CAP UK (2020) [A Dark Place - unaffordable energy costs and how low income households cope](#)

financial difficulties self-disconnect directly after topping-up following use of credit functions as their ability to pay will be taken into account. We believe the impacts on consumers to be medium, as an increase in consumer awareness of credit functions may take some time to be embedded across the PPM population.

4.32. Suppliers will need to take steps to better communicate the availability of the credit functions and how these work. We expect them to do this throughout the consumer journey, including once they have identified that someone is self-disconnecting. We expect this will lead to some costs, however we believe these to be of low impact. Through increased consumer awareness, suppliers are also likely to benefit indirectly in the long-term by seeing reduced contact from some customers enquiring about the availability and qualifying criteria of the credit functions. We consider the supplier benefit to be of low impact as we cannot fully predict the levels of engagement this will generate.

Consumer benefits: Reduced short-term physical impacts

4.33. Our latest Consumer Engagement Survey shows that the majority of customers who reported having self-disconnected at least once a year from their electricity supply did so for under 3 hours (79% of those reporting to have self-disconnected). For gas supply 70% reported having self-disconnected for under 3 hours, as evidence shows that people self-disconnect from heating for longer than electricity.

4.34. Whilst the duration of each self-disconnection occurrence will impact the detriment that a household experiences, the fuel type also plays a role. For example, should a consumer disconnect from both fuels simultaneously, impacts are likely to be exacerbated and could include a combination of living in a cold home through no central heating (gas) amongst other short term impacts such as being unable to store food safely in fridges and freezers (electricity).

4.35. We expect Option 2 to bring consumer benefits by reducing physical impacts in the short-term, such as feeling cold, being in a dark home, not being able to wash or cook hot meals due to living in a home with no access to heating, lighting and/or hot water for a few hours or over the weekend.

Table 12: Length of customer self-disconnections

For how long are ELECTRICITY PPM users self-disconnecting?	
(Among those who have self-disconnected)	
Less than an hour	64%
One - three hours	15%
Three - seven hours	8%
Seven - twelve hours	0%
More than twelve hours	9%
Don't know	4%
For how long are GAS PPM users self-disconnecting?	
(Among those who have self-disconnected)	
Less than an hour	58%
One - three hours	12%
Three - seven hours	10%
Seven - twelve hours	7%
More than twelve hours	11%
Don't know	2%

Source: Ofgem Consumer Engagement Survey 2019

4.36. The physical, negative impact of feeling cold was reported by 59% of people reporting negative impacts of self-disconnection in the Citizens Advice survey. The impact of having a dark home reported by 43% of those reporting negative impacts and not being able to wash by 35% of the respondents.⁵⁵

4.37. A reduction in the direct effects of short-term disconnection can in turn reduce the likelihood of customers developing a cold, respiratory illnesses or poor physical health, all associated with living in a cold home.⁵⁶ For Option 2 which will target the short-term self-disconnections, this will be particularly of benefit to households who are more likely to be affected by living in a cold home (eg households with children, older adults).

We expect the impact of these benefits to be medium, as a result of implementing Option 2. This is because access to emergency credit, friendly-hours credit and additional support credit for a few hours or days will keep customers on supply. However, we note that those who experience more regular and longer events of self-disconnection are more likely to be

⁵⁵ Citizens Advice (2018) [Switched On – Improving support for prepayment consumers who've self-disconnected](#)

⁵⁶ Ibid.

at risk of developing these physical impacts. These customers may not see the same benefits in the long-run, unless more sustainable solutions are provided.

Consumer benefits: Reduced short-term emotional impacts

4.38. We expect Option 2 to bring consumer benefits by reducing short-term emotional impacts, such as alleviating stress from the practicalities of topping-up, achieved through an increased awareness of credit functions and reduced financial stress through access to credit functions. Financial stress was reported by 27% of people reporting negative impacts of self-disconnection and stress from practicalities to top-up was reported by 21% of those reporting negative impacts.⁵⁷ This in turn can reduce the likelihood of exacerbating existing mental health problems.

4.39. We also expect Option 2 to have an impact on reducing short-term emotional impacts of feeling ashamed or embarrassed which was reported by 15% of those reporting negative impacts of self-disconnection. In this instance, we believe the policy intervention can also have some impact on reducing informal borrowing, which is likely to have a positive impact on those experiencing mental health problems.

4.40. Research has shown that people experiencing mental health problems are more likely to be in financial difficulties⁵⁸ and are one and a half times as likely to borrow from friends, family and acquaintances as people not experiencing poor mental health.⁵⁹ While there are both positive and negative impacts to informal borrowing, we expect the identification of self-disconnection by suppliers and access to short-term credit functions to reduce the negative impacts associated with informal borrowing. This includes reducing feelings of guilt and shame which can exacerbate mental health problems, as well as reducing the risk of emotional pressure which can sometimes be experienced through violence and coercion.⁶⁰

4.41. We consider the impact of these benefits on consumers to be medium as a result of implementing Option 2. This is because the identification and short-term support will likely

⁵⁷ Ibid.

