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Decision

Self-disconnection and self-rationing: decision

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This document outlines our decision to introduce a package of measures to improve outcomes for prepayment meter consumers who self-disconnect and self-ration, and for customers who struggle to pay their energy bills. This decision follows extensive stakeholder engagement over the past two years and our statutory consultation dated 29 June 2020.

This document outlines the reasons for our decision to modify the relevant supply licence conditions, as well as the decision that the licence changes will take effect on and from 15 December 2020.

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Executive summary

Improving outcomes for prepayment customers and those struggling with bills

We want to see a retail market that works for all, delivering a quality customer service and meeting the specific needs of consumers, including those in vulnerable circumstances. The COVID-19 crisis has caused additional challenges for consumers, particularly those who have experienced difficulty in topping-up their prepayment meters (PPMs) whilst self-isolating and those who have been impacted financially as a result of the crisis. We have worked closely with the government and industry throughout the COVID-19 crisis to ensure energy consumers' interests are protected, and we have been pleased to see suppliers stepping up to the challenge to support impacted consumers.

We have now decided to introduce a package of measures to improve outcomes for customers who struggle to pay their energy bills as well as for PPM customers who go off supply or 'self-disconnect' and those who deliberately limit or 'self-ration' their energy use to pay for other goods and services. This decision follows extensive stakeholder engagement over the past two years and our June 2020 statutory consultation.

PPM customers are more likely to be vulnerable and in fuel poverty, and they face the risk of going off supply if they do not top-up their meters. We have decided to introduce new licence requirements on suppliers to identify PPM customers who are self-disconnecting and to offer short-term support through emergency and friendly-hours credit as well as to offer additional support credit to PPM customers in vulnerable situations who have self-disconnected or self-rationed. Some suppliers have already demonstrated they are offering support to PPM customers, which we welcome. This package of measures builds on current practices to drive up consumer standards.

We are also introducing enhanced requirements on suppliers to support all customers who are facing financial difficulties through the inclusion of updated Ability to Pay principles in the supply licence. These are principles that suppliers must consider when ascertaining customers' ability to pay in relation to debt repayments. This will ensure consistency across the market and emphasise the need for targeted support for customers in payment difficulties. This includes PPM customers who may be at risk of self-disconnection and self-rationing as well as customers on credit meters who are self-rationing their energy use.

The changes set out in the modification notices published alongside this document will take effect on and from **15 December 2020.** We will closely monitor consumer outcomes in this area, particularly as we head into the winter.

1. Introduction

This decision

1.1. This document outlines our decision to introduce new protections for domestic customers with a prepayment meter (PPM) who self-disconnect and self-ration, and domestic customers more generally who struggle to pay their bills. We have decided to proceed with the proposals set out in the statutory notices we published in June 2020, with some minor changes to the supply licence conditions to clarify our policy intent and correct typographical errors. This document and the accompanying modification notices highlight all the changes we have made following our statutory consultation proposals.[1]

1.2. We received 27 responses to our June 2020 statutory consultation.[2] We have carefully considered and taken into account stakeholders' views. In this document, we outline the reasons for the decisions we have taken and their intended effect. For the sake of brevity, we have not sought to repeat entirely the rationale and evidence base set out in our August 2019 policy consultation and June 2020 statutory consultation but instead refer to these documents where necessary.

1.3. In this decision, we discuss:

- The context to protecting PPM customers who self-disconnect and self-ration, and customers who are struggling to pay their bills (Chapter 1, this chapter);

- Our decision to introduce a new requirement on suppliers to take all reasonable steps to identify all PPM customers who are self-disconnecting and to offer appropriate support in line with current and new obligations, giving due consideration to vulnerable consumers, as well as the decision to maintain our position to not introduce any new requirements on suppliers to identify self-rationing at this time (Chapter 2);

[1] The final modification notices published alongside this document are available online at: https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-decision
[2] Ofgem (2020) Self-disconnection and self-rationing final proposals – statutory consultation

- Our decision to introduce new requirements on suppliers to offer emergency and friendly-hours credit to all PPM customers and to offer additional support credit to PPM customers in vulnerable circumstances who self-disconnect or self-ration (Chapter 3); and

- Our decision to introduce updated Ability to Pay principles in the electricity and gas supply licences to ensure consistent support for customers struggling to pay their bills (Chapter 4).

1.4. Alongside this document, we have published:

- **Notices of modification and reasons** for the decision to modify the standard conditions of the electricity and gas supply licences – the changes to standard licence conditions SLC 27 and SLC 28, and the introduction of SLC 27A; and

- **Final Impact Assessment –** updated Impact Assessment following stakeholder comments at statutory consultation.[3] While the Final Impact Assessment shows there is an increase in the monetised costs of introducing these measures, we have decided to proceed with the introduction of these new requirements, particularly given the significant hard-to-monetise benefits for consumers the evidence presents.

Next steps

1.5. The changes set out in the modification notices published alongside this document will take effect on and from **15 December 2020.**

1.6. These protections form part of our implementation of the Consumer Vulnerability Strategy 2025.[4] We will be keeping a close eye on consumer outcomes in this area, as part of our enhanced monitoring during the COVID-19 crisis and through our regular monitoring regarding PPM and vulnerable consumers. We will use our

[3] The final modification notices and final Impact Assessment published alongside this document are available online at: https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-decision
[4] Ofgem (2019) Consumer Vulnerability Strategy 2025

COVID-19 RFI and Social Obligations Reporting as key mechanisms for monitoring the scale of self-disconnection and consumer debt.[5] In turn, our monitoring of self-disconnection will allow us to better understand the effectiveness of our policy and suppliers' compliance with the new rules.

1.7. We will also continue to gather information from our consumer engagement surveys and evidence from consumer representatives on the experiences of PPM customers and those who are struggling to pay, including utilising our tripartite agreement with Citizens Advice and the Energy Ombudsman.[6]

1.8. We will use our publications, such as regular reporting on consumer vulnerability, to report on self-disconnection trends and publicise good practice where this is possible to help suppliers identify potential improvements.

Context and related publications

1.9. In line with our principal objective of protecting the interests of consumers, our Consumer Vulnerability Strategy 2025 committed to strengthening protections for PPM customers and those who are struggling with their bills. This is particularly important because of an increase in the levels of self-disconnections over the past two years.

1.10. There are a reported 4.3 million electricity and 3.4 million gas PPM consumers.[7] Our data shows that 1 in 7 customers self-disconnected during 2019, and more recent data from Citizens Advice shows these numbers could be higher.[8] Evidence shows that around half of those who are self-disconnecting appear to experience a negative impact.[9] This could be a physical impact such as living in a cold home and/or emotional impact which includes financial distress. Some groups will generally be more affected than others such as households including children and/or the elderly.

