



Ofgem
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

25th June 2020

Ofgem ref: Protecting energy consumers with prepayment meters; May 2020 consultation, E Ref: Reg 163

For the attention of Anna Rossington

Dear Anna,

E (Gas and Electricity) Ltd is a medium sized UK challenger energy retailer set up in August 2014 to focus on serving traditional prepayment customers through our UK base call centre. E very quickly recognised the value to its prepayment customers of smart metering and started an aggressive smart roll out programme; we now have over 55% of our prepayment customers on smart meters.

As an energy supplier who is focused mainly on prepayment, we fundamentally challenge the acknowledged cross subsidy which exists between the credit and prepayment customers. It is impossible for a prepayment specialist to make an appropriate level of return whilst this cross subsidy exists and this discourages suppliers from actively participating in the prepayment market, resulting in less competition, less innovation, fewer product offerings, a convergence towards the PPM Cap and hence less choice for prepayment consumers.

It should also be considered that in the current Covid situation we are facing significant increased policy and wholesale costs as a result, in part of lower UK consumption. There is currently no mechanism for the recovery of some of these costs, e.g. FiT costs in the PPM Cap and unless a mechanism is agreed to allow for full recovery there will be potentially severe implications for those prepayment suppliers whose margins are already low.

We have worked with Energy UK and input to their response on behalf of their members and whilst we support the key elements of the response we would add the following:

1. Unwinding of the Prepayment cross subsidy

Ofgem have advised that there is currently up to £17 of subsidy in the PPM uplift (dual fuel). As a mainly prepayment supplier we want to re-emphasise the need for Ofgem to fully unwind this cross-subsidisation in the next price Cap Period 5. While cross-subsidisation is not a new principle for the DTC, the significant costs differences between PPM and other meters may lead to greater distortive impacts on the market than those created by the existing cross-subsidisation between payment methods, undermining our ability to fund efficiently incurred costs from serving our PPM customers.

Notwithstanding our point above - it is unclear in the consultation how Ofgem propose to unwind the PPM subsidy as the rollout continues and erodes suppliers' additional operating costs. It is stated that "Based on the current PPM SMNCC estimate, that may include increasing the PPM uplift from 1 October 2020, to the extent that increase is offset by the reduction in costs attributable to the impact



of the smart meter rollout.” Yet, in discussion we believe the plan would be to net the cross subsidy off the NPT SMNCC. As stated above, we believe a full correction of the cross subsidy should be incorporated on 1st October 2020 and this should be delivered by uplifting the PPM Uplift, to ensure a level playing field for all energy suppliers irrespective of their business model.

2. Incorrect Assumptions on the Cost to Serve Differential

We disagree with the assumptions made that there are lower costs to serve a smart prepayment customer versus a traditional prepayment customer (estimated by Ofgem as £12 pa for gas and £14 pa for electricity; before an adjustment for the fixed ongoing costs of the prepayment infrastructure). We have provided a few examples below:

- 1) Prepayment customers with smart meters show the same behaviours as prepayment customers with traditional meters; the volume and length of calls re financial issues, emergency credit, friendly credit and moving home are no different. In fact we receive more calls from smart meter customers when a smart meter is initially installed as they require more support during the installation process and help in understanding the meter functionality.
- 2) There are very small differences in our costs of changing tariffs for a smart versus traditional customer and the number of tariff changes has in fact increased since the price cap was introduced (irrespective of meter type). We would welcome the chance to understand why the CBA though this was the case.
- 3) The transactional payment infrastructure costs are similar for a traditional versus a smart meter customers; for example, many smart customers still continue to use traditional means of topping up whilst at the shops, which carry the same transactional charges as a traditional meter customer.
- 4) The CBA analysis also discusses the cost of changing customers from a single rate tariff to a multiple rate tariff – we have undertaken about 5 of these in the last 4 years so are unclear as to why this is deemed a material efficiency.

We have been successful in the roll out of smart meters, in part because many prepayment customers understand the benefits of having a smart meter and to meet customer demand we have continued our roll out of SMETS1 meters. As a result of this we are also incurring the significant added costs of the communications and UTRN charges associated with SMETS1 meters – these costs will not fall away until these meters are Enrolled and Adopted later this year (at the earliest). We believe this cost has not been fully factored into the PPM cost analysis and would seek reassurance from Ofgem that this is the case.

3. Contingency Arrangement

We believe the neither the industry nor Ofgem will have had sufficient time to scrutinise the NPT SMNCC costs discussed in the Consultation in time for Cap Period 5 and that it is reasonable and appropriate for Ofgem to utilise its contingency arrangements for the PPM-specific cap level from 1 October 2020. It will be vitally important to ensure that the PPM-specific cap is robustly developed and set at an appropriate level that protects customers, and allows suppliers to recover the efficiently incurred costs of serving PPM customers and continuing the Government’s smart meter rollout.



We believe that Ofgem should endeavour to utilise its contingency arrangements if its assumptions prove incorrect, to allow for adjustments to be made. As the industry overcomes the immediate impacts of the COVID-19 emergency, and enters a phase of recovery, Ofgem must ensure that the cap is not set at a level that risk under-recovery of efficient costs, particularly with regards to the smart meter rollout which could undermine the speed at which PPM customers receive the benefits of the programme.

4. General Feedback

We found this consultation extremely difficult to navigate. It was too long, repetitive and confusing. It was unclear that the intent is to unwind the subsidy and this was not helped by the confusion of Table 1 for example, which did not reflect this intent. We would welcome a review of the continued method of publishing a lengthy consultation document and look to offer online workshops/de-briefing session; especially now we have all been able to successfully mobilise remote communication methods.

In summary, the prepayment cross subsidy should be unwound from 1 October 2020, further analysis of the NPT SMNCC costs should be undertaken; this should include data from more than 7 suppliers, before any adjustment to the NPT SMNCC is made.

Yours sincerely

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