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Dear Mary

National Energy Action (NEA) works closely with Ofgem to deliver the Consumer Vulnerability Strategy (CVS) through: our training courses that help companies better identify and understand vulnerability; our work with energy networks to deliver exemplar network innovation projects that help to ensure that fuel poor households can benefit from the energy transition; working across sectors to help share knowledge and best practice surrounding vulnerability and through regular engagement with Ofgem including consultation responses, meetings and workshops.

We have worked particularly closely with Ofgem through the development of price caps, from the creation of the first prepayment (PPM) price cap in 2017, to the expansion of this to more vulnerable customers with the Safeguard Tariff, the creation of the Default Tariff Cap and now for the continuation of the PPM price cap now the CMA led version has come to an end.

We have written to the engaged heavily with both the CMA and Ofgem to ensure that the PPM cap is extended as a priority and we are pleased that Ofgem have been able to ensure that it will continue, by consulting early in 2020, and continuing to prioritise action even through social distancing measures.

In our response to the policy consultation "Protecting energy consumers with prepayment meters", we made clear that we saw several ways where the Ofgem proposals could be improved in order to better protect households with PPMs, including:

- Separating the PPM cap from the default tariff price cap, as they are in place for different reasons
- Reversing the CMA decision to include the pass-through SMNCC charges within the cap, on the basis that PPM customers are currently paying for a rollout that they do not have broad access to.
- Removing the prepayment meter uplift, giving a clear signal to supplier to target prepayment customers in their smart rollout plans, ensuring that the customer group that could benefit the most from the rollout can do so more quickly.
- Removing headroom for prepayment customers, which is not necessary to reduce their detriment, which is achieved through the smart meter upgrade of legacy prepayment meters.

We have seen no evidence to alter our views on these issues and disappointingly the statutory consultation does not address any of our concerns in detail. I have included our original response to the policy consultation, which continues to be our position with regards to the statutory consultation, below.

We urge Ofgem to take our concerns into consideration once more. Households with PPMs need protection now more than ever. They have suffered acutely due to the social distancing arrangements, experiencing self-disconnections or finding it hard to top up. It would be a missed opportunity if their price protection was lighter than it otherwise could be, if our sensible adjustments were taken into account. These changes may only mean a few pounds, but when households are already struggling to afford heating during the winter, this could mean several more days without being able to keep warm and healthy. I hope that you and your team are able to consider our proposals.

Yours Sincerely

Peter Smith
Director of Policy and Research
National Energy Action (NEA)

Appendix – National Energy Action (NEA) response to Ofgem Policy consultation for protecting energy consumers with prepayment meters

Overall, NEA is pleased that Ofgem will ensure that prepayment metered customers once the current cap ends at the end of the year. In our original response, we argued that the proposed approached could be tweaked in several ways to more fairly protect those with prepayment meters, through:

- Separating the PPM cap from the default tariff price cap, as they are in place for different reasons
- Reversing the CMA decision to include the pass-through SMNCC charges within the cap, on the basis that PPM customers are currently paying for a rollout that they do not have broad access to.
- Removing the prepayment meter uplift, giving a clear signal to supplier to target prepayment customers in their smart rollout plans, ensuring that the customer group that could benefit the most from the rollout can do so more quickly.
- Removing headroom for prepayment customers, which is not necessary to reduce their detriment, which is achieved through the smart meter upgrade of legacy prepayment meters.

We have seen no evidence to alter our views on these issues. Our original response to the policy consultation, which continues to be our position with regards to the statutory consultation, can be found below.

Should Prepayment Customers Continue to Receive Protection?