⁵⁸ Money and Mental Health Policy Institute (2018) [Informal Borrowing and Mental Health Problems](#)

⁵⁹ Ibid.

⁶⁰ Ibid.

reduce emotional impacts for those groups of consumers who are facing short-term one-off financial crisis. However, this may not effectively target those who need more sustainable solutions to their financial problems.

Supplier costs: Implementation costs of identifying smart self-disconnection

4.42. We are unable to provide a monetary value on the potential system changes that suppliers will need to implement to identify self-disconnection on smart meters, due to the limited data and different suppliers requiring varying levels of implementation based on their current practices.

4.43. We are aware of a small number of suppliers who are already operating smart meter identification and therefore in these instances the costs will be negligible. Suppliers are already required to identify customers in vulnerable circumstances and respond to their needs accordingly. We expect suppliers' compliance with the Standards of Conduct and the vulnerability principle to act as the foundations for the changes to the systems. In summary, we consider that these costs will be of medium impact, due to their one-off nature and long-term viability.

Costs and benefits for suppliers: Engagement after identification of self-disconnection

4.44. In the monetised section, we outlined the costs of identifying instances of self-disconnections for suppliers. However, as part of this requirement we expect suppliers to provide customers with appropriate support and this will require some form of engagement with the consumer. Due to the varying nature of this support, which could include explaining how the credit functions work, offering the customer additional support credit and assessing repayment rates based on individual customers' ability to pay, we have not been able to monetise this impact.

4.45. We acknowledge that our proposal is likely to see an increase in the volume of customer service contacts as a direct result of suppliers being required to take all reasonable steps to identify a customer who is self-disconnecting. However, we also believe that there is an associated benefit to this impact whereby implementing a greater awareness of the functions, more customers will be able to make use of them and will be less likely to end up in an off-supply situation. This will have a knock-on indirect effect on the amount of customers that need to be contacted to ascertain if they are off-supply. This highlights another aspect of the interlinking nature of the proposals.

Suppliers and wider benefits: Better quality industry data

4.46. By ensuring that there is an ongoing process of identifying self-disconnections, we expect industry data will improve significantly. This is likely to be beneficial for all stakeholders, but in particular for suppliers. Consumers will benefit from targeted and accurate identification, suppliers will be able to observe trends and periods of high or low self-disconnections which might prompt changes in practices (eg the decision to increase friendly credit hours in periods of poor weather) and Ofgem will be able to assess the scale of self-disconnection across the industry with more accuracy and precision when reporting on progress of this policy intervention.

Option 3: Identification + Ability to Pay

4.47. This section assesses the costs and benefits of Option 3, which consists of placing new requirements on suppliers to take all reasonable steps to identify customers who are self-disconnecting and provide customers more sustainable and ongoing support for occasions of frequent and more prolonged self-disconnections, through the incorporation and update of the Ability to Pay (ATP) principles in the supply licence. Option 3 does not focus on the short-term solutions outlined in Option 2.

Policy objectives and groups affected

4.48. Incorporating and updating the ATP principles into the supply licence conditions is intended to emphasise the need for targeted support for all consumers facing payment difficulty, this includes PPM customers who may be at risk of self-disconnection.

4.49. In 2018, the overall number of customers in debt increased by 4.2% in electricity and 4.8% in gas in 2018 (1.3m for electricity and 1.04m for gas). Within this, there was an increase in the number of customers in arrears without a repayment plan, which indicates that more customers are falling behind on their bills who are not being engaged with effectively or where there is a delay in contact.⁶¹ PPM customers who are repaying debt are more likely to self-disconnect, with Citizens Advice’s survey showing that of those whose

⁶¹ Ofgem (2019) [Vulnerable consumers in the energy market: 2019](#)

meters were used to collect debt had self-disconnected compared to 13% of all other PPM users.⁶²

4.50. By agreeing an affordable repayment plan with a customer who needs it, the risk of self-disconnection due to not being able to balance between debt repayment and ongoing consumption will be reduced. In the statutory consultation, we propose to update a number of principles to better reflect existing debt management practices and to introduce one new principle around customer re-engagement after a failed repayment arrangement.

4.51. We expect that as a result of introducing Option 3, customers who are self-disconnecting would be identified quickly and those in payment difficulties provided with ongoing support related to their ability to pay. This will particularly impact PPM customers in financial difficulties and those who are self-disconnecting due to affordability challenges. Updating the ATP principles will also have an impact on credit meter customers in payment difficulties, as the principles apply to customers on all payment methods.