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[5] Ofgem (2019) Consumer Vulnerability Strategy: reporting on progress
[6] Ofgem (2019) Tripartite Group Engagement
[7] Ofgem (2019) Supplier Request for Information – data correct as of October 2019
[8] Ofgem (2020) Consumer Engagement Survey 2019
[9] Citizens Advice (2018) Switched On – Improving support for prepayment consumers who've self-disconnected

1.11. More recently, 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.

1.12. When carrying out our review into self-disconnection, we received evidence that there was variation in the levels of support offered by suppliers to customers who were self-disconnecting and/or struggling to pay their bills, 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 our policy consultation in August 2019 and our statutory consultation in June 2020.

1.13. The related publications are:

- Our November 2018 call for evidence: Ofgem (2018) Prepayment self-disconnection and self-rationing – a call for evidence https://www.ofgem.gov.uk/publications-and-updates/prepayment-self-disconnection-and-self-rationing-call-evidence

- Our August 2019 policy consultation: Ofgem (2019) Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing https://www.ofgem.gov.uk/publications-and-updates/proposals-improve-outcomes-consumers-who-experience-self-disconnection-and-self-rationing

- Our October 2019 Consumer Vulnerability Strategy 2025: Ofgem (2019) Consumer Vulnerability Strategy 2025 https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy-2025

- Our June 2020 statutory consultation and accompanying documents: Ofgem (2020) Self-disconnection and self-rationing final proposals – statutory consultation https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-final-proposals-statutory-consultation

Wider policy linkages

1.14. In response to the statutory consultation, four suppliers and one consumer group argued that some solutions sit outside of energy companies' remit and wider government policy needs to address people's affordability challenges. Several stakeholders noted the need for Ofgem to work together with government departments, such as the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for Work and Pensions (DWP) to address issues that affect energy consumers.

1.15. We are fully committed to working with the government to protect energy consumers and we regularly engage with them on issues that have an impact on energy consumers such as the implementation of Universal Credit and, more recently, the COVID-19 crisis. The decisions we have made in this document complement the government's wider work on affordability and fuel poverty, as well as on the smart metering rollout programme. There are also links with other regulatory reforms and collaborative work that Ofgem undertakes. Below we have outlined the latest information on policy developments that may be of particular interest.

Smart metering rollout programme

1.16. Several stakeholders called for the prioritisation of PPM customers as part of the smart meter rollout. They highlighted the advantages of smart PPMs particularly for customers who are in vulnerable situations and for those who are more likely to be affected by COVID-19 this winter (eg people who are shielding). They also noted the additional benefits of smart PPMs in relation to the proposed new requirements on suppliers to identify self-disconnection and to offer credit facilities, all of which can be accessed more easily and quickly compared to traditional meters.

1.17. Our evidence shows that COVID-19 has brought home to consumers the considerable benefits of smart meters over traditional meters. In particular, smart PPM customers can top-up and track credit without leaving home and in turn avoid the risk of going off supply that some traditional PPM customers may experience if their top-up shop is closed or if they are shielding. Energy suppliers can also easily see when smart PPM customers have gone off supply, allowing them to offer timely and remote support.

1.18. Significant progress has been made in resolving technical issues which previously limited the ability of suppliers to deploy SMETS2 prepayment meters in the north of

England and Scotland.[10] In light of this increasing eligibility, it is important that energy suppliers should consider how they could prioritise their smart services to PPM consumers so that they can realise the significant benefits of having a smart meter as soon as possible. We will continue to work closely with government, energy suppliers and consumer groups to promote the benefits of the rollout of smart meters to PPM customers. This means, working with industry to monitor and address emerging issues and ensuring that energy supplier customer journeys are appropriately tailored for PPM and vulnerable customers and actively promoting smart meters.

1.19. In October 2019, we consulted on proposals requiring larger energy suppliers to report on their annual plans to roll out smart meters to PPM customers. This included our minded-to position to require larger energy suppliers to publish the planned split of their annual milestone delivery to credit and PPM customers.[11] We indicated that we did not see any disadvantages to this information being published. With the government having published its decision on the new regulatory framework[12] for the smart meter rollout due to commence on 1 July 2021, we are reviewing our reporting proposals and will publish our decision in due course.

Warm Home Discount (WHD) scheme

1.20. Several stakeholders called for Ofgem to work with the government to expand and extend the current WHD scheme. BEIS is responsible for WHD policy. Ofgem's role is to administer certain elements of the scheme. We note that BEIS has recently published its consultation on a proposal to extend the WHD scheme until April 2022.[13] We will be responding to this consultation, as well as continuing to engage with BEIS on its programme of work in this area.

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[10] SMETS2 prepayment meters are already widely available for consumers in other parts of Great Britain.
[11] Ofgem (2019) Statutory Consultation on the Post-2020 Smart Meter Rollout Reporting Requirements
[12] BEIS (2020) Smart meter policy framework post 2020
[13] BEIS (2020) Warm Home Discount Scheme 2021 to 2022

Restricted meters

1.21. Two stakeholders raised concerns about the experiences of restricted meter customers, a particular concern in Scotland. In September 2020, we published a statutory consultation to make changes to standard licence condition 22G of the electricity supply licence, which relates to protections for customers with certain types of restricted (multi-rate) meters.[14] We consulted on changes to lengthen the period of time when SLC 22G applies to electricity suppliers. The consultation closed on 2 October. We are currently considering stakeholder responses and we will provide an update in due course.

Breathing Space initiative

1.22. Two stakeholders commented on the links between our proposals and the government's Breathing Space initiative in England and Wales to help people in problem debt[15], with one seeking further clarity on how this fits with the Ability to Pay principles. A similar scheme is already available in Scotland.[16]

1.23. Breathing Space will provide a period of up to 60 days, where people in problem debt would be protected from enforcement action by their creditors and the accrual of further interest and fees on their debts. This protection will help those in problem debt move towards a sustainable debt solution. The protections from enforcement action, fees and charges will encourage more people to seek out debt advice and to seek it earlier.

1.24. As mentioned in our August 2019 policy consultation, we have been engaging with the government on the implementation of this scheme across the energy sector. We note that the government's proposals in this area should not conflict with our own rules and encourage suppliers to engage with the government on the implementation of the Breathing Space initiative in England and Wales.

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[14] Ofgem (2020) Statutory Consultation: Extending protections for non-E7 restricted meter customers (SLC 22G)
[15] HMT (2019) Breathing space scheme: consultation on a policy proposal
[16] Accountant in Bankruptcy (2019) Debt Arrangement Scheme (DAS)

1.25. The government recently laid out Regulations in Parliament, and expect the scheme to come into force in May 2021.[17] It will publish guidance for creditors on the implementation of Breathing Space shortly and we encourage suppliers to carefully read this guidance.

Third Party Deductions scheme

1.26. One stakeholder raised a concern around the use of Third Party Deductions (formerly known as Fuel Direct) by energy suppliers, their obligations under the supply licence and the guidance provided by DWP who manage the scheme. Their concern is that they believe there is a misalignment in these policies regarding when a customer is be able to repay a debt directly out of their benefits payment, via Third Party Deductions. We can confirm that this is an area we have been engaging with DWP on and we are currently discussing this matter further to ensure consistency of approach. We also note that Citizens Advice are currently undertaking research exploring suppliers' and consumers' experiences with the Third Party Deductions scheme for energy debt and we will be closely analysing the findings.

