Consultation

Statutory Consultation – Involuntary PPM

Publication date:	28 June 2023
Response deadline:	26 July 2023
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We are consulting on proposals to strengthen protections for consumers that may be moved to a prepayment meter (PPM) involuntarily. We have built on the proposals developed in our Involuntary PPM Code of Practice, published in April 2023[1]. We would like views from people and organisations with an interest in Consumer Protection, Vulnerability and Debt. We particularly welcome responses from consumer groups and charities. We also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

[1] Ofgem, 2023: Involuntary PPM - Supplier Code of Practice | Ofgem

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Executive Summary

Prepayment meters have a role to play in the energy sector

Prepayment meters (PPMs) continue to help millions of customers by offering a payment method that supports them to control their spending and avoid getting into debt. In addition, where a customer uses a smart PPM, their supplier can better monitor when they are changing their top-up patterns or self-disconnecting, and provide support quicker. This can help a consumer stay on supply, reducing physical and emotional harm that can result from rationing their heating, cooking and hot water. They are also an effective way for suppliers to limit unrecoverable (or bad) debt, which is otherwise recovered from all consumers through the price cap and non-price cap practices. A supplier's right to install a PPM for debt is set out in legislation.[2] In the absence of PPMs, suppliers would be likely to resort to alternative methods of debt collection such as bailiff action that may be more harmful to vulnerable consumers. However, PPMs are not always suitable, and in particular may not be safe and practicable for many vulnerable consumers.

The affordability challenges consumers have faced

An increasing number of customers have been struggling to pay their bills due to high energy prices and the cost of living crisis.[3] At the same time, our monitoring in 2022 showed that energy suppliers increased the installation of PPMs to reduce the risk of writing off large amounts off unrecoverable debt (we observed a 44% increase in smart mode switches and 40% in traditional installations between 2021 and 2022). Some customers moved onto PPM voluntarily to pay debt, whilst others faced being moved without their consent (Involuntary PPM).

Suppliers' obligations on Involuntary PPM and issues we have seen

We expect suppliers to use Involuntary PPM as a last resort, and there are already rules in place to protect the most vulnerable customers who may be switched to a PPM. Central to those rules is that suppliers should not install a PPM where it would not be safe for the customer (for example if they have a dependency on electrically powered medical equipment). However, we saw evidence in 2022 and 2023 that suppliers may

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[2] Schedule 6 of the Electricity Act 1989 (legislation.gov.uk), Schedule 2B of the Gas Act 1986 (legislation.gov.uk), and The Electricity (Prepayment Meter) Regulations 2006 (legislation.gov.uk)
[3] The proportion who have constantly struggled or fallen behind on their general household bills and commitments has risen from 27% in March 2022 to 32% in Nov/ Dec 2022 (Ofgem Consumer Impacts of Market Conditions Survey waves 1 and 3) Consumer Impacts of Markets Conditions survey: Waves 1 (March 2022) & 2 (July 2022) | Ofgem and Consumer Impacts of Market Conditions survey - Wave 3 (Nov/Dec 2022) | Ofgem

not always have been complying with our rules when involuntarily moving customers to PPM. In response, in February 2023 we agreed a moratorium on Involuntary PPM installations and smart meter remote mode switches with suppliers. We also launched a Market Compliance Review into Involuntary PPM practices and opened an investigation into British Gas.[4]

We also agreed an Involuntary PPM Code of Practice with energy suppliers in April 2023.[5] The Code aims to ensure customers in vulnerable circumstances are protected when struggling to pay their bills and faced with Involuntary PPM. We are now consulting on turning the Code into licence conditions and guidance.

Our proposals will benefit consumers

The proposals we are consulting on will benefit consumers facing Involuntary PPM. Suppliers will need to follow an enhanced process for checking consumers' suitability for Involuntary PPM, and maintain a higher standard of aftercare support when they do. For example, suppliers must not proceed with Involuntary PPM if a customer is in the 'do not install' category and should take additional precautions for customers in the 'further assessment needed' category. Where a supplier does want to install a PPM, they need to carry out a welfare visit and have the case independently assessed by another team or individual. Where PPM is installed, they must provide the customer with an initial £30 credit. These measures, and the others we are consulting on, will help to reduce the harm that consumers experience because they cannot afford to top up their meter, or because they are on the wrong meter type for their circumstances.

There are wider benefits to society too. If fewer consumers face Involuntary PPM because of our proposals and are better able to heat their homes and cook hot meals, it could reduce demand on NHS services for physical and mental ill-health support. There should also be less pressure on consumer groups and charities for advice and help. Our proposals will also help to rebuild public trust in suppliers' treatment of consumers facing Involuntary PPM.

Our Impact Assessment shows a positive cost:benefit ratio in each of the scenarios that we have considered. We have quantified the consumer cost:benefit ratio to be at least 1:8 under the most likely scenario and at least 1:2 under the high sensitivity scenario. The analysis also shows a positive distributional impact on the groups of consumers we consider in our Distributional Impact Framework.[6]

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[4] Ofgem, 2023: [Energy regulator outlines next steps on forced Prepayment Meter (PPM) installations | Ofgem]

[5] Ofgem, 2023: [Involuntary PPM - Supplier Code of Practice | Ofgem]

[6] Ofgem, 2020: [Assessing the distributional impacts of economic regulation | Ofgem]

Impact of our proposals on bad debt and debt-related costs

We recognise that our proposals could, all else equal, lead to increases in bad debt and debt-related costs. However, we are also clear that suppliers have existing obligations to conduct safe and reasonably practicable assessments for PPM, and not to install a PPM for groups of consumers where the customer does not satisfy the guidance requirements. Additionally, we would expect suppliers to use debt-management best practice and not automatically write-off debt where a PPM would otherwise have been installed.

The impact on bad debt is inherently uncertain. It depends on macro-economic conditions including inflation and the cost of other essential goods and services; the cost of energy; and any changes in consumer behaviour. Given this uncertainty, we are using two different methods to calculate total potential impact of the proposals of between £74m and £307m per year, or between £3 and £14 per household. Our current expectation is that the impact is towards the lower end of this range, in a central scenario. However, if we considered a full ban on PPMs, our expectation of the impact on bad debt would be much higher. We estimate bad debt could increase between £472m and £599m, or from £21 to £27 per household. This projection compares against a current annual cost of bad debt of around £45 per dual fuel household.