It is imperative that prepayment meter (PPM) customers continue to receive protection. The CMA stated in its initial ruling of the energy market investigation that PPM customers have higher actual and perceived barriers to switching that arise from both lack of internet connectivity and the need to physically change meter to switch to a wider range of tariffs (and associated perceptions of the complexity of this). In addition, PPM customers are often likely to: have a poor credit history; be severely indebted or; be stranded on PPM due to the preferences of their landlords. The CMA believed that the best way to remedy this was to enforce a price cap for all prepayment metered customers which should be active until the smart meter rollout had been substantively completed for this customer set. NEA agrees and as the CMA set out in their mid-term review, the smart meter rollout has not reached a point where it would be acceptable to stop the prepayment cap. **It is therefore clear that the prepayment cap <u>must</u> continue after its upcoming termination in the form of a CMA regulated cap.**

How to Protect Prepayment Customers

In order to set out what form of protection PPM customers should receive in future, it is important to understand that the reasons for introducing the prepayment cap were different for the reasons for introducing the wider Default Tariff cap.

Whilst both caps provide energy customers with relief from unpredictable price increases, greater transparency in the pass through of energy related policy costs and the prospect that bills could fall if input costs drop; the CMA identified that legacy prepayment customers suffered detriment over and above that which was suffered by the wider market, namely additional barriers to switch such as a lack of internet access and the need to physically change meters.

NEA believes that the prepayment meter price cap should not be integrated into the default tariff price cap for five reasons:

1. **They were created to remedy different detriments**. The CMA prepayment price cap was put in place temporarily, because of a specific detriment created through the need to physically change meters in order to switch, until smart meters had been rolled out. The default tariff price cap was also put in place temporarily but was introduced by the Government in order to address a lack of competitiveness in the energy market as a whole, where the consumer detriment, as confirmed by the CMA, was different and lower than that experienced by prepayment metered customers.
2. **The conditions for ending the caps are different.** The end of the Default Tariff cap is linked to industry, Ofgem and BEIS achieving different goals to completing the smart rollout. In particular, the conditions for effective competition that must be set out to the Secretary of State to inform a view on the longevity of the Default Tariff cap, is not an appropriate methodology for assessing the longevity of the PPM cap. These conditions are yet to be decided on by Ofgem, but work to date has not fully considered what effective competition means for legacy prepayment customers which we know is different based on CMA findings in their energy market investigation. The end of the prepayment cap is linked to the completion of the smart meter rollout. Whilst the Default Tariff cap legislation orders Ofgem to consider the smart meter rollout within its role in assessing effective competition, this is not a condition for removal of the cap.
3. **The natural end points for the caps are not aligned**. Even if the Default Tariff Cap is extended beyond this year, the latest end date for the Default Tariff cap is 2023 when it clear protection PPM customers will require protection until at least until the end of the smart meter rollout in 2024. In the meantime, the review every year will cause unnecessary anguish to PPM customers.
4. **The cost-make up is different**. Because of lack of competition in the prepayment market, the role of smart and the extent to which prepayment metered customers are more likely to be living in vulnerable circumstances, their cost make-up is different. Because of these inherent differences, NEA believes the way in which costs are built into a prepayment price cap should not the same as in the default tariff price cap.

In regards to point 4, NEA has set out in our previous responses to the CMA on the matter of prepayment meters, we had hoped that the benefits of smart pre-pay would mean suppliers would be now coming forward with cheaper tariffs for PPM customers (due to the reduced cost to serve). This outcome, however, has not materialised, and NEA understands that there have been few installations of SMETS 2 prepayment meters, which are crucial to achieve the interoperability that is necessary to remedy the consumer detriment that the CMA observed[i]. We welcome the proposals to not include the non-pass-through SMNCC element of smart metering costs onto prepayment customers, and agree that this is only fair given the reduction in administration costs that arises from prepayment metered customers moving to being smart metered. **We would like Ofgem to go further and reverse the CMA decision to include the pass-through SMNCC charges within the cap, on the basis that PPM customers are currently paying for a rollout that they do not have broad access to.**

Additionally, it is also unfair for the prepayment cap methodology to contain an uplift for simply having a prepayment meter, something that may not be of choice to the customer, that can only realistically be rectified through a smart meter upgrade which they have been unlikely to receive. This is especially true where customers are stranded on PPM due to the preferences of their landlords. **Removing the uplift would give a clear signal to supplier to target prepayment customers in their smart rollout plans, ensuring that the customer group that could benefit the most from the rollout can do so more quickly.**