4.52. On the supply side we expect, as with Option 2, impacts on the majority of suppliers with regards to the identification of self-disconnection for smart PPM customers. We also expect the updates to the ATP principles to impact the majority of suppliers.

Monetised impacts

4.53. We have identified a number of costs associated with the implementation of Option 3, presented in the table below and followed by a written assessment. As this option includes the identification provision which is the same as in Option 2, we have used the same costs here and have not repeated the assessment.

4.54. We have not been able to monetise any consumer benefits under this option; however, we have completed an assessment of the hard to monetise benefits for consumers in the next section.

⁶² [Switched On – Improving support for prepayment consumers who've self-disconnected](#)

Table 13: Option 3 Average annual costs and benefits

Option 3: Average annual costs and benefits (2021 – 2025)			
Industry cost:	Value per year (£)	Consumer benefit:	Value per year (£)
Ongoing costs associated with identification of self-disconnection	£35,000 - £55,000	N/A: no monetised benefits available	
New Ability to Pay principle: Re-engaging with customers after a failed repayment	£241,000		
Average annual total cost to industry:	£275,000 - £295,000	Average annual total monetised benefits:	N/A
NPV (2021 – 2025)	- £1.2m		

Supplier costs: Re-engaging with a customer after a failed repayment as part of new ATP principle

4.55. We expect that suppliers will incur costs from making proactive contact with customers when they identify that a repayment has failed. If the plan fails and the supplier then engages with the customer, they can propose a more sustainable repayment rate. This engagement reduces the risk of falling further into debt whilst making some payment towards their energy costs, benefitting both the consumer and the supplier.

4.56. To assess the ongoing cost of engaging with customers following a failed repayment, we have assumed it will take one member of staff five minutes to contact and engage with a customer. The five-minute average handling call time is an estimate based on various sources. For the purpose of this assessment, we have assumed the member of staff will be in a customer service role with an hourly salary of £10.70.

4.57. The ongoing cost across industry calculated is £240,000 per year. This is based on an activity cost of £1.13 per occasion. There were 214,632 instances of repayment failures in 2018 for electricity accounts⁶³ and for the purposes of this analysis, we take this figure to avoid the risk of double-counting electricity and gas accounts.

4.58. We believe that this ongoing cost is an overestimation, as we have no predictability of how the number of customers with failed repayments will fluctuate over the period of this policy. With stronger protections in place for customers in financial difficulty, we expect that this number may decrease and therefore the annual cost used here may not be reflective over the five-year period.

4.59. It is also important to recognise that these engagements are likely to be dependent on factors such as whether this engagement will be made in isolation or as part of a wider conversation with the customer around their ability to pay through other elements of the principles. As explained in the statutory consultation, the new principle does not necessarily require engagement with the customer through phone calls, there are other types of engagement available to suppliers (eg letter/email/SMS). Therefore, this is only one method to estimate costs.

Hard-to-monetise impacts

4.60. We have identified a number of benefits which we were unable to monetise, but will provide a direct positive benefit to consumers as a result of identification of self-disconnection by suppliers and proactive ongoing support through the ATP principles. The table below illustrates the expected hard-to-monetise costs and benefits of introducing Option 3, followed by a written assessment.

4.61. Some of the hard-to-monetise cost and benefits of the identification of self-disconnection have been captured in the assessment under Option 2, so these have not been repeated in the assessment below.

⁶³ Ofgem (2019) [Monitoring social obligations – 2018 annual data report](#)

Table 14: Option 3 hard-to-monetise consumer benefits

Option 3 policy objectives	Consumer impacts	Hard-to-monetise assessment
<p>- Customers who are self-disconnecting are identified quickly and those in vulnerable circumstances are provided with ongoing support. This refers to engagement and support from their supplier through for example reassessment of debt repayments.</p>	<p>Reduced long-term physical impacts such as feeling cold and/or not being able to wash. Reduced likelihood of customers developing a cold, respiratory and circulatory problems or poor physical health which could exacerbate pre-existing health problems. This will particularly have an impact on households with children and/or elderly.</p>	<p>Consumer benefit - Medium</p>
	<p>Reduced long-term emotional impacts such as financial stress and social isolation. This will particularly have an impact on households experiencing financial difficulties and/or mental health problems.</p>	<p>Consumer benefit - Medium</p>

Supplier impacts:

Table 15: Option 3 hard-to-monetise supplier costs

Option 3 policy objectives	Supplier impacts	Hard-to-monetise assessment
<p>- Customers who are self-disconnecting are identified quickly and those in vulnerable circumstances are provided with ongoing support.</p>	<p>The one-off, upfront costs of updating IT systems to allow for smart meter identification of self-disconnection. This is likely to have an impact on the majority of suppliers in the market, although to varying levels.</p>	<p>Supplier costs - Medium</p>
	<p>The additional costs of engagement after a customer has been identified as self-disconnecting. This will likely impact the majority of suppliers, however impact may vary depending</p>	<p>Supplier costs - Medium</p>

	on PPM customer bases and existing processes in place.	
	Additional costs as a result of updates to existing ATP principles. This will affect all suppliers.	Supplier costs - Low

Consumer benefits: Reduced long-term physical impacts

4.62. We expect Option 3 to bring consumer benefits by reducing long-term physical impacts, such as feeling cold, living in a dark home, not being able to wash or cook a hot meal due to living in household without access to gas and/or electricity.

4.63. While Option 2 showed that the majority of self-disconnections occur for short periods of time, evidence suggests that 9% of electricity customers and 18% of gas customers self-disconnected for longer than 7 hours, with 11% of gas customers self-disconnecting for longer than 12 hours.

4.64. A reduction in the direct effects of lengthy or ongoing self-disconnection, through an assessing customers’ ability to repay debt or whether it is still safe and reasonably practicable to have a PPM, can reduce the likelihood of consumers developing a cold, respiratory illnesses or poor physical health, particularly those who are self-disconnecting from heating.⁶⁴ More specifically, when self-disconnecting or being at risk of self-disconnection during the colder winter months due to financial difficulties, this can increase the risks of respiratory and circulatory problems and exacerbate existing health problems.⁶⁵ The introduction of Option 3 will be particularly of benefit to households who are more likely to be affected by living in a cold home (eg households with children, older adults). As with short-term impacts in Option 2, we consider the implications of disconnecting both fuels simultaneously. The longer term effects of this are likely to have a larger material impact on a physical health.

⁶⁴ Citizens Advice (2018) [Warm homes, affordable fuel and healthy people](#)

⁶⁵ Public Health England, UCL Institute of Health Equity (2014) “Local action on health inequalities: Fuel poverty and cold home-related health problems”

4.65. Another potential benefit that may be derived from implementation of Option 3 is around impact on excess winter deaths due to living in a cold home. Each year the Office for National Statistics (ONS) publishes statistics on “excess winter deaths” (EWD).⁶⁶ There are studies that suggest that 30% of EWD can be directly linked to cold homes.⁶⁷ While such estimates should be treated with a degree of caution, in particular as they were undertaken a number of years ago, they do highlight the risk of consumers not receiving appropriate support or understanding the protections that are available to them, particularly when exposed to long periods without gas and/or electricity in the winter months. Assuming that these estimates remain applicable, Ofgem analysis has shown that in 2017-18 just under 16,500 EWDs can be linked to people living in cold homes.⁶⁸

4.66. We expect the impact of these benefits to be medium as a result of implementing Option 3. This is because identification of self-disconnection and customer engagement on ability to pay should lead to a reduction in frequent and lengthy self-disconnections. However, long-term impacts are more difficult to assess and this option does not address challenges faced by customers in the short-term, like access to additional support credit which could provide them with vital support during a few hours or days by being able to stay on supply and have access to heating.

Consumer benefits: Reduced long-term emotional impacts

4.67. We expect Option 3 to bring consumer benefits by reducing long-term emotional impacts such as financial stress through engagement on ability to pay and reducing the likelihood of exacerbating mental health problems. Financial stress was reported by 27% of people reporting negative impacts of self-disconnection.⁶⁹

4.68. There is also an indirect benefit for consumers on their wider financial situation, by seeing a reduction in financial stress, they are able to cope with other essential areas.

⁶⁶ This captures the extra number of deaths that occur during the winter period (December to March) relative to the average of the surrounding four months of April to July and August to November.

⁶⁷ Rudge, J. (2011) “Indoor cold and mortality”, In Braubach, M., Jacobs, D., and Ormandy, D. (2011) “Environmental burden of disease associated with inadequate housing: A method guide to the quantification of health effects of selected housing risks in the WHO region”, World Health Organisation

⁶⁸ Ofgem (2019) [State of the Market Report 2019](#)

⁶⁹ Citizens Advice (2018) [Switched on: support for prepayment consumers who've self-disconnected](#)

Reports suggest that financial stress does impact wider life, especially when consumers are not able to keep up with debts or meet monthly expenses.

4.69. We consider the impact of these benefits on consumers to be medium as a result of implementing Option 3. This is because the identification and ongoing support with ability to pay will likely reduce emotional impacts for those groups of consumers who are facing financial difficulties.