We will continue to actively monitor and assess how the proposals impact debt in the following months. Where there is evidence of material and systematic changes to debt-related costs, we are committed to consulting on how suppliers should be able to recover any efficient additional costs.

We are, in the interim, consulting on introducing a specific allowance for bad debt associated with increased Additional Support Credit (ASC) being issued to PPM customers. We have already seen evidence of increased ASC issuance and we expect it will increase further this winter if requirements in the Code are implemented. These include the proposal to add £30 repayable discretionary credit to meters of customers who are subject to an Involuntary PPM installation.

Our proposals

We are making two main proposals in the Involuntary PPM consultation:

- **Modify the Supply Licence Conditions to integrate the key elements of the Code and bring these together with SLC 28 and 28B into a new SLC 28, alongside additions and modifications to 27A.** Although we already expect suppliers to follow the Code, this will make its provisions legally enforceable.

- **Update the Safe and Reasonably Practicable guidance to integrate the detailed and more prescriptive elements of the Code.** This is particularly the case for the groups of consumers that are protected from Involuntary PPM in all circumstances ('do not install') and those for whom suppliers need to carry out additional checks ('further assessment needed'). It will allow us to be flexible to change the more prescriptive parts of the Code in response to new evidence and/or emerging good practice amongst suppliers.

These proposals build on existing obligations that suppliers already have regarding Involuntary PPM. We are clear that suppliers should have been complying with existing rules that protect consumers in the debt journey to PPM.

Alternative to implementing the Code in licence and guidance – full ban on PPM

Some stakeholders want PPM to be completely banned because of the harm that any consumer could experience if they self-disconnect frequently or for long periods. For example, if consumers could not self-disconnect or self-ration, they would be able to heat their homes properly and reduce their chances of becoming unwell.

However, if PPM was not an option, suppliers would resort to other debt collection methods such as bailiffs. This would arguably be worse for consumers. Furthermore, as outlined previously, the rise in bad debts could be particularly significant if a ban on Involuntary PPM led to a surge in non-payment of energy bills by consumers taking advantage of the change of rules. The costs of this would be added to consumers' energy bills.

Given suppliers have the legal right to install a PPM to recover debt, and that removal of this right could lead to mass non-payment of energy bills, we consider that our proposals strike the right balance between enhancing protections for vulnerable consumers and mitigating the impact of uncontrolled bad debt, recovered through the price cap, on all consumers. We welcome stakeholders' views on our proposals, and expect to publish our final decision, following consultation, ahead of winter 2023.

1. Consultation process

Section summary

This section sets out what we are consulting on with regard to Involuntary PPM, and the background to the issues that have led to our proposals. It also informs stakeholders of the consultation process and how they can respond.

What are we consulting on?

1.2 We are consulting on how we integrate the requirements in the Involuntary PPM Code of Practice (the Code) agreed to by suppliers and published in April 2023 into electricity and gas standard supply licence conditions (SLCs).[7] Our proposal is to combine licence conditions relating to PPM (28 and 28B) into one, SLC 28 and add relevant parts of the Code into this combined condition. We also propose additions and modifications to SLC 27A.

1.3 We are also proposing to update and expand the guidance on when it is not safe and reasonably practicable to install a PPM, reflecting the relevant prescriptive requirements in the Code.[8]

1.4 We expect all suppliers to have been following existing rules and taking compliance and enforcement actions to help ensure that they are. This work may result in some form of redress, compensation or penalty where consumers have PPM wrongly installed, although such payments are not the subject of this consultation.

1.5 This document is split into six sections:

- Chapter 1: Consultation process;
- Chapter 2: Background to the issues;
- Chapter 3: Responses to Call for Evidence
- Chapter 4: Code of Practice Integration: SLCs;
- Chapter 5: Code of Practice Integration: Guidance; and
- Chapter 6: Summary Impact Assessment.

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[7] Ofgem, 2023: [Involuntary PPM - Supplier Code of Practice | Ofgem]

[8] Ofgem, 2016: [Authority's decision to Modify the Safe and Reasonably Practicable Guidance, pursuant to Standard Licence Condition 28.1B of the Electricity Supply Licence and the Gas Supply Licence | Ofgem]

Why are we consulting?

1.6 Prepayment meters are an important payment option. Millions of households choose them to pay for their energy, to help control their spending and avoid getting into debt. However, they are not suitable for everyone, and we have seen evidence suggesting that some suppliers have not treated customers fairly in accordance with the existing rules when moving them to PPM.

1.7 For example, in January 2023, we saw further allegations made about supplier PPM practices. We launched an investigation into British Gas and we also launched a Market Compliance Review (MCR) looking at PPM, which built on our previous MCRs on Customers in Payment Difficulty, and Vulnerability, from 2022.

1.8 The current high energy prices have resulted in consumers in vulnerable situations experiencing particular detriment, and this, coupled with poor supplier practices when many find themselves in debt and being forced onto PPMs, could cause considerable harm. As such, we agreed a temporary pause on involuntary PPM installations with suppliers. This was to allow us to review the rules on involuntary PPM.

The consultation process

1.9 To inform this review, we published a Call for Evidence on PPM rules and protections in February 2023.[9]

1.10 We consulted extensively with suppliers, consumer groups and charities on the issues and proposals for how we could enhance protections for consumers when suppliers are considering moving them to Involuntary PPM.

1.11 We held bilateral and group meetings with these stakeholders at working and senior level. This process of engagement led to the development of the Involuntary PPM Code of Practice which we published on 18 April 2023. We also published an accompanying letter to stakeholders setting out the rationale for introducing the Code and the five conditions suppliers would need to meet before restarting Involuntary PPM.[10]

How our proposals contribute to our objectives

1.12 These proposals will contribute to achieving the short-term priorities in our Forward Work Programme of 'setting, monitoring and enforcing quality and

[9] Ofgem, 2023: [Prepayment rules and protections: a call for evidence | Ofgem]()
[10] Ofgem, 2023: [Letter to stakeholders accompanying PPM CoP announcement | Ofgem]()

standards' and the 'vulnerable consumers' objective under the 'ensuring prices are fair' short term priority.[11] They also contribute to the 'quality and standards' limb of our Consumer Interests Framework, which aims to ensure that 'Customer services throughout the energy supply chain are accessible, transparent and responsive. Consumers are suitably empowered and protected from harm, with enhanced protections for the vulnerable'. In developing these proposals, we have considered how best to further protect the interests of existing and future customers and, as is set out in the rest of this document, had regard to the particular interests of those on low incomes and the financeability of suppliers.