Finally, NEA strongly disagrees that headroom is required within a prepayment meter cap. The condition for exiting the prepayment cap was always through completing the smart meter rollout, and not achieving 'effective competition' as it is for the default tariff price cap. **Whilst headroom is arguably necessary for effective competition and therefore is important in achieving the objectives of the Act, it is not necessary to reduce the detriment for prepayment customers, which is achieved through the smart meter upgrade of legacy prepayment meters.**

Adjusting the default tariff cap for PPM customers

As set out above, we do not believe that the default tariff price cap provides a suitable tool for protecting the energy price of prepayment metered customers.

However, if Ofgem were to use the default tariff price cap for administrative ease (which we do not think is a good reason for doing so), then a number of changes need to be made to ensure fairness:

- Legacy prepayment customers should not have to pay the same level towards the costs of smart metering, as there has been little prospect of receiving a smart meter from most suppliers.
- Prepayment metered customers should not pay an additional fee solely related to the costs of maintaining their meter type, as there are many cases where a PPM is essentially forced on a customer to recover debt. Including these costs only serves to exacerbate the debt problem.
- There is no need for headroom in a legacy PPM market where competition is already minimal due to factors other than price. The way to achieve a competitive market is through the smart meter upgrade, not through price differentials.
- The conditions for effective competition that must be set out to the Secretary of State to inform a view on the longevity of the Default Tariff cap would have to be adapted to fully consider the conditions from a PPM perspective

Operating costs for customers with traditional meters

In principle we do not think that it is fair that legacy prepayment customers have to pay more in order to cover the increased costs of serving them, when prepayment meters have often been installed at the suppliers' demand as a debt recovery tool. We therefore welcome the intention to spread the increased cost over the current PPM uplift over all payment types. However, we believe that this could go further, spreading the entirety of the extra costs over all customers in order to avoid the perverse outcome that being moved onto a prepayment meter for debt recovery actually increases energy costs, leading to greater levels of self-disconnection and self-rationing.

Additionally, the reluctance to stray away from cost reflectivity in terms of the PPM uplift at nil consumption has perverse consequences for prepayment customers. The proposals mean that the prepayment cap will effectively have a higher standing charge than the cap for credit customers. The standing charge has a significantly bigger impact on prepay customers than those with credit meters, as it means build up of debt whilst self-disconnected. This debt build-up makes is much harder to get back on-supply, meaning going without heating/electricity for more prolonged periods of time. The Christians Against Poverty report "A Dark Place" shows that almost a half of their clients have self-disconnected, with almost a fifth being disconnected for two months or more[ii]. Citizens Advice estimates that 16% of all prepayment customers self-disconnect each year, with 140,000 not being able to afford to top their meter each year. Many of these households are vulnerable, with 88% containing someone suffering a long-term health condition or at least one child and 87% being in receipt of benefits[iii]. Whilst the PPM uplift may seem low, at £5, this is significant for struggling households, and could be the difference between getting back on supply during a cold winter day, and not. **Ofgem must use its powers when setting price cap methodologies to address this issue. This means being mindful as to when charges are put onto the nil-consumption element of the cap. Failure to do so will increase the hardship of the most vulnerable energy consumers.**

Considering the impact of the smart meter roll out

We do not believe that the prepayment price cap should cover the cost of the smart meter rollout. Please see above for more detail on this.

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[i] In a letter to the BEIS committee dated 25th October 2019, Lord Duncan, Parliamentary Under Secretary of State and Minister for Climate Change said "As at the end of September there were over 7000 SMETS2 meters operating in prepayment mode. Other large suppliers are completing trials and will be ready for deployment at scale in the next six months" See the full letter here https://www.parliament.uk/documents/commons-committees/business-energy-and-industrial-strategy/Correspondence/2019-20/Letter-from-Lord-Duncan-on-smart-meters.pdf

[ii] For the full report, please see https://capuk.org/connect/policy-and-government/a-dark-place

[iii] For more information please visit https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/improving-support-for-prepay-customers-self-disconnecting/