Your feedback

General feedback

1.27. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

- Do you have any comments about the overall quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send any general feedback comments to CDConsultations@ofgem.gov.uk.

[17] The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020

2. Identifying self-disconnection and self-rationing

Section summary

In this chapter, we provide our decision on introducing a new requirement on suppliers to identify prepayment meter customers who are self-disconnecting and our final position and way forward on suppliers' identification of customers who are self-rationing.

Summary of decision

2.1. We have decided to proceed with the introduction of a new requirement on suppliers to identify all domestic customers on a prepayment meter (PPM) who are self-disconnecting and to offer appropriate support, giving due consideration to customers in vulnerable situations. The measure remains as presented in the statutory consultation and statutory notices, with some minor typographical corrections to SLC 27A.1.

2.2. We have also decided to retain our position to not introduce at this time any new requirements on suppliers to identify customers who are self-rationing, given the current technical limitations and potential cost implications. Instead, we will be monitoring industry performance on identifying and supporting vulnerable customers, including those who are self-rationing, as this remains an area of concern for Ofgem. As part of this, we also intend to work closely with the government to ensure that vulnerable consumers can realise the benefits of smart metering.

Identification of self-disconnection

Statutory consultation proposal

2.3. In our statutory consultation, we outlined our proposal to introduce a new requirement on suppliers to identify customers who are self-disconnecting, and offer them appropriate support, particularly if they are in a vulnerable situation. The aim of this measure is to provide PPM customers who self-disconnect with an improved and consistent service, while considering the needs of vulnerable consumers.

2.4. Identifying PPM customers who are self-disconnecting is an essential cornerstone of our package of measures – it is the first step in ensuring customers can get back on supply, reduce the level of consumer harm and the risk of self-disconnection in the future.

2.5. Our statutory consultation broke down the proposal into the following positions:

- The requirement would be on suppliers to take all reasonable steps to identify on an ongoing and continuous basis whether a prepayment meter customer is self-disconnecting;

- Suppliers would be required offer appropriate support where a customer is identified as having self-disconnected in accordance with new proposals to address self-disconnection and self-rationing as well as current supplier obligations, taking into account whether that customer is in a vulnerable circumstance; and

- The requirement would apply to all customers who are on traditional and smart prepayment meters.

Our decision

2.6. We have decided to proceed with the introduction of a new requirement on suppliers to identify all PPM customers who are self-disconnecting and to offer appropriate support, giving due consideration to customers in vulnerable situations. We are making two minor typographical amendments to SLC 27A.1, as presented below and in the modification notices in yellow highlight.

27A.1 Where a Domestic Customer uses a Prepayment Meter the licensee must:

(a) take all reasonable steps to identify on an ongoing and continuous basis, whether that Domestic Customer is Self-Disconnecting; and

(b) if the licensee identifies that the Domestic Customer is Self-Disconnecting, offer that Domestic Customer appropriate support, in accordance with this condition, SLC 27A, SLC 27.8, and all other obligations relating to Prepayment Meter customers, and in deciding what is appropriate support for that Domestic Customer, take into account whether they are in a Vulnerable Situation, as appropriate.

Considering stakeholders' views

2.7. In response to the statutory consultation, our proposal on the identification of self-disconnection received widespread support. However, a majority of suppliers did raise concerns around the scope and practicability of certain aspects of the proposal which we have considered and are discussed below.

Identifying all PPM customers who are self-disconnecting

2.8. We considered responses from two stakeholders who suggested a more targeted approach to vulnerable customers rather than a requirement on identifying and offering support to all PPM customers. One stakeholder sought clarity on whether the new requirement on the identification of self-disconnection applies to all customers or solely vulnerable customers.

2.9. **We maintain and reiterate that this requirements should cover all PPM customers**. This is because evidence shows that self-disconnection may be the first sign a supplier sees of a customer with a new vulnerability. We provided further detail on our policy intent in paragraphs 2.33 – 2.34 of the statutory consultation. We also see this requirement as benefitting suppliers, as through spotting self-disconnection and further potential vulnerabilities suppliers will be better placed to help get customers back on supply and offer sustainable solutions, including putting them on affordable repayment plans where this is needed.

Traditional and smart meter identification

2.10. Two stakeholders felt this measure disproportionately impacts suppliers with a larger traditional PPM customer base, while stressing the difficulties in identifying self-disconnection on traditional PPMs. Another two stakeholders argued that short-term disconnections should be excluded from the new requirement and to this end the requirement to identify 'on an ongoing and continuous basis' should be removed. Consumer groups unanimously supported the proposal to apply to both traditional and smart PPMs.

2.11. **Our decision is that these new requirements will apply to both traditional and smart meter PPM customers and that self-disconnection should be identified on an ongoing and continuous basis.** We recognise the technical challenges with identification of self-disconnection on traditional meters but we expect suppliers to take all reasonable steps to achieve this requirement. We do not want traditional PPM customers to be left behind by introducing a smart meters-only requirement.

2.12. We believe there are some helpful examples of good practice which can improve the identification of self-disconnection on traditional PPMs. We outlined these in detail in paragraphs 2.39 – 2.40 in our June 2020 statutory consultation and paragraphs 3.8 – 3.14 in our August 2019 policy consultation.

2.13. We also acknowledge that a significant number of self-disconnections are short-term and these are predominantly because of 'organisational issues' such as forgetting to top-up. However, even short-term self-disconnection can cause detriment, as some customers may be forgetting to top-up their meter because of an existing vulnerable situation and/or characteristic. Ongoing identification of self-disconnection is important as consumers may move in and out of vulnerable situations and having no access to energy, even for a short period of time, can cause significant negative impacts.[18]

Customer engagement

2.14. Four stakeholders, including one consumer group and three suppliers, suggested that customers might not want unnecessary or overbearing contact from their supplier as a result of identification of self-disconnection. As detailed in our statutory consultation (paragraph 2.41), **we agree there needs to be a balance in the amount of contact a consumer receives, in line with their needs,** with particular sensitivity and care needed for consumers with mental health problems.

2.15. We maintain that consumer engagement will be needed in the first place to establish whether a customer who is on a traditional PPM has self-disconnected and provide them with appropriate support if needed. We acknowledge that built-in support such as emergency and friendly-hours credit may be activated by a traditional PPM customer by the time a supplier gets in touch with them, given the time lag of the reports which show customers who haven't topped-up. However, others may be off

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

supply for longer and at risk of detriment. We have seen examples of good practice where suppliers are triaging consumer engagement by first contacting those identified as vulnerable.