Supplier costs: Increased costs as a result of existing ATP principles updates

4.70. We expect that the proposed updates to the rest of the ATP principles will have some impact on suppliers’ upfront and ongoing costs. These are likely to be around training or re-training of staff through updates to training packs to reflect the updated principles. For example, we are proposing to reflect that debt advice is provided at this stage. It will also likely have some impact on customer service, as we are proposing to ensure suppliers, once a customer in payment difficulty is identified, are using every contact as an opportunity to gain more information about the customers’ ability to pay.

4.71. However, given these are relatively minor updates to the existing ATP principles, which suppliers are already expected to adhere to we expect the impact on supplier costs to be low.

Option 4: Identification + Credit functions + Ability to Pay

4.72. Option 4 considers all of the proposals combined and sets out the benefits of a holistic approach. We focus here on the impacts of including all three proposals together and why this is our preferred option, aiming to combat both short-term and ongoing instances of self-disconnection.

Table 15: Option 4 average costs and benefits

Option 4: Average annual costs and benefits (per year 2021 – 2025)			
Industry cost:	Value per year (£)	Consumer benefit:	Value per year (£)
Ongoing costs associated with identification of self-disconnection	£35,000 - £55,000	Benefits from accessing additional emergency credit from suppliers	£260,000 - £350,000

Option 4: Average annual costs and benefits (per year 2021 – 2025)			
Additional cost of financing emergency credit	£125,000 - £145,000	Benefits from accessing additional support credit	£11,000 - £15,000
Additional cost of financing additional support credit	£5,000 - £7,000		
Re-engaging with customers with failed repayment plans	£241,000		
Average annual total cost to industry	£400,000 - £450,000	Total monetised benefits	£270,000 - £365,000
NPV 2021 - 2025	-£410,000 to -£760,000		

4.73. Option 4 presents consumers with the most holistic approach regarding protection from self-disconnection and self-rationing. Below we outline the interlinking aspects of the policy and how they would effectively come together in practice.

4.74. Identification is a vital first step in assessing the customer’s situation and enabling the appropriate support to be provided. Without this initial step, consumers will have difficulty accessing existing support in place, which will be strengthened by the proposals in this assessment. Referring to the status quo scenario, the voluntary emergency and friendly-hours credit may kick in if offered, but further support would often be accessed through consumer-led engagement. Through these proposals and suppliers identifying each incident of self-disconnection, regularly monitoring for customers in need of additional support, the likelihood of detriment and/or repeated self-disconnections is reduced. There is also a case that by proactively identifying customers, the duration that the customer is off-supply, in the unavoidable event of a self-disconnection occurrence, would be minimised.

4.75. The provision of the credit functions is intended to address the immediate short-term situation; it is not intended as a sustainable solution. The priority is to always return the customer to supply or prevent them from going off-supply in the first instance. By providing emergency, friendly-hours and additional support credit, customers are provided with an additional layer of protection when faced with an off-supply situation. The credit functions

achieve progress towards both policy objectives – reducing the likelihood of going off-supply and reducing the time spent off-supply and therefore any associated negative impacts of self-disconnection.

4.76. The second element of this proposal is to raise awareness of the features that are available. As detailed in earlier chapters, these are existing voluntary protections which are widely offered in the market already. Increasing the awareness around the availability and operational aspects of the functions will not necessarily increase costs significantly, as we know that customers are already accessing these features. As noted above, for the effective use of these credit functions it is important that customers are identified promptly. Without the identification aspect of the proposals, the off-supply situation may already have been prevented through access of alternative support or more likely, may have caused increased consumer harm that these protections could have avoided.

4.77. Additional support credit works in relation with both the short-term support and potential ongoing financial situation of both Option 2 and Option 3. Once a customer has been identified as in financial difficulty, they can be provided with credit to reduce the risk of self-disconnecting. The additional support credit function provision also compliments the ATP proposal (Option 3 and Option 4), with customers able to reduce the risk of repeated self-disconnection occasions by agreeing manageable repayment rates.

4.78. Updating and introducing the ATP principles aims to strengthen protections for customers in financial and debt repayment difficulty. It will ensure that those who are unable to clear credit in the first instance are not penalised or omitted from using the important short-term functions. More importantly, it provides a suitable time to reassess the customer's personal circumstances and allow the supplier to make an appropriate decision on the next course of action, which is beneficial to both the supplier in setting realistic payment rates and the customer for engaging and accessing the support that they are in need of.

4.79. The justification above demonstrates the interlinking and dependent nature of these proposals to ensure that all customers can benefit from the protections planned. By introducing just one of the proposals which look to tackle an off-supply situation (Option 2 or Option 3) the policy runs the risk of only helping a proportion of consumers who require protection. In order for the policy to be effective and reach the wide range of customers in vulnerable circumstances, it is necessary to introduce all three proposals combined through our preferred option (Option 4). There is an added value to ensure that both customers

experiencing short-term and long-term situations of self-disconnection can benefit from the new proposals.