Potential for proposals to add to bad debt and debt-related costs

1.13 We recognise that the proposals in this consultation, if implemented, may have an impact on the level of bad debt and debt-related costs faced by energy suppliers. That is because if the proposals lead to suppliers installing fewer PPMs to comply with the rules than was previously the case, or installing PPMs at a later stage than they previously would have, then it may lead to consumers building up more debt that cannot be repaid.

1.14 The impact is, however, inherently uncertain. It depends on macro-economic conditions including inflation and the cost of other essential goods and services; the cost of energy; and any changes in consumer behaviour. Given this uncertainty, we are using two alternative methods to calculate total potential impact of between £74m and £307m per year, or between £3 and £14 per household. Our current expectation is that the impact is towards the lower end of this range, in a central scenario. This projection compares against a current annual cost of bad debt of around £45 per dual fuel household.

1.15 We have also been gathering evidence on this as part of a wider review of debt-related costs, including through a Call for Input in April (CFI) published in April.[12] Given the data and evidence we have received so far, we consider that there is no evidence of a material or systematic gap between the allowance within the price cap for debt, and actual costs. However, we will continue to actively monitor and assess how the proposals impact debt in the following months. Where there is evidence of material and systematic changes to debt-related costs, we are committed to consulting on how suppliers should be able to recover any efficient additional costs that may occur from implementing our proposal.

[11] Ofgem, 2023: [2023/24 Forward Work Programme | Ofgem]
[12] Ofgem, 2023: [Price cap - Call for Input on the allowance for debt-related costs | Ofgem]

1.16 Nonetheless, we have a clear expectation that energy suppliers should use other mitigations in line with debt management best practice to try to reduce the likelihood of bad debt for customers who would otherwise have a PPM installed. We would expect them to do this rather than there being a presumption that all of the debt would automatically become unrecoverable.

1.17 In the meantime, we have also today published a statutory consultation on making a specific adjustment to the price cap for bad debt associated with Additional Support Credit (ASC) for PPM customers. We have seen significant evidence of a material increase in non-repayment of ASC offered by suppliers to PPM customers. This ASC is offered to customers at the point of self-disconnection, and these specific debt costs are not currently reflected in the price cap.

Consultation stages

1.18 The statutory consultation on the Code will close to responses on 26 July. We expect to conclude and publish our decision by winter 2023.

1.19 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.20 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.21 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.22 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.23 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.24 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.25 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

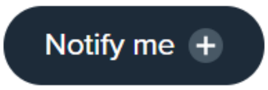
1.26 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

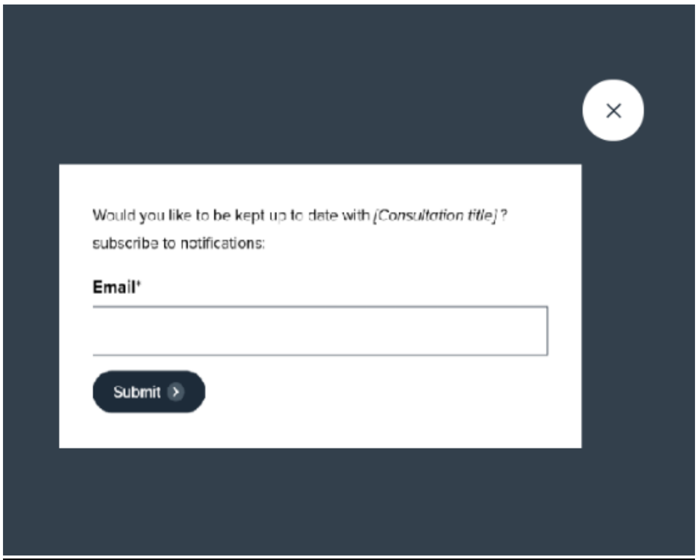
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

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

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations





Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Background to the issues

Section summary

This section sets out the role of PPM in the retail energy market. It discusses Involuntary PPM and the steps we have taken to ensure customers are protected from potential harm.

What is PPM?

2.1 Prepayment Meters (PPMs) play an important role in the energy market, offering a method of paying for energy in advance of consumption. There are varying ways customers can add credit to their meters, such as topping up at PayPoint or Payzone retailers and the Post Office. Suppliers also offer the ability to top up digitally via an app or website.

Uses of PPM by consumers and suppliers

2.2 For consumers, PPM can offer a more manageable way of paying for energy, provide better awareness of energy consumption and spend and help avoid building up debt. For customers on lower incomes, this can be preferable to facing unaffordable bills and unmanageable debt building up. Some consumers choose to have a PPM installed when they get into debt, and set up repayment plans to manage the debt. In December 2020, we introduced requirements for PPM that support customers in the event they run out of credit, such as Emergency Credit, Friendly-Hours Credit and Additional Support Credit, which provide set amounts of extra credit or 'do not disconnect' modes to allow customers more time to top up and/or not lose supply at inconvenient times of the day or night.[13]

2.3 For consumers, PPM can offer customers a more manageable way of paying for energy, providing better awareness of energy consumption and spend and help avoid building up debt. For customers on lower incomes, this can be preferable to facing unaffordable bills and unmanageable debt building up.

2.4 Smart meters operating in prepayment mode (smart PPM) allows suppliers to better monitor consumers' energy use, and spot changes in top up patterns that may indicate a consumer is struggling to pay their bills. This allows them to

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[13] Ofgem, 2020: [Self-disconnection and self-rationing: decision | Ofgem]

better provide support to those consumers that may need it, including remotely switching the smart meter back to credit mode promptly if needed.

2.5 Our consumer research indicates that most (72%) PPM customers selected a positive reason for choosing PPM. This includes making it easier to budget, providing more control and being more convenient than other payment methods. Most PPM customers are also happy with how they pay for their energy (68%).[14]

2.6 Respondents to a webform and phoneline developed by Ofgem and hosted by Citizens Advice to collect qualitative data about consumer experiences of moving to a PPM also demonstrates that some chose to have a PPM installed because it suited their needs.[15] They reported it helped them to manage their day-to-day spending and avoid large, unexpected bills. Some who stated they were on a strict budget felt that PPM gave them more control over energy usage by displaying how much remaining credit they had. Others also felt it was an effective way to pay off debt previously built up while paying by credit or direct debit.

