



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
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## **Protecting energy consumers with prepayment meters May 2020 consultation**

The Welsh Government has noted with interest the consultation proposals published by Ofgem on 18 May to regarding arrangements to protect energy consumers with prepayment meters (PPM) after the expiry of the prepayment charge restriction. It is recognised the formal consultation period ended on 26 June. This issue, however, is an important matter for households in Wales, particularly for people living in social housing and the Private Rented Sector (PRS).

Evidence<sup>1</sup> suggests approximately 5% of owner occupier households in Wales rely on gas or electric PPMs to pay for their domestic energy supply. The proportion of households relying on PPMs increase significantly for the social housing and sector and PRS. It is estimated 23% of households in the PRS rely on electricity PPMs and 26% for their mains gas supply. In social housing, we estimate 46% of households rely on a PPM for their electricity supply and 44% for their gas supply. Households in the social housing sector and PRS, typically lower income or vulnerable households, appear to be over represented in these statistics, suggesting there to be an overreliance on PPMs as a payment method for the domestic energy needs.

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<sup>1</sup> Welsh Housing Conditions Survey 2018 published August 2019

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Stephen Chamberlain

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The Welsh Government welcomes any measures designed to protect bill payers, especially lower income households more likely to be in fuel poverty and disengaged in the energy market. We agree bill payers on fixed term tariffs are likely to have reached an agreement with their energy supplier in these circumstances following market engagement. This assumption is made on the understanding energy suppliers have not promoted signing up for fixed tariffs as part of any repayment of arrears agreement reached with the householder. That is to say, the householder was not urged to enter into a fixed tariff to avoid energy fluctuations because the PPM is loaded with energy arrears.

Ofgem's proposal to utilise the methodology deployed for setting the standard variable and default credit cap being used for setting the cap applied to PPM bill payers appears appropriate. Consideration must, however, be given to the personal circumstances of households who are reliant on PPMs for payment of their domestic energy needs, distinct from bill payers using standard credit meters. The emphasis for PPM customers, in our view, should be on the ability to pay rather than a "Fair Price" principle. It is reasonable to accept a principle of providing greater levels of support through cross subsidisation for paying for energy supplies when the evidence suggests households using PPMs are less able to meet the cost of their energy needs.

Evidence suggests bill payers using PPMs, whether traditional or smart meters, are typically lower income households who are least able to afford a financial contribution to the smart metering roll out. It could be argued, in the case of PPM roll out, the cost of smart meters for this segment of households should be borne by the energy suppliers.

The benefits of matching energy supply to demand has a commercial value to the UK domestic energy market, which appears to have not been sufficiently accounted for in the financial assessments. The focus of the SMNCC appears to focus purely on PPM traditional or smart meter hardware and software support, and not wider commercial benefits to the sector.

The deployment of PPMs, whether traditional or smart, supports energy suppliers' efforts to recoup arrears of payment as part of their debt management arrangements. The use of PPM in this way alleviates supplier's costs compared to more active debt management arrangements. These potential cost savings do not appear to have been taken into account sufficiently in the methodology proposed for setting the PPM cap. In our view, it is important to give further consideration to this matter in developing the proposed methodology, recognising many PPM bill payers are limited in the alternative payment methods available to them. PPM customers without freedom to choose payment methods are, in our view, treated less favourably than more affluent households.

Finally, the Welsh Government believes standing charges should not apply during periods when energy is not being consumed. As highlighted by organisations supporting lower income households, arrears are accumulated through standing charges being applied during the summer months, for example, when energy consumption is not taking place. This places an unreasonable burden on lower income households going into the colder winter months and can cause severe hardship and exacerbates the growing problem of self- disconnection and self-rationing.

In developing the methodology to determine the appropriate cap to be applied to PPM tariffs, the Welsh Government believes these are matters deserving of further consideration by Ofgem. These are important factors that affect PPM bill payers and it is appropriate that sufficient weighting is given in any methodology applied for setting a cap for PPM tariffs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Chamberlain', written in a cursive style.

Stephen Chamberlain  
Domestic Energy Efficiency and Fuel Poverty Branch  
Welsh Government