2.16. For customers on smart meters in PPM mode, we expect suppliers to take a proportionate approach. For example, we do not expect suppliers to contact each customer that has triggered an off-supply alarm if that customer shortly after has accessed emergency credit and is back on supply. However, there may be cases where a customer does that frequently, which may then prompt engagement with that customer. Given the granularity of data on smart meters, we encourage innovation in the use of data as well as the use of different communication channels to proactively engage with customers who are self-disconnecting.

2.17. One stakeholder called for further clarity on the definition of 'smart self-disconnections' and guidance as to how a supplier should identify whether a customer is self-disconnecting. We note that there is no legal definition of 'smart meter self-disconnections' and suppliers should refer to the new definition under SLC 27A. We have previously said that we expect suppliers to make use of smart disconnection alerts and smart data to identify smart PPM customers who self-disconnect.

Data protection and data privacy

2.18. Concerns around data protection of smart PPM customers were raised by four stakeholders. Three stakeholders raised strong concerns as they were of the view that a Data Protection Impact Assessment (DPIA) needed to be conducted by Ofgem. As discussed in paragraph 1.22 of the statutory consultation, we expect suppliers to comply with data protection and data privacy laws. This includes their requirements under GDPR and the handling of personal data.

2.19. **We recognise that in relation to the self-disconnection identification requirement suppliers, in their role as Data Controllers, may need to consider and review their position on their own DPIAs** depending upon the nature of any processing they consider necessary to meet the new requirements around identification of self-disconnection.

2.20. One stakeholder raised concerns that identifying self-disconnection may have unintended consequences of customers opting out of consents over smart data. We note recent evidence suggests that customers strongly support the use of data by suppliers to monitor self-disconnection and/or self-rationing and in turn offer support.[19] Furthermore, we maintain that the current smart technical specifications and smart metering data access rules are fit for purpose to allow suppliers to identify self-disconnection under the proposed new obligation.

2.21. One stakeholder requested confirmation on whether we have engaged with the Information Commissioners Office. We can confirm our engagement with the ICO on the subject of DPIAs.

Monitoring and reporting of self-disconnection

2.22. Five respondents highlighted the need for suppliers to report self-disconnection data to Ofgem and for us to report on this to better understand the scale of self-disconnection and suppliers' compliance with the new requirement. We are currently monitoring self-disconnection as part of a regular COVID-19 RFI and we will continue to monitor self-disconnection through this and other ongoing monitoring. We will carefully consider this data to evaluate industry performance and the scale of self-disconnections and we retain our discretion to publish these findings and any compliance actions.

Sharing of best practice

2.23. Ten respondents suggested the sharing of best practice for suppliers to identify self-disconnection. A minority of these suggested Ofgem produce guidance for suppliers on self-disconnection. We do not intend to produce a guidance document further setting out our expectations at this stage, as we believe this to be clear in the proposals we have set out during the consultation stages. Nevertheless, we agree there is benefit in sharing of best practice to improve suppliers' process of identification and we encourage knowledge sharing where possible through current stakeholder fora.

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

2.24. We will work closely with Citizens Advice in updating their good practice guides for suppliers as the new requirements come into force.[20] We will also use our publications, such as regular reporting on consumer vulnerability, as tools for publicising good practice where this is possible to help suppliers identify potential improvements.

Impact Assessment

2.25. We received comments from two stakeholders on our assessment of the costs to industry regarding the self-disconnection identification process. In the final Impact Assessment, we have decided to separate the estimated identification costs between smart and traditional, to better reflect the practical introduction of this new requirement.

2.26. We also received concerns from three stakeholders that our assessment of the costs to industry regarding engagement with customers following identification of self-disconnection was not sufficient. In the final Impact Assessment, we have decided based on stakeholder views' to monetise the cost of this engagement, separating the estimated costs between smart and traditional.

2.27. We have outlined our updated analysis in more detail in the accompanying final Impact Assessment.

Identification of self-rationing

Statutory consultation proposal

2.28. In our statutory consultation, we signalled that we do not intend to introduce any new requirements on identification of self-rationing at this time. Instead, we will focus on monitoring industry performance on identifying and supporting vulnerable customers, including those who are self-rationing, as this remains an area of concern for Ofgem.

[20] Citizens Advice (2017) Supplier good practice guide: Responding to prepayment customers who self-disconnect; Citizens Advice (2020) Risks to consider and examples of good practice for energy suppliers and networks to support consumers affected by COVID-19

2.29. We also proposed to retain the self-rationing definition given its reference in other areas throughout the package of proposals, such as additional support credit. We discuss this further under the additional support credit requirement, in paragraphs 3.19 and 3.26 of this document.

Our decision

2.30. We have decided not to introduce any new requirements on the identification of self-rationing at this time. We recognise the current technical difficulties in the accurate measurement of self-rationing in different domestic households. However, we reaffirm our commitment to monitoring industry performance on identifying and supporting vulnerable customers, including when those customers are seen to self-ration their energy use, particularly as the smart meter rollout progresses. We will do this through our current monitoring and compliance processes, as well as through collaboration with the government on the smart metering rollout. We will consider taking compliance or enforcement action where current requirements are not adhered to and such action is the appropriate response.[21]

2.31. We know that prepayment self-rationing and self-disconnection are closely linked and customers who self-ration are more likely to do so because they are already in financial difficulty. Customers who are self-rationing on their PPMs can eventually self-disconnect if they run out of money, or use self-rationing as a coping strategy to avoid going off supply. As part of this package of measures, we will have stronger protections in place to protect PPM consumers and those struggling to pay their bills. This is will be in addition to current obligations, including under the Standards of Conduct (SLC 0), which require suppliers to seek to identify consumers in vulnerable circumstances and provide them with the support needed.

Considering stakeholders' views

2.32. Our proposal on the identification of self-rationing received a mixed response. Suppliers welcomed our proposal while consumer groups expressed their disappointment, with several organisations seeking the introduction of a requirement on suppliers to identify smart meter customers who are self-rationing.

[21] Ofgem (2017) The Enforcement Guidelines

However, our proportionate approach overall was well received, with all stakeholders acknowledging the challenges facing this important area and the need to work together to prevent the harms that self-rationing can bring.

2.33. Stakeholders were encouraged by our commitment to monitor and review issues around self-rationing, particularly as the smart meter rollout progresses but desired further clarification on our future work, which we have outlined above.

2.34. One stakeholder specifically sought clarification on the role of the Standards of Conduct in identifying self-rationing. We can confirm (as per paragraph 2.55 in the statutory consultation) that whilst we are not placing a specific obligation on suppliers to identify self-rationing, there are wider duties suppliers have to identify customers in vulnerable circumstances, monitor behaviours and take appropriate action.

Sharing of good practice

2.35. Eight stakeholders supported an industry-led approach to finding solutions to the effective identification and alleviation of self-rationing. We encourage continued research into this area so measurement and understanding of customer energy under consumption and self-rationing can be improved. We plan to work closely with the government to explore opportunities to improve the reliable identification of self-rationing, including through effective monitoring of smart meter data. We will also actively encourage and facilitate the sharing of good practice case studies where this is possible, including through our publications such as our regular vulnerability updates.