4.80. We have summarised the total monetised and hard-to-monetise impacts into two tables below for reference.

Monetised impacts

4.81. The table below summarises the total costs and benefits of the proposals combined and sets out the NPV of implementing these proposals. The benefits are quantified as the costs for consumers when accessing alternative sources of credit should suppliers not provide emergency, friendly and additional support credit. The NPV value only monetises the benefits for consumers for the credit function proposal, as the impact on identification and ATP principles cannot be monetised.

Table 16: Option 4 Net Present Value (NPV)

Option 4	Y1 (2021)	Y2 (2022)	Y3 (2023)	Y4 (2024)	Y5 (2025)	NPV
Benefits (gas and elec)	£62,460	£239,274	£416,088	£535,726	£535,726	(£374,087.43)
Costs (gas and elec)	£312,386	£386,059	£459,732	£510,752	£509,580	
Net Benefit	-£249,927	-£146,785	-£43,643	£24,974	£26,145	

Hard-to-monetise impacts

4.82. Under Option 4, we have assessed the combined impacts of Option 2 and 3 and have set this out in the table below. On the supply side, Option 4 will result in higher expected costs, however we believe that this package of proposals will provide most benefit to consumers in terms of reduced physical and emotional impacts both in the short and long-term.

Table 17: Option 4 hard-to-monetise consumer benefits

Option 4 policy objectives	Consumer impacts	Hard-to-monetise assessment
- Customers who are self-disconnecting are identified quickly and	Access to friendly-hours credit preventing self-disconnection for longer durations such as overnight, at	Consumer benefit - High

<p>provided with the appropriate support, either through short-term credit provision or ongoing support on customers' ability to pay for those in vulnerable circumstances.</p>	<p>weekends and a public holiday. This will particularly have an impact on households who forget to top-up or those who have affordability challenges in topping-up.</p>	
	<p>Awareness of credit functions likely to lead to fewer repeat self-disconnections. This will particularly have an impact on customers who forget to top-up or who don't top-up due to other organisational issues.</p>	<p>Consumer benefit - Medium</p>
	<p>Reduced short-and long-term physical impacts such as feeling cold and/or not being able to wash. Reduced likelihood of customers developing a cold, respiratory and circulatory illnesses, poor physical health and reduced risk of exacerbating existing health problems. This will particularly have an impact on households with children and/or elderly.</p>	<p>Consumer benefit - High</p>
	<p>Reduced short-and long-term emotional impacts such as stress from practicalities to top-up, financial stress and feelings of shame or embarrassment. This will particularly have an impact on households experiencing financial difficulties and/or mental health problems.</p>	<p>Consumer benefit - High</p>

Supplier impacts

Table 18: Option 4 hard-to-monetise supplier costs

Option 4 policy objectives	Supplier impacts	Hard-to-monetise assessment
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<p>- Customers who are self-disconnecting are identified quickly and provided with the appropriate support, either through short-term credit provision or ongoing support on customers' ability to pay for those in vulnerable circumstances.</p>	<p>The additional costs of providing friendly-hours credit. This will particularly have an impact on a small number of suppliers who do not currently offer the friendly credit provision.</p>	<p>Supplier costs - Low</p>
	<p>The one-off, upfront costs of updating IT systems to allow for smart meter identification of self-disconnection. This is likely to have an impact on the majority of suppliers in the market, although to varying levels.</p>	<p>Supplier costs - Medium</p>
	<p>The additional costs of engagement after a customer has been identified as self-disconnecting. This will likely impact the majority of suppliers, however impact may vary depending on PPM customer bases and existing processes in place.</p>	<p>Supplier costs - Medium</p>
	<p>The additional costs for providing customers with an alternative arrangement where top-up points are inaccessible and meters do not have technical feasibility to provide emergency or friendly credit (eg wind-ons).</p>	<p>Supplier costs – Medium</p>
	<p>Awareness of credit functions may lead to fewer contacts from consumers and fewer customers to be contacted if they are not self-disconnecting. This will likely impact the majority of suppliers however it is more difficult to predict.</p>	<p>Supplier benefit - Low</p>
	<p>Additional costs as a result of ATP principles updates. This will affect all suppliers.</p>	<p>Supplier costs - Low</p>

5. Risks

Section summary

In this chapter we highlight any relevant risks that we have considered as a result of this policy intervention. We separate these into wider policy implications and risks associated to individual options or proposals, providing a summary of how we intend to mitigate these risks.