Challenges of PPM/possible detriment

2.7 Although there are benefits to PPMs, for many customers there are also challenges and downsides. The cost-of-living crisis has left consumers struggling to afford the cost of energy and other essentials, and many PPM customers are self-rationing and/or self-disconnecting from their energy supply as a result.

2.8 Self-disconnection can occur to any customer who has a PPM, although is likely to be more prevalent among customers who are in financial difficulty. As customers who are faced with Involuntary PPM are already in debt to their energy supplier, they are much more likely to struggle to keep a PPM topped up, in particular when they are repaying their debt out of their top ups. They are therefore also

[14] Ofgem, 2023: [Consumer Impacts of Market Conditions survey - Wave 3 (Nov/Dec 2022) | Ofgem]

[15] The webform (and phoneline) was developed by Ofgem and hosted by Citizens Advice to collect qualitative data about consumer experiences of moving onto a PPM. The webform received 497 responses. Respondents highlighted a broad range of themes – from the benefits of PPM to how supplier behaviour has impacted many aspects of their lives, not just from an energy perspective.

The data in the webform should be treated with caution as respondents were not recruited but chose themselves to complete the webform. As such, the respondent group is not reflective of the general population of PPM consumers. However, the data provides a rich insight into consumer experiences and signposts avenues for further exploration. Ofgem will be conducting further analysis into this dataset in a future piece of work.

much more likely than a typical PPM customer to self-disconnect, more frequently and for longer periods.

2.9 Research from Citizens Advice shows that a third of PPM customers disconnected at least once in the last year as they could not afford to top up. A fifth of PPM customers who had self-disconnected said they had disconnected for more than 24 hours at least once. Just under a fifth of customers in vulnerable circumstances (18% of households included a disabled person or someone with a long-term health condition) were disconnected for more than two days at least once.[16]

Consumers can experience physical and mental harm from self-disconnection

2.10 Self-rationing or being off supply can be detrimental for customers of all payment methods. The detriment experienced by customers who are self-disconnecting can be significant in some cases, particularly where the customer concerned has a vulnerability characteristic that can be exacerbated by being off supply. These can include negative impacts on consumers health and wellbeing which can get significantly worse by living without gas or electricity.[17]

Physical impacts

2.11 There is a large body of evidence linking poor health outcomes with living in a cold, damp, and mouldy home.[18] [19] [20]

2.12 Research from the Institute of Health Equity sets out the implications on older people with lowered resistance to respiratory infections and increased risk of illness, including triggering broncho-constriction in asthma and chronic obstructive pulmonary disease (COPD).[21] Cold conditions can exacerbate existing medical conditions including diabetes, certain types of ulcers and musculoskeletal and rheumatological conditions. Decreasing body temperature is associated with a build-up of markers for dementia and Alzheimer's in the brain. As people reach

[16] Citizens Advice, 2023: Kept in the Dark: The urgent need for action on prepayment meters | Citizens Advice
[17] Citizens Advice, 2018: Switched On – Improving support for prepayment consumers who've self-disconnected.
[18] World Health Organisation, 2018: Housing and health guidelines
[19] Public Health England, 2014: Fuel poverty and cold home-related health problems
[20] National institute for Health and Care Excellence, 2015: Excess winter deaths and illness and the health risks associated with cold homes
[21] Institute of Health Equity, 2022: Fuel Poverty, Cold Homes and Health Inequalities in the UK | IHE

old age, body temperature lowers and physiological thermoregulation becomes less effective.

2.13 Cold temperatures can cause blood pressure to rise in older people, increasing the risk of strokes and other circulatory problems. Moreover, cold homes have been associated with lower strength and dexterity and exacerbated symptoms of arthritis, which can increase the risk of falls and unintentional injury.

2.14 Further, mortality and excess winter deaths are increased due to the impact of cold conditions on chronic conditions and an increase in circulating winter viruses. The leading cause of excess winter deaths in England are respiratory and cardiovascular diseases, dementia and injuries, all of which are exacerbated by living in a cold home.[22]

2.15 A high number of PPM customers who self-disconnected have suffered a negative impact on their mental and/or physical health. 63% reported a negative impact on their mental health and nearly half (47%) reported a negative impact on their physical health.[23] 19% who had self-disconnected had not washed or showered as a result and 17% had skipped a meal. 25% had to borrow money from friends or relatives.[24]

2.16 Some respondents to the webform and phoneline said that the physical and mental health of household members suffered as a result of moving to a PPM, with young children and elderly people particularly at risk.[25]

Impacts on educational attainment

2.17 Research also demonstrates that in addition to significant physical health implications, cold homes can also impact a child's education. It can increase illnesses associated with cold homes causing an increase in missed school days and difficulty in completing homework and study.[26]

Emotional impacts

2.18 The inability to make hot meals can impact on both physical and mental health. The most common emotional impacts observed are increased financial stress and

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[22] IBID
[23] Citizens Advice, 2023: Kept in the Dark: The urgent need for action on prepayment meters | Citizens Advice
[24] IBID
[25] See footnote above for more detail on the webform and phoneline
[26] Institute of Health Equity, 2022: Fuel Poverty, Cold Homes and Health Inequalities in the UK | IHE

feelings of shame or embarrassment.[27] Emotional impacts can also lead to customers not inviting friends or family into their home, which can lead to social isolation or exacerbate mental health issues.[28]

2.19 There is higher detriment for both physical and emotional impacts where customers are self-disconnecting or self-rationing regularly or for longer periods.

2.20 An example of something we heard from respondents to the webform and phoneline was that living in dark, cold houses following self-disconnection negatively affected their mental health. Some respondents also reported that even the threat of self-disconnection itself fuelled feelings of anxiety and stress. In some cases, this exacerbated pre-existing mental health conditions, with some people stating they sought medical help as a coping mechanism.

2.21 Some people told us they feel embarrassed about being moved to PPM, alluding to the stigma attached to having one. One example is a respondent who spoke of feeling embarrassed to be seen topping up their meter key in local shops.[29]

Impacts on society and government spending

2.22 These impacts can be very challenging for individual consumers to deal with. However in aggregate, they can result in knock-on impacts on public services and government spending. It means more people using the NHS to help with the effects of living in a cold home; it means more people accessing mental health services to help them deal with the emotional strain; and it means government, local authorities, charities and consumer groups spending more than they should to get people the support they need.