3. Credit functions to reduce temporary self-disconnection and self-rationing: emergency, friendly-hours and additional support credit

Section summary

In this chapter, we outline our decision to introduce new requirements on suppliers to offer emergency and friendly-hours credit to all prepayment meter (PPM) customers and to offer additional support credit to PPM customers in vulnerable circumstances who are at risk of self-disconnecting or self-rationing.

Summary of decision

3.1. We have decided to proceed with the introduction of new requirements on suppliers to offer emergency and friendly-hours credit to all PPM customers and to offer additional support credit to PPM customers in vulnerable circumstances.

3.2. These requirements formalise the current credit functions with the aim to provide consumers who self-disconnect for a short period of time the ability to stay on supply until they next top-up. This includes PPM customers who may self-disconnect because of organisational reasons such as forgetting to top-up or being generally unaware that the meter is low on credit, as a result of busy lifestyles or lack of information, and who would particularly benefit from the emergency and friendly-hours facilities. It also aims to provide support to those PPM customers who are in vulnerable situations and may self-disconnect and/or self-ration because of their specific vulnerable situation, such as a temporary financial difficulty.

3.3. While these features are important in tackling short-term self-disconnection, we recognise that not all circumstances can be resolved through this approach, particularly for customers with ongoing financial difficulties. We expect other protections to apply to these customers, including protections we are introducing as part of this package, such as the measure around affordable repayment plans.

3.4. Following our statutory consultation, we have made a few minor changes to the drafting of the information provision requirement, the additional support credit requirement, and the definition of additional support credit to clarify our policy intent. Key changes we have made are to:

- Rephrase part of the additional support credit provision (SLC 27A.5) to improve its readability and clarify policy intent (this is not a change in policy intent);
- Add that customer information about credit function facilities (SLC 27A.8) is given "in a Form and frequency that is sufficient to allow that Domestic Customer to quickly and easily understand", to bring this more in line with current principles-based SLCs (this is not a change in policy intent); and
- Add "runs low or" and "continuity of [gas /electricity] supply" to the definition of additional support credit (SLC 27A.9), to express our policy intent more clearly and in line with other definitions relevant within the licence (this is not a change in policy intent).

3.5. We provide details of these changes in this chapter and in the modification notices published alongside this document.

Emergency and friendly-hours

Statutory consultation proposal

3.6. In our statutory consultation, we outlined our final proposal for introducing new requirements on suppliers to offer emergency and friendly-hours credit to all PPM customers and ensure that these customers have the necessary information to understand the facilities, how these can be used and how the credit is repaid.

3.7. Our statutory consultation broke down the proposal into the following positions:

- A requirement on suppliers to offer emergency and friendly-hours credit to all prepayment customers, without setting prescriptive credit amounts or friendly-credit hours;
- A requirement on suppliers to provide timely alternative support where it is not technically feasible to offer credit functions, including further clarification on what is meant by alternative support;

- A requirement on suppliers to consider a customer's ability to pay if they become aware that the customer has difficulty in repaying the emergency and friendly-hours credit; and

- Requirements on suppliers to provide adequate information around credit functions when a customer uses a PPM and when a PPM is installed.

Our decision

3.8. After careful consideration of stakeholder responses, we have decided to proceed with the introduction of new requirements on suppliers to offer emergency and friendly-hours credit to all PPM customers. Following our statutory consultation, we have made a minor change to the information provision requirement under SLC 27A.8 (which applies to all credit functions) to better reflect our policy intent. We present these changes in a box below and in the modification notices in yellow highlight. We discuss the reasons behind our decision in the next section.

Provision of Information

27A.8 The licensee must ensure that each Domestic Customer who uses a Prepayment Meter is given adequate information in a Form and frequency that is sufficient to allow that Domestic Customer to quickly and easily understand the licensee's Emergency Credit, Friendly-hours Credit and Additional Support Credit facilities (as appropriate) including what this is, when this can be used and how this is repaid by the Domestic Customer.

Considering stakeholders' views

3.9. The vast majority of stakeholders supported our proposal on emergency credit and friendly-hours credit. In reaching our decision, we considered stakeholder views on a number of issues raised which we discuss in more detail below.

Prescribe minimum amount of emergency credit and friendly-hours

3.10. Eight consumer groups wanted to see a market wide minimum amount of emergency credit being provided, whereas one supplier suggested the obligation to provide friendly-hours credit is too prescriptive and should be more flexible.

3.11. We maintain that we should not prescribe credit amounts. As set out in the statutory consultation, we believe that suppliers are best placed to assess the value of emergency credit and we do not want to encourage a potential race to the bottom by setting a minimum amount. Similarly, we are not prescribing the hours of friendly credit, but rather require suppliers to offer this to customers overnight, at weekends and public holidays. This provides a level of standard required but does not prescribe the timings, given national differences in public holidays and differences in supplier contact centre opening hours. We believe this is a proportionate approach. For further rationale, see paragraphs 3.31 – 3.33 of the statutory consultation.

Taking customers' ability to pay into account

3.12. Two suppliers raised concerns that SLC 27A.4 would obligate them to assess a customer's ability to pay in all circumstances when providing emergency and friendly-hours credit. We want to clarify that we are not requiring suppliers to assess every customer's ability to pay when providing emergency and friendly-hours credit. The policy intent under SLC 27A.4 is to ensure that if a customer is having difficulty in repaying the full amount upon their next top-up, a manageable repayment rate must be agreed to enable the customer to return to supply and fund their ongoing consumption, whilst clearing the debt owed to the supplier. For this process, the supplier would have to become aware that the customer is having difficulty in repaying the credit, as these credit functions are usually built-in and cleared immediately upon next top-up. This could be through contact by the customer to agree a repayment plan or through information received via that customer's representatives.

Information provision requirement

3.13. Six stakeholders sought further clarification on how information on all credit functions (emergency, friendly-hours and additional support credit) should be provided to customers. One stakeholder was specifically concerned there would be a requirement on suppliers to constantly remind customers about these credit facilities, even when the customers are already aware and use the services. We confirm that this is not our policy intent, and one of the key reasons for introducing information provision requirements under SLC 27A.8 and SLC 28.1 is to ensure there is customer awareness in the first place (see paragraph 3.6 in the statutory consultation for further evidence on this).

3.14. We expect suppliers to provide customers with adequate information about credit facilities at an appropriate time, in line with their communication needs. This includes providing information when installing a new PPM or when a customer moves into a house with a PPM, as well as prompts to customers who are self-disconnecting regularly and may not be aware of current credit functions. It also means using different forms and modes of communication to provide this information, including via websites, letters, emails, text, apps, or verbally over the phone.