Wider policy implications

5.1. We have considered the potential wider implications of implementing this policy. In particular, we have focused on the risk of suppliers passing through any additional costs that they may face on to groups of consumers that have resulted in the increase in costs, or to their wider customer base.

5.2. The Prepayment Meter Price Cap came into force in April 2017. Further price protection was introduced for customers on standard variable tariffs and fixed term default tariffs on 1 January 2019.⁷⁰ The two price caps provide consumers protection from overcharging and minimise the likelihood of these costs being passed on to customers who are on tariffs qualifying from protection under the cap.

5.3. After considering the costs imposed on suppliers as a result of the proposed policy interventions discussed in this draft Impact Assessment, we do not consider them material enough to warrant an adjustment of the cap level. The current cap has sufficient headroom to enable suppliers to account for these cost increases. We could expect some of these costs to be passed through by marginal increases in prices for customers on fixed tariffs. We consider the likelihood of pass-through costs on the customer base benefiting from this policy intervention during the period of the price cap to be low.

5.4. Price protection will be in place until 2023 at the latest. Section 9 of the Tariff Cap Act 2018 makes a separate provision for Ofgem to carry out a review to consider whether

⁷⁰ See Ofgem [energy price caps](#) web pages

there are categories of domestic consumers that require protection against excessive charges in a post-price cap market. We outline two scenarios which we think may be applicable in post 2023:

- The energy market is deemed to have improved such that the conditions are in place for effective competition and the caps are lifted or;
- Ofgem decide it is required to develop a successor regime to the current default tariff price cap.

5.5. Therefore, the distributional impacts as a result of the self-disconnection policy would only fall on the entire customer base and tariff types upon the end of the price protection period (2023 at the latest). Pass-on prior to this period is likely to be dependent on how much suppliers are willing to increase their tariffs in the given market context. At this point, we would expect any pass through to fall on the entire customer base and tariff types, or to those on tariffs where the additional costs have fallen.

5.6. There are typically fewer suppliers active in the PPM segment compared to the overall domestic retail market, with a select number of PPM specialists. As a result, price competitiveness in this segment may not be as strong as it might be with more suppliers. Hence, some suppliers may be reluctant to pass through these costs directly to their customer base.

Assessing potential distributional impacts

5.7. As referenced in the methodology section, the estimates outlined in this assessment, we predict that the total net costs to suppliers across the industry by 2023 will be £1.1m. There are currently 8.3m gas and 9.2m electricity customer accounts on fixed tariffs in GB.⁷¹ If suppliers choose to pass on the cost promptly to the rest of their customer base, rather than through an uplift in PPM tariffs at the end of the cap period, these figures suggest that the average bill of a fixed tariff customer could increase, on average, by £0.02p per account, per year (nominal value). However, it should be noted that this

⁷¹ Ofgem (2020) For details on the distribution of customers by tariff type for individual large and medium suppliers see [gas](#) and [electricity](#)

customer segment is the most engaged and sensitive to price increases, so suppliers may be more cautious about adopting this strategy in isolation. By implementing consumer protections for those disproportionately likely to be in a vulnerable situation, we consider this cross-subsidisation to be least impactful to consumers, smearing these marginal costs across the ablest in society.

5.8. The distributional impact of these costs being passed through to fixed tariff customers were estimated by calculating the total costs of these proposals on industry, therefore the number of PPM customers and the average amount of emergency and additional support credit provided to these customers will impact the scale of the potential pass-on costs. The number of customers a supplier has on fixed tariffs is also a key variable that will determine the level of pass on, with more customers on fixed tariffs meaning less cost per customer. Suppliers with a larger PPM customer base are likely to face larger costs associated with the credit function proposal and are therefore more likely to pass on this cost to their fixed tariff customer base.

5.9. Our recently updated Ofgem Consumer Archetypes help to assess how policy impacts are distributed across all GB households.⁷² The archetypes serve as a tool to enhance understanding of the diverse characteristics, capabilities and likely market experiences across the population of energy consumers. Whilst we are not using the tool in its entirety here, given these proposals focus on consumer protection rather than income redistribution, we have identified two archetypes who are likely to benefit from these proposals: consumer archetypes C5 and D6. The main attributes of both these consumer groups include low income, PPM customers which these interventions aim to strengthen protections for.

Potential unintended consequences

5.10. As highlighted in earlier sections of this assessment, we acknowledge that it will be challenging to achieve a scenario where there are no self-disconnections in the market. In contrast, there is a perceived risk that this policy will benefit those who do not require additional protection, such as those who self-disconnect once for a short-period of time due to choice. We consider that all self-disconnection occasions will benefit from the support

⁷² Ofgem, CSE (2020) [Ofgem energy consumer archetypes: Final report](#)

proposed in this assessment. Although frequency and duration of the self-disconnection can vary, all instances can cause some consumer detriment. In addition, customers who rarely self-disconnect and are not identified in financial difficulty are likely to repay any credit provided by the supplier instantly when returning to supply.