What is Involuntary PPM?

2.23 The cost-of-living crisis has led to the biggest increase in energy debt we have seen in over a decade (£2.3bn in Q4 2022) and suppliers taking action to prevent consumer debt getting worse by installing PPMs involuntarily.

2.24 Involuntary PPM includes both installation under warrant and remote switching smart meters to PPM for debt (without consent from the consumer). This includes

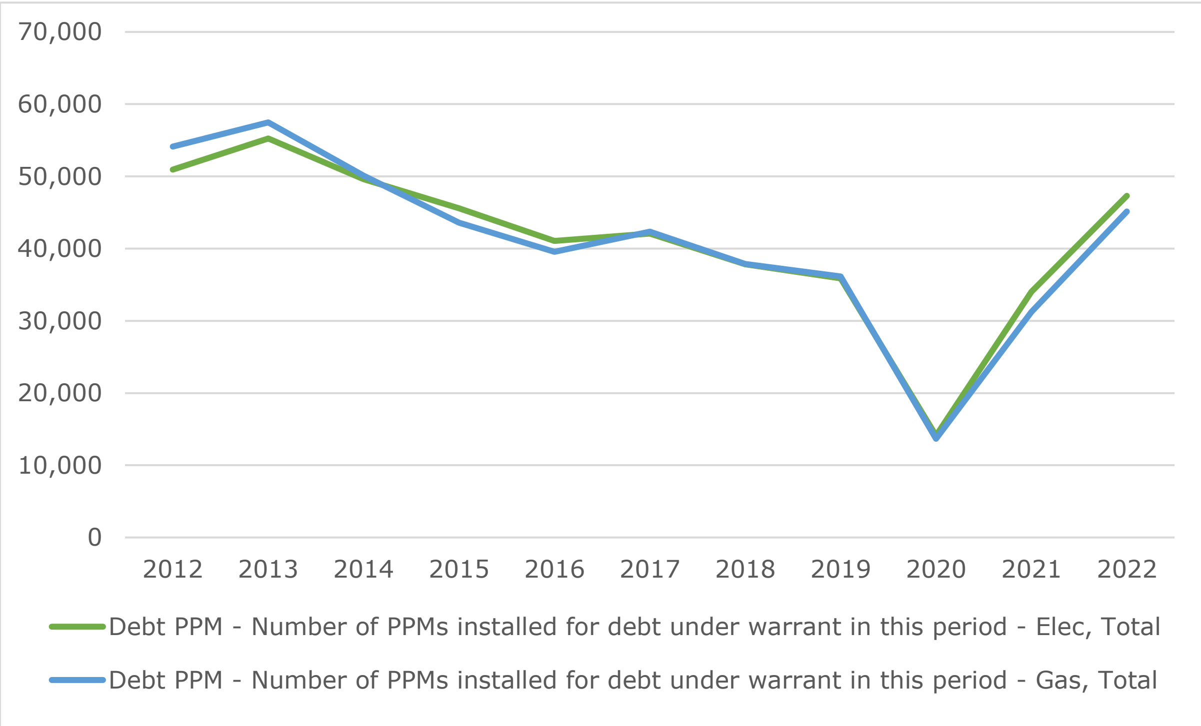
[27] Citizens Advice, 2018: Switched on: Improving support for prepayment consumers who've self-disconnected
[28] BMC Public Health, 2022: "It's changed my life not to have the continual worry of being warm" – health and wellbeing impacts of a local fuel poverty programme: a mixed-methods evaluation | BMC Public Health
[29] See footnote above for more detail on the webform and phoneline

instances where a supplier installs a smart meter in credit mode, but later remotely switches the meter to PPM.

2.25 Suppliers have the statutory power to install PPMs granted under the Gas Act 1986 and the Electricity Act 1989[30] [31] and can secure rights of entry under warrant granted by the Rights of Entry (Gas and Electricity Boards) Act 1954.[32] The legislative framework[33] gives Ofgem very broad licence modification powers to introduce conditions we consider requisite or expedient (whether or not relating to the activities authorised by the licence), having regard to our principal objective and general duties. The legislative framework also gives Ofgem very broad licence modification powers which we have used in various ways to control how and when suppliers install PPM.[34]

2.26 In 2022, 47k electricity and 45k gas PPMs were installed under warrant, a combined increase of around 25k from pre-Covid levels in 2019 (34k and 33k respectively) (See Figure 2.1 below).

Figure 2.1 - PPMs installed under warrant to repay debt (domestic)