3.15. As noted in our statutory consultation, by increasing awareness of the credit functions, consumers will be more confident in the existence, application and accessibility of these protections, which can be the first step in preventing an off-supply situation should they need it. We refer stakeholders to paragraphs 3.27 – 3.29 of the statutory consultation for further detail on our policy intent. In light of this, we have decided to make a small change to SLC 27A.8 to clarify our policy intent and bring this more in line with current principles in the supply licence. We are adding that customer information about credit function facilities (SLC 27A.8) is given "in a Form and frequency that is sufficient to allow that Domestic Customer to quickly and easily understand" these credit facilities.

Impact Assessment

3.16. We received no comments on the impacts set out in relation to emergency credit and friendly-hours credit provision. Therefore, we have not updated our analysis from draft Impact Assessment.

Additional support credit

Statutory consultation proposal

3.17. In our statutory consultation, we outlined our final proposal to require suppliers to offer additional support credit to PPM customers who are self-disconnecting and/or self-rationing. This is another important short-term method to get customers back on supply and is tailored for customers in vulnerable circumstances who need extra support.

3.18. Our statutory consultation broke down the proposal into the following positions:

- A new requirement on suppliers to offer additional support credit where they have identified a PPM customer in a vulnerable situation who is self-disconnecting or has self-disconnected and/or should they, identify through current obligations a vulnerable customer who is self-rationing or has self-rationed;

- An obligation on suppliers that, should they deem the additional support credit is not in the customer's best interest, they would not be required to provide this credit and alternative support should be provided instead as part of suppliers' current obligations; and

- A requirement on suppliers to consider a customer's ability to pay when assessing the sum of additional support credit and when calculating instalments to repay additional support credit.

Our decision

3.19. We have decided to proceed with our decision to introduce a new requirement on suppliers to offer additional support credit to prepayment meter customers who are vulnerable and are self-disconnecting and/or self-rationing. We have also decided to keep the definition of self-rationing as proposed with no further amendments.

3.20. Following our statutory consultation, we have made a few minor changes to the drafting of the additional support credit requirement to clarify our policy intent under SLC 27A.5 and SLC 27A.9 on the definition of additional support credit. We present these changes in the box below and in the modification notices in yellow highlight, and we discuss the reasons behind our decision in the next section.

Provision of Additional Support Credit

27A.5 Subject to paragraph 27A.7, on each and every occasion on which a licensee identifies that a Domestic Customer who uses a Prepayment Meter and who is in a Vulnerable Situation has Self-Disconnected or is Self-Disconnecting and/or the licensee becomes aware or has reason to believe that a Domestic Customer who uses a Prepayment Meter and who is in a Vulnerable Situation has Self-Rationed or is Self-Rationing, the licensee must offer Additional Support Credit to that Domestic Customer in a timely manner in addition to the support offered in paragraph 27A.2.

27A.9 In this condition:

"Additional Support Credit" means a fixed amount of credit provided to a Domestic Customer in a Vulnerable Situation when that Domestic Customer's Prepayment Meter credit runs low or runs out to ensure continuity of [gas /electricity] supply or return on supply"

Considering stakeholders' views

3.21. Our proposal on additional support credit received overall support. However, this was not unanimous, with concern from consumer groups about the interim period while alternative support for the customer is decided.

Obligation to provide additional support credit and considering customers' best interests

3.22. Three suppliers were concerned they understood the proposals to mean every customer who self-disconnected would need to be offered additional support credit. To reiterate, we would not expect suppliers to contact every customer in this circumstance. If, through current obligations and the new requirements on identification, a supplier identifies a vulnerable customer who requires additional support credit then this is offered. We believe it is not likely to increase necessary engagement with all customers but a sub-set of vulnerable consumers who have self-disconnected and who have been identified through better identification of self-disconnection.

3.23. Several consumer groups were concerned that there would be a time lag between a supplier considering whether the customer requires additional support credit and that customer accessing it. One consumer group suggested clarifying that additional support credit is offered 'in a timely manner', given the emergencies that consumers who have self-disconnected or are self-rationing are likely to be dealing with.

3.24. We agree that the timely provision of additional support credit is key to the achievement of our policy and are making a small change to SLC 27A.5 to clarify our policy intent.

3.25. One stakeholder noted that the requirement to provide additional support credit should specifically refer to PPM customers as per policy intent. This was a typographical error and we are making a change to refer to 'prepayment meter customers' under SLC 27A.5.

Offering additional support credit to vulnerable customers who are self-rationing

3.26. Two stakeholders raised concerns with the requirement to offer additional support credit to vulnerable customers who are self-rationing, as they argued this would place a proactive requirement on suppliers to identify self-rationing. We reiterate that the obligation is to offer additional support credit to vulnerable consumers, should suppliers identify a vulnerable customer who is self-rationing or has self-rationed through current obligations. We noted our policy intent under paragraph 2.55 of the statutory consultation.

3.27. Based on stakeholder feedback, we are making a small change to SLC 27A.5 to clarify the distinction between the requirement for a supplier to offer additional support credit to:

- vulnerable PPM customers who have been identified by the supplier as having self-disconnected or who are self-disconnecting; and

- vulnerable PPM customers who have self-rationed or are self-rationing when the supplier becomes aware or has reason to believe the customer has self-rationed or is self-rationing. For example, the supplier would be able to offer additional support credit following interaction with the customer, where that customer informs the supplier that they are self-rationing.

3.28. One stakeholder raised concerns that the definition of self-rationing was too broad and highly subjective whereas another stakeholder strongly supported the decision not to define what is essential. Having taken on board similar stakeholder feedback on the definition in the statutory consultation, we maintain our definition of self-rationing. We believe it would be disproportionate to exclude potential individual circumstances and vulnerabilities which could necessitate spending in areas that are not considered essential to all consumers. For example, some customers may self-ration because they have to choose between heating and eating, while others may deliberately limit their energy use so they can cut their costs overall.

Taking into account customers' ability to pay

3.29. Two stakeholders raised concerns with the proposed supplier obligation under SLC 27A.6 to assess the sum of additional support credit in line with SLC 27 which, among others, refers to suppliers' obligations for customers in payment difficulties.

They are concerned that suppliers may only offer small default amounts which may not be sufficient for some customers.

3.30. We believe that the obligation under SLC 27A.6 and our policy intent is clear in what we expect from suppliers and have decided not to make any changes to the SLCs. We have previously noted that we are not being prescriptive in the amount of additional support credit offered by suppliers, given that this will depend on customers' circumstances. We have detailed our policy intent and expectations on suppliers on this matter under paragraphs 4.25 – 4.28 of the statutory consultation.

3.31. Suppliers will need to consider customers' best interests on a case-by-case basis as part of the obligation to offer additional support credit credit, and in addition consider that the credit provided and how it is repaid should be in line with that customers' ability to pay. This will mean suppliers take into account the severity of each situation and each customer's ability to pay. Suppliers will be required to consider alternative methods of support, such as non-repayable financial support and/or signposting to debt advice services, when additional support credit is not the right way forward for that customer.

Defintion of additional support credit

3.32. Two stakeholders noted that the definition of additional support credit should be slightly amended to bring it more in line with the definitions of emergency and friendly-hours credit, in order to better reflect the policy intent. We agree and we have decided to proceed with this small change. We noted at statutory consultation that our policy intent was to ensure that the customer is able to stay on supply, or return on supply as soon as possible (see paragraphs 4.23 – 4.24 in the statutory consultation). Suppliers will be required to provide additional support credit to vulnerable PPM customers who are self-rationing and that may mean customers are still on supply but would need access additional support credit to avoid self-disconnection.

3.33. We have decided to slightly change the definition of additional support credit in SLC 27A.9 as per other credit function definitions and to better reflect the policy intent, to also refer to cases where the credit is provided when a vulnerable consumer's PPM 'runs low to ensure continuity of supply'.

Impact Assessment

3.34. Three stakeholders commented on the assessment of costs and benefits regarding the additional support credit function. Respondents made reference to the increased risk of bad debt through the provision of this credit, particularly through the COVID-19 crisis. We acknowledge this risk in the final Impact Assessment and set out our final position.

4. Ability to Pay principles to reduce ongoing self-disconnection and self-rationing

Section summary

In this chapter, we outline our decision to introduce updated Ability to Pay principles within the supply licence to ensure all suppliers sufficiently and consistently consider customers' ability to pay when setting debt repayment plans for those who are struggling to pay their bills. This includes those PPM customers who are self-rationing and/or self-disconnecting.

Summary of decision

4.1. We have decided to proceed with the introduction of the updated Ability to Pay principles within the supply licence under SLC 27.8A. This will give the principles further prominence and put emphasis on consumer protection for customers who are in potential and actual financial difficulty by ensuring that all suppliers sufficiently and consistently consider customers' ability to pay when setting debt repayment plans.

4.2. Following our statutory consultation, we have made a few minor changes to better clarify our policy intent under:

- The principle of setting repayment rates based on ability to pay (SLC 27.8A (d)) – this is not a change in policy intent; and
- The principle of re-engaging with a customer after an initial occurrence of a failed repayment arrangement (SLC 27.8A (g)) – this is not a change in policy intent.

4.3. We have also decided to introduce an additional licence condition to note that we may from time to time, following consultation, issue guidance on the interpretation of SLC 27.8A. This does not change the policy intent, it simply outlines our intention to issue guidance in the future if needed.

4.4. We have made some minor changes to correct typographical errors under SLC 27.8A (g), under SLC 27.8A (e), and to refer to the new SLC as 'SLC 27.8A' and not 'SLC 27.8B' as previously published in the statutory notice.

Ability to Pay principles

Statutory consultation proposal

4.5. In our statutory consultation, we proposed to update and incorporate the Ability to Pay principles within the supply licence conditions. These are principles that suppliers must consider when ascertaining a customer's ability to pay in relation to their debt repayments. The aim of this proposal is to give these principles further prominence, ensure consistency across the market, and emphasise the need for targeted support to consumers facing payment difficulties. This includes customers on PPMs who may be at risk of self-disconnection and self-rationing as well as customers on credit meters who may be self-rationing their energy use.

4.6. We proposed to keep the six principles, originally published in 2010, with some minor updates to better reflect current debt collection practices and make the principles more future proof. These principles require suppliers to give due considertation to:

(a) having appropriate credit management policies and guidelines;

(b) making proactive contact with customers;

(c) understanding individual customers' ability to pay;

(d) setting repayment rates based on ability to pay;

(e) ensuring the customer understands the arrangement; and

(f) monitoring arrangements after they have been set up.

4.7. We also proposed to include an additional principle placing an obligation on suppliers to give due consideration to:

(g) re-engaging with a customer after an initial occurrence of a failed repayment arrangement.

4.8. This is to ensure customers have affordable debt repayment arrangements in place, with suppliers engaging with the customer to discuss whether a different repayment plan or repayment method would be more suitable.

Our decision

4.9. We have decided to proceed with the update and introduction of the Ability to Pay principles within the supply licence under SLC 27.8A. Following our statutory consultation, we have made a few minor changes to better clarify our policy intent under principles SLC 27.8A (d) and SLC 27.8A (g). We have also decided to introduce a new licence condition requiring suppliers to have regard to any guidance on SLC 27.8A which, following consultation, we may issue.

4.10. Finally, we have made some minor changes to correct typographical errors under SLC 27.8A (g), under SLC 27.8A (e), and to refer to the new SLC as 'SLC 27.8A' and not 'SLC 27.8B' as previously published in the statutory notice.

4.11. We present these changes in the boxes below and in the modification notices in yellow highlight, and we discuss the reasons behind our decision in the next section.

27.8A For the purposes of ascertaining a Domestic Customer's ability to pay as set out in paragraph 27.8, the licensee must give due consideration to:

[...]

(d) Setting repayment rates based on ability to pay, which includes:

(i) Ensuring all available information is obtained and taken into account, including the customer's circumstances identified on a warrant or site visit or when installing a prepayment meter on a warrant;

(ii) Only setting default amounts when there is insufficient information to ascertain the customers' ability to pay and where default amounts are set, it should be made clear that the repayment rate may change based on information about the customers' ability to pay. In any event the levels of any default repayment rate should be reasonable; and

(iii) Not insisting on substantial upfront payments before reconnection.

27.8A For the purposes of ascertaining a Domestic Customer's ability to pay as set out in paragraph 27.8, the licensee must give due consideration to:

[…]

(e) Ensuring the customer understands the arrangement, which includes:

(i) Clear communication with the customer which allows them to understand how much they are regularly repaying; how the repayment will be deducted; when the debt will be repaid; and what to do if they experience difficulties during the arrangement; and

(ii) For prepayment meter customers repaying debt by a weekly amount explaining that debt will be recovered regardless of usage.

27.8A For the purposes of ascertaining a Domestic Customer's ability to pay as set out in paragraph 27.8, the licensee must give due consideration to:

[…]

(g) Re-engaging with the customer after an initial occurrence of a failed repayment arrangement, which includes engaging with the customer in a timely manner to discuss the repayment plan, including whether a different repayment plan or repayment method would be more suitable.

27.8B The licensee must have regard to any guidance on SLC 27.8A (including in respect of definitions which appear in standard condition 1) which, following consultation, the Authority may issue and may from time to time revise (following further consultation).

Considering stakeholders' views

4.12. In response to the statutory consultation, all stakeholders who commented on this proposal supported the update and introduction of the Ability to Pay principles within the supply licence. Several consumer groups noted the importance of introducing these principles this winter, in light of the likelihood of more consumers falling into financial difficulty because of the ongoing COVID-19 pandemic.

4.13. Several stakeholders asked for clarification and had specific comments on the draft supply licence conditions. Based on the comments we have made minor amendments to the licence conditions and where we haven't amended, we have provided further clarification below.

4.14. One supplier noted that the Ability to Pay principles make no reference to self-rationing and queried whether a policy proposal was being considered around this that had not been consulted on. We confirm that there are no new policy proposals being consulted on, just those consulted on at policy and statutory consultation stages. Instead, we refer stakeholders to the evidence we presented in our our August 2019 and June 2020 consultation documents (paragraphs 5.6 – 5.9 and paragraph 2.7 respectively), which noted that self-rationing affects customers who face financial difficulties, who would in turn benefit from the consistent application of the Ability to Pay principles by suppliers.

SLC 27.8A (a): Having appropriate credit management policies and guidelines

4.15. In the statutory consultation, we proposed to update this principle to make our policy intent clearer, namely that suppliers should give due consideration to linking staff incentives to successful consumer outcomes and not the value of repayment rates. One consumer group strongly welcomed this proposal, noting that reinforcing this approach across the industry should have a significant impact on customer service and the relationship between struggling households and their utility debt.

4.16. One supplier suggested amending the proposal to avoid making the requirement too prescriptive and allow for more flexibility by the supplier in setting staff incentives. The policy intent behind this principle is that incentive structures for company staff with regards to debt repayments should reflect the requirement to take account of a customer's ability to pay and should not reward cash collection. This principle does not prevent a supplier from using various metrics to measure successful outcomes. We believe the policy intent is clear and do not intent to make any further changes to the proposed licence condition SLC 27.8A (a).

SLC 27.8B (b) Making proactive contact with customers

4.17. One supplier specifically noted that it did not agree with the proposed licence wording for 27.8B (b) (iii) which would require suppliers to give due consideration to "using every contact as an opportunity to gain more information about the customer's ability to pay when the licensee becomes aware or has reason to believe the customer is having or will have payment difficulty" and sought clarity on how this licence obligation should be administered in line with GDPR requirements of only collecting and using data that is for the purpose it was collated for.

4.18. The policy intent here is that when the supplier becomes aware that customer is having or will have payment difficulties, it would use every opportunity to collect information about that customer's ability to pay which in turn will allow them to better assess repayment rates. We believe the policy intent is clear and we have decided not to make any changes to the SLCs. We remind suppliers that we expect them to comply with data protection and data privacy laws.

4.19. Several stakeholders welcomed the inclusion in principle SLC 27.8A (b) of suppliers signposting customers to debt advice when customers raise concerns about their ongoing ability to pay. Two stakeholders called for improved signposting by suppliers; with one consumer group noting that their evidence shows some of the current practices are poor and inappropriate. Another two stakeholders asked us to consider amending the principle to include reference to signposting of other advice, such as signposting to energy efficiency advice and government schemes.

4.20. We have included the reference to debt advice following feedback from consumer groups that this advice should be explicitly offered to consumers who are in financial difficulty. The intention behind this reference is to ensure those in financial difficulty are provided the necessary advice and assistance. This principle should be read in conjunction with SLC 31G and SLC 27.6 (b).

4.21. SLC 31G includes a requirement on suppliers to ensure consumers are provided, as appropriate in the circumstances, with information in a form and at a frequency that is sufficient to enable consumers to quickly and easily understand how to access appropriate assistance and advice. This includes information about (i) debt prevention and management; (ii) improving energy efficiency, including management of [electricity/gas] consumption and associated costs; and (iii) social, financial and energy efficiency programmes. In addition, SLC 27.6 (b) requires suppliers to offer customers energy efficiency information when they become aware of or have reason to believe that customers have or will have difficulty in paying their energy bills.

SLC 27.8A (d) Setting repayment rates based on ability to pay

4.22. One stakeholder raised some concerns with the language relating to 'only setting default amounts where insufficient information is available', as they believed this potentially provides suppliers with an escape clause if they have attempted contact but not established it, which does not seem in the spirit of the proposed rules. Our policy intent is that, under this principle, suppliers are required to set repayment rates based on customers' ability to pay. If they have insufficient information, ie the customer has not engaged, then they are able to set default amounts. However, these amounts should be guidelines only and should be changed should the supplier gather further information about that customers' ability to pay. Additionally, we expect the levels of default repayments to be reasonable. We have decided to make some small changes to the drafting of SLC 27.8A (d) to better reflect the policy intent.

SLC 27.8A (g) Re-engaging with the customer after an initial occurrence of a failed repayment arrangement

4.23. Two stakeholders commented on the re-engagement principle, with one consumer group seeking clarification on what is meant by "initial occurrence" and one supplier seeking clarity on the timescales we expect suppliers to re-engage with customers.

4.24. We are introducing a new principle to incentivise suppliers to re-engage with a consumer in the event of an initial occurrence of a failed repayment plan. In terms of the content of the engagement, we would expect suppliers to engage with consumers to find out why the repayment plan has failed and what the supplier can do to make the plan more affordable if necessary. Once this is understood, the supplier can make changes to the plan to get the repayments back on track.

4.25. In terms of timings of engagement, we would expect this re-engagement to occur as soon as suppliers have identified a failed arrangement in line with the definition of a failed repayment arrangement under the Social Obligations Reporting. This definition states that a failed repayment arrangement is where full payment has not been received by the supplier within 10 working days after the agreed payment date.[22] We are making a change to SLC 27.8A (g) to clarify our policy intent for this engagement to be done in a timely manner.

4.26. In terms of the frequency of engagement, this principle is not limited to a single occurrence of a failed repayment arrangement by a customer. This means that we expect suppliers to engage with customers following an initial occurrence of a failed

[22] Ofgem (2015) [Guidance on monitoring suppliers' performance in relation to domestic customers]

repayment arrangement, even if that is not the first time the customer has failed on any other of its repayment arrangements with that supplier. Suppliers would have to set up sustainable repayment plans from the start and the introduction of this principle is to increase suppliers' understanding of why repayment plans fail (eg unsustainable repayment plan, changed customer circumstances) and mitigate the likelihood of the consumer from falling further into debt.

4.27. However, we recognise that there may be cases where a customer may not engage with their supplier following a failed repayment arrangement. In those situations, we would not expect the supplier to change the repayment plan or method, as long as the supplier has taken all reasonable steps to address that customer's ability to pay in line with its obligations. We consider the supply licence conditions clearly reflect our policy intent, previously outlined in our statutory consultation at paragraphs 5.44 – 5.46, and we are not making any further changes to the licence conditions.

Guidance on supply licence conditions

4.28. One stakeholder suggested we introduce an additional licence condition that requires suppliers to "have regard to any guidance on this licence condition, which, following consultation, the Authority may issue and may from time to time revise". They noted that what constitutes ability to pay may change over time and Ofgem should consult on any changes in its interpretation. They argued this is consistent with other principles, including those proposed through the Supplier Licensing Review.

4.29. Taking into account stakeholder views, we have decided to introduce a new licence condition requiring suppliers to have regard to any guidance on SLC 27.8A which, following consultation, we may issue. This does not change our policy intent on the introduction of the Ability to Pay principles.

Impact Assessment

4.30. We did not receive any comments on the costs set out in relation to the Ability to Pay principles. We have decided not to update any analysis from the draft impact assessment.