5.11. It is also important to add that whilst forgetting to top-up is often associated with busy lifestyles, some customers may forget to top-up as a result of an ongoing situation such as a mental health issue or a lack of mental capacity (such as people with dementia). These customers are likely to self-disconnect more frequently and display another reason to ensure that all consumers are protected equally from self-disconnection.

5.12. We also acknowledge that this policy intervention will not solve all financial difficulties for all consumers. We envisage that there is likely to be a proportion of customers who will continue to self-disconnect as a result of affordability problems. Whilst we expect that the interventions outlined above will significantly reduce the detriment and frequency of self-disconnections for these customers, we believe that actions primarily intended to redistribute substantial costs are a matter for government, as outlined in our in our Strategic Narrative for 2019-2023⁷³ and we will continue to work with government as part of the Consumer Forum to clarify the boundaries between regulatory and social policy.⁷⁴

Risks associated to policy proposals

5.13. We note that the smart meter rollout progress will impact on effectiveness of real time identification of customers who are self-disconnecting. In September 2019, the government published a new cost-benefit analysis, updating its assessment of the net benefits smart meters provide. It has also recently published its It also published its decision to implement a four-year framework after the existing obligation ends for the period 2021 to 2024.⁷⁵ We continue to maintain our expectations on suppliers to be proactive in exploring where plans can be brought forward to prioritise vulnerable consumers so that they can benefit from the opportunities of smart meters.

⁷³ See Ofgem (2019) [Our strategic narrative for 2019 - 2013](#)

⁷⁴ [Department for Business, Energy & Industrial Strategy \(BEIS\) Consumer Forum](#)

⁷⁵ BEIS (2019, 2020) [Smart meter policy framework post 2020](#)

5.14. We considered the risk raised by stakeholders around consumers becoming dependent on the credit functions as a source of income or the increase in their usage due to raising the awareness of their availability. However, as noted in our preferred option, the likelihood of consumers becoming dependent on the credit functions is reduced as more sustainable approaches to approach self-disconnection are discussed with the customer, which become viable alternatives through Option 4.

5.15. As with any new licence obligation, we have taken into account the potential for non-compliance with the requirements by suppliers. We stand ready to take enforcement or compliance action where existing requirements are not adhered to and enforcement and/or compliance action is the appropriate response.

6. Conclusion and next steps

6.1. The options outlined above present a variety of methods aimed at strengthening protections for customers at risk of or experiencing self-disconnection. The preferred option is **Option 4**: Suppliers identify customers who are experiencing self-disconnection, provide them with short-term support through the provision of credit functions and strengthen existing protections for customers in financial difficulties to reduce risk of ongoing self-disconnections.

6.2. Taken together, we expect the effects of our proposals to bring a sustained reduction in the number of PPM customers who are self-disconnecting each year, as they are given short-term credit to enable them time to top-up their PPM, and to bring more consistency of support by suppliers to enable customers to pay their energy bills.

6.3. Our proposals are based on the spirit of existing voluntary requirements and minimum standards. We do not anticipate that our proposals and preferred option will have significant impacts on existing industry participants who already provide emergency, friendly-hours and additional support credit and should already be adhering and taking costs into account in relation to the Ability to Pay Principles. We do acknowledge some additional implementation and ongoing costs as a result of the additional principles that have been updated or added and we have provided estimates to these in earlier chapters.

6.4. In addition, suppliers are required to identify customers in vulnerable circumstances and respond to their needs. We expect suppliers' compliance with the Standards of Conduct and vulnerability principle to help target support for customers in vulnerable situations who are at risk of self-disconnection and self-rationing. We expect suppliers to use this as a foundation to build on these systems to account for identification of self-disconnection.

6.5. Subject to reviewing responses to this consultation, we expect to publish our licence modification decision notices later this year. Any licence changes would take effect 56 days after publishing the decision notices and our intention is for these protections to be in place by the end of 2020.

Appendices

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Appendix 1 – Data tables for graphs

Figure 1: Estimated reduction in the number of PPM self-disconnections per year through options for intervention

Year	Option 1: % of PPM customers self-disconnecting	Option 2: % of PPM customers self-disconnecting	Option 3: % of PPM customers self-disconnecting	Option 4: % of PPM customers self-disconnecting
2021	14%	13%	13%	13%
2022	14%	11%	12%	10%
2023	14%	8%	11%	7%
2024	14%	7%	10%	5%
2025	14%	7%	9%	5%