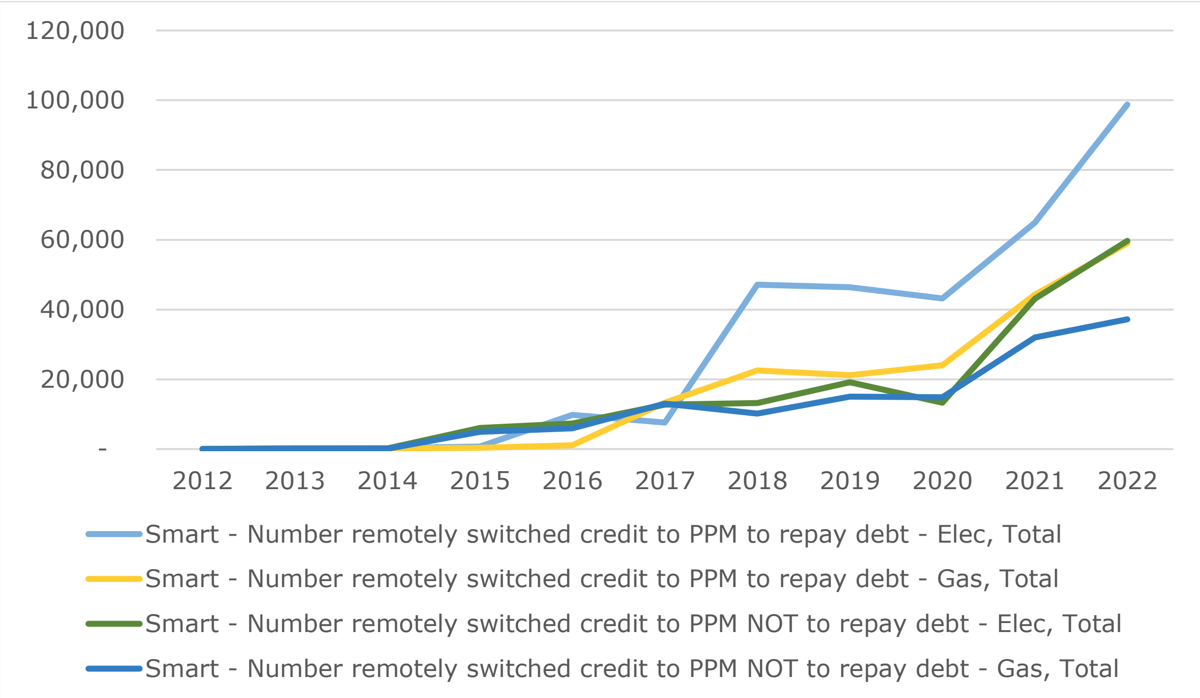


30 [Gas Act 1986 (legislation.gov.uk)](#) (Schedule 2B)
31 [Electricity Act 1989 (legislation.gov.uk)](#) (Schedule 6)
32 [Rights of Entry (Gas and Electricity Boards) Act 1954 (legislation.gov.uk)](#)
33 Section 7 of the Electricity Act 1989 and section 7B of the Gas Act 1986.
34 Ofgem, 2017: [Prepayment meters installed under warrant: statutory consultation | Ofgem](#)

2.27 We have also observed a recent increase in remote switches of smart meters from credit to PPM mode for debt. In 2022, 99k electricity and 59k gas smart meters were remote switched for debt, in comparison with 65k electricity and 44k gas in 2021 (See Figure 2.2 below). Although our data does not differentiate between voluntary and involuntary remote mode switches, anecdotal reports from consumer groups and charities indicate that involuntary switches are increasing in line with warrant trends. We received evidence of this in 2022, and published a letter to suppliers setting out our expectations here.[35]

2.28 Regardless of the cause or reason behind increased use of installation under warrant demonstrates the growing number who have had PPM installed without consent and therefore the growing number of customers who may be in vulnerable circumstances (financial/health or otherwise) and suffer detriment when self-disconnecting.

Figure 2.2 – Smart meter remote mode switches credit to PPM (domestic)



[35] Ofgem, 2022: [Regulatory expectations letter to suppliers regarding concerns over remote switching of smart meters to prepayment mode | Ofgem]

3. Responses to Call for Evidence and case for intervention

3.1. In February 2023, we published a Call for Evidence (CfE) to understand views from stakeholders on our review of relevant licence conditions and guidance, to consider how we could further protect consumers.[36] We received 32 responses. We set out below the responses relevant to the Code and its integration into supply licence conditions and guidance. We generally received mixed responses to our CfE, with consumer groups broadly calling for increased protections and prescription, while suppliers tended to be more opposed. However, some suppliers supported introducing tighter rules and requirements for PPM.

Question 1: Balance between principles-based regulation vs prescriptive rules

3.2. The majority of stakeholders felt that Ofgem does not currently have the right balance between principles-based regulation and prescriptive rules. Five suppliers noted that in general, principle-based regulation is better than prescriptive rules as it allows for flexibility, innovation, and helps deliver better consumers outcomes. Four suppliers thought that more prescription would be helpful. Two of these stated that they would not oppose the introduction of more prescriptive rules provided these are set by Ofgem and informed by stakeholder input.

3.3. The majority of consumer groups called for greater prescription in the rules, with a number arguing that without greater clarity on what Ofgem's interpretation of what Safe and Reasonably Practicable is, different interpretations of the rules will result in differing levels of consumer treatment.

3.4. Some suppliers argued that too much prescription will have unintended consequences. This includes the rules becoming quickly outdated, removing supplier flexibility to achieve the right outcome and has a risk of disincentivising customers from engaging earlier in the debt journey. Alternative suggestions included a clearer distinction between minimum standards and best practice rather than more prescription and the development of a Code of Practice. We have consulted more broadly on consumer standards.[37]

[36] Ofgem, 2023: [Prepayment rules and protections: a call for evidence | Ofgem]
[37] Ofgem, 2023: [Consultation on a framework for consumer standards and policy options to address priority customer service issues | Ofgem]

Question 4 and Question 7: Expanding the list of vulnerable groups protected from Involuntary PPM

3.5. We received mixed responses regarding the appropriateness of expanding the list of vulnerable characteristics for which customers should never have a PPM installed or (if on a smart meter) forced-remote switched without consent. Almost all consumer groups, charities and industry bodies are supportive of expanding the list of vulnerable characteristics, stating Ofgem should clearly set out which groups of consumers should never be required to have a PPM.

3.6. Some consumer groups and charities suggested PPMs should not be installed in households where there is someone present who is medically dependant on powered medical equipment, has respiratory or cardiovascular disease, suffers from mental ill health, has issues with nutrition or could otherwise be considered elderly or disabled. Other consumer groups and charities argued that the impetus should be on the supplier to prove a customer does not have a vulnerable characteristic, rather than the onus being on the customer, and there should be a presumption that a customer is vulnerable for the purposes of installing PPM unless proven otherwise.

3.7. Conversely, the majority of suppliers felt that the list of vulnerable characteristics should not be expanded, with some noting that suppliers are already required to understand and consider any vulnerabilities consumers may have under the Safe and Reasonably Practicable guidance and in relevant licence conditions. Another supplier suggested a set of principles providing further assurance of compliance, safety and practicability before progressing with Involuntary PPM would be more appropriate.

Question 5: Including financial vulnerability in the safe and reasonably practicable assessment

3.8. We also received mixed responses on whether we should require suppliers to assess financial vulnerability when assessing whether a PPM is safe and reasonably practicable. All consumer groups, charities and industry bodies supported this proposal, with some noting financial vulnerability assessments will help in determining the scale of risk consumers may face when having a PPM installed.

3.9. Some consumer groups and charities highlighted that moving to PPM, whether by choice or involuntarily, is highly likely to be motivated by repayment of debt or budgeting considerations, and so all consumers being assessed should automatically be recognised as financially vulnerable. Others stated that suppliers should already be having conversations about financial health as part of the process prior to moving consumers to PPM following the incorporation of the ability to pay rules into licence and welcomed the proposal.

3.10. Suppliers generally opposed any requirement for suppliers to assess and consider financial vulnerability when determining whether a PPM is safe and reasonably practicable. Some cited suppliers' limited ability to assess genuine financial vulnerability, particularly when consumers do not engage. Some suppliers were apprehensive that if financial vulnerability were to be included in safe and reasonably practicable assessments, PPMs would no longer be seen as an effective means of managing debt for consumers in financial difficulty, despite offering value as a budgeting tool.

Question 8 and 12: Legacy and smart PPM rule alignment

3.11. We received mixed responses from stakeholders on whether the rules for legacy and smart PPM are appropriately aligned to ensure sufficient and equivalent protection across meter types. All stakeholders generally agreed that smart meters provide a significantly improved customer experience in comparison to legacy meters as they give greater adaptability and opportunity to respond to changing customer circumstances.

3.12. However, consumer groups broadly felt that the rules between legacy (or traditional) meters do not appropriately align. They called for greater protections to ensure equivalent protection for involuntary smart meter mode switches as are in place for traditional warrant installs.

3.13. Some suppliers argued that traditional PPMs should hold an increased level of protection under the rules due to their reduced capabilities, costly warrant processes, and potential impact on consumers.

The case for intervention

3.14. Whilst PPMs can be useful to both suppliers and their customers, clearly there can be significant detriment to consumers from their use if it is not safe and reasonably practicable for them to have one. The current affordability challenge is making this issue more pronounced.

3.15. Ofgem cannot mitigate the high costs of energy alone. These decisions are rightly a matter for the elected government, and we are working with it on options to target energy bill support at vulnerable energy consumers on an enduring basis.

3.16. To protect consumers, especially those in vulnerable circumstances, we do set important obligations that suppliers have to follow in how and when they move customers to PPM. These obligations are part of the supply licence and are there to protect customers, especially those who are vulnerable.

3.17. However, our monitoring has indicated suppliers not going far enough to support and protect customers in vulnerable circumstances. We remain concerned about reports of poor supplier practices, for example, consumers in vulnerable circumstances apparently being moved onto PPM where it would not be considered safe and reasonably practicable.

3.18. Through our own market monitoring activity and taking into account responses to our CfE and feedback we received developing the Code, we consider that it is in consumers' interests to include more prescription in the rules. It is a balanced choice, but we consider it will help to further ensure customers in vulnerable circumstances are protected to the consistent standard we intend.

3.19. We consider that the provisions in the Code can further protect consumers from Involuntary PPM in the wrong circumstances. We think it is in consumers' interests to incorporate the Code into the licence and guidance, using it to build on the rules that already exist.

3.20. For example, and as we set out in more detail in the Existing Rules section in Annex 2, suppliers should already:

- assess consumers' financial situations as part of the Ability to Pay rules.
- make proactive contact if a customer is in payment difficulty and that this is an obligation that should be acted upon prior to commencing Involuntary PPM paths.
- seek to understand if a PPM is safe and reasonably practicable for the customer, and explain the benefits, in particular where it may help manage budgeting and debt.

3.21. We remind suppliers of the importance of complying with the existing rules to protect vulnerable customers (detailed in line with policy objectives in Annex 2). We consider that the proposed rule changes are necessary to explicitly obligate further protections for those in the most vulnerable situations who are likely to suffer detriment. Whilst we are proposing protective restrictions for certain categories of customers from Involuntary PPM, the reforms don't protect all customers, which means that if suppliers' costs increase, it may result in some groups of customers paying more. We will monitor the impact and outcomes of our final changes closely, including the wider cost implications and have developed the prescriptive requirements in such a way that swift changes can be made if appropriate.

Integrating the Code into the supply licence

3.22. To integrate the Code into the Supply Licence we are proposing a combination of licence condition modifications and updated and expanded safe and reasonably practicable guidance. We are proposing to:

- Introduce a new SLC 28 which will replace and combine existing SLCs 28 and 28B, alongside additions and modifications to SLC 27A. This will bring together existing licence conditions relating to installation of PPM under warrant and debt activities with the relevant provisions in the Code; and
- Retain prescriptive requirements developed in the Code in safe and reasonably practicable guidance, which provides flexibility to update guidance quickly and allows us to respond to changing vulnerabilities if required.

3.23. We set out our proposals in the following chapters.

4. Code integration: licence condition modifications

Section summary

This section sets out new rules we propose introducing to SLCs and modifications to existing SLCs that will not be covered by existing rules, or new aligned guidance.

Questions

1. Do you agree with our proposals to integrate the Code into the supply licences?

4.1 In this chapter we set out the elements of the Code we intend to introduce into SLCs. These will work alongside the more prescriptive elements we are introducing into amended PPM guidance (Safe and reasonably practicable), which are detailed in the next chapter. We have also set out the SLC numbering amendments we intend to make, in order to streamline and group the licences for PPM, warrants and actions to recover debt into new SLCs in SLC28.

4.2 This consultation is focused on the general integration of the Code requirements and some of the SLC drafting may change to reflect that policy intent without further consultation as part of our decision. Further, the numbering proposed may also change as we rationalise the order of amendments prior to decision.

A new combined SLC 28 covering Involuntary PPM

4.3 There are currently three SLCs that cover installation of PPM where a customer has a PPM installed without consent. These are SLCs 27A, 28 and 28B. We intend to add relevant parts of the Code into a new SLC 28, adding relevant parts of the Code, to cover Involuntary PPM. This will combine the rules relating to PPM, warrants and supplier activities in relation to debt.

4.4 In this new condition we intend to have high level SLC requirements that suppliers must comply with. However, the prescriptive detail behind these will predominantly be included in updated safe and reasonably practicable guidance, which we are renaming ‘PPM Guidance – safe and reasonably practicable’. For example, we want suppliers to make multiple contact attempts and will make this a licence requirement. However, we may want to change the 10 attempts developed in the Code and retained in PPM guidance (safe and reasonably practicable) to something else if evidence emerges that an alternative would be more beneficial for consumers.

4.5 The revised SLC 28 will therefore include references to the following sections of the Code:

(1) Debt trigger;

(2) Contact attempts;

(3) Safe and reasonably practicable assessments;

(4) Precautionary principle;

(5) Site welfare visits;

(6) Aftercare; and

(7) Document retention.

4.6 We propose incorporating amendments to existing SLCs relating to Involuntary PPM Credit and information provision to SLC 27A. The proposal is to include a reference and definition for Involuntary PPM credit facilities, in addition to Emergency, Friendly-hours and Additional Support Credit. Please see detail of all SLC proposals in Annex 3.

Definition of Involuntary PPM

4.7 We propose to include the definition of Involuntary PPM as set out in the Code within the new SLC 28. It covers the practice of installing PPM under warrant and remote switching smart meters to PPM for debt where the consumer has not consented to it. We have proposed that the meaning of the following will be defined in the 'PPM Guidance – S&RP'.

- Consent;
- Debt trigger;
- Precautionary Principle; and
- Site Welfare Visit.

Debt Completion Assessment

4.8 Within the Code we included a requirement for suppliers to proactively reach out to customers who, following installation of Involuntary PPM have repaid all the debt owed on the account. We propose inserting this requirement for debt completion assessments into SLC28.

4.9 The SLC will place a requirement on suppliers to proactively contact customers who have repaid their debt following an Involuntary PPM, to offer the option to move to an alternative payment method, if appropriate, subject to credit check and reasonable security deposit costs and providing all appropriate information as required.

5. Code integration: PPM Guidance (Safe and reasonably practicable)

Section summary

This section sets out where we propose amendments to existing guidance to align consumer protections with the Code.

Questions

Q2: Do you agree with our approach to integrating the relevant parts of the Code into the Safe and Reasonably Practicable guidance?

Q3: Can you provide evidence on whether we should retain the 'over 85s' in the 'do not install' category?

Q4: Can you provide evidence on whether we should include children under the age of 5 in the 'do not install' category?

Code of Practice integration

5.1. We propose updating and expanding existing safe and reasonably practicable guidance to include and reflect the relevant parts of the Code, which are specific to Involuntary PPM. We remind suppliers they must ensure that they are satisfied a PPM is safe and reasonably practicable in all circumstances and act in the best interests of the customer. The proposed updated guidance (PPM guidance - safe and reasonably practicable) is designed to reflect the depth of requirements relating to all PPM, assessment of safe and reasonably practicable, aftercare and supplier actions to demonstrate appropriate practices have been completed. **Please see annex 4 for full details of the guidance.**

Characteristics of consumers protected from Involuntary PPM

5.2. In the Code we set out a further non-exhaustive category and condition list, that we considered, based on stakeholder feedback, to be at greater risk of suffering detriment when faced with Involuntary PPM. As detailed above, we included this prescription to explicitly obligate further protections for those in the most vulnerable situations. These categories were broken into two groups:

- High Risk - Do not install; and
- Medium Risk - More comprehensive assessment needed.

5.3. Since the development of the Code, we received input from three NHS clinicians on the categories we set out. They strongly agreed with the categories we included in the 'Do not install' category. They also argued that children under 5 should be included. This was due to the significant detriment young children can experience from living in a cold and damp home, with increased risk of breathing problems such as asthma and bronchitis, as well as low weight gain in babies (as they use up calories to keep warm), slower growth, slower development and higher levels of hospital admissions for young children. It can also impact mental development.

5.4. Although there was also agreement with the 'more comprehensive assessment' categories, this was not as strong, due to views that young children and elderly over 75 should be in the 'Do not install' category, and that children under 16 and people living a significant distance from a top up retailer with no personal transport should be included.

Our position and proposal

5.5. We recognise and share concerns about the significant negative impacts that frequent or prolonged periods of self-disconnection can have on children and the elderly.

5.6. We strongly remind suppliers of their obligations to identify and understand the characteristics, circumstances and needs of vulnerable customers and satisfy themselves that their actions result in vulnerable consumers being treated fairly. Also under the Equality Act 2010, all service providers, including energy suppliers, must take a customer's disability into account including making reasonable adjustments in their dealings with them.

5.7. We propose therefore retaining the disability/characteristic/condition examples in the Code within updated and expanded S&RP guidance. We recognise this is a balance of judgement and we need to weigh up medical evidence and other considerations such as the potential for increases in bad debt. But overall we think our proposal will provide greater awareness to suppliers, customers and those that represent them of the level of protection that should be offered to groups of customers in these vulnerable circumstances. However, we are also asking for views on whether to retain the over 85s, and whether to add children under 5. Both of these have attracted significant stakeholder interest because both appear to be on the border of the optimum balance.

5.8. The examples are not exhaustive and should not be considered as a definitive list of customers who should be protected. As outlined above, the PPM guidance will apply alongside the revised SLC28 requiring suppliers to determine that an Involuntary PPM would be safe and reasonably practicable.

5.9. We also propose to rename the collective terms for the categories. We propose to rename the 'High Risk-do not install' category to 'do not install' (DNI). We propose to rename the 'Medium risk – More comprehensive assessment needed' category to 'Further assessment needed' (FAN).

Precautionary Principle

5.10. The Code included a 'Precautionary Principle', ie that suppliers must assume that any customer faced with Involuntary PPM for debt is likely to be in a financially vulnerable situation and therefore more likely to self-disconnect. We linked a requirement to carefully consider and assess this to the second-tier (FAN) vulnerability category. This was to ensure that suppliers assess the potential harm to these customers if a financial vulnerability would cause them to self-disconnect frequently or for prolonged periods.

Our position and proposal

5.11. We agree and share concerns that customers who are in debt and faced with involuntary PPM are more likely to be in financial difficulty and therefore should be assumed to be financially vulnerable. Where a customer is struggling to pay their bills, they are also likely to face affordability challenges when topping up a PPM and will therefore be more likely to self-disconnect when they are unable to do so, which can cause or exacerbate existing vulnerabilities.

5.12. We therefore propose retaining the Precautionary Principle as developed in the Code within updated PPM guidance. As energy is an essential service, and self-disconnection can cause significant harm to households particularly in vulnerable circumstances (the risk and likelihood of which is exacerbated by the continued ongoing cost-of-living crisis and unprecedented high energy prices), we consider this to be an important consideration factor to ensuring that a PPM is safe and reasonably practicable for customers in vulnerable situations and that they can remain on supply.

5.13. As outlined above, the guidance will apply alongside the revised SLC 28.

Assessment process

5.14. We recognise that suppliers take different approaches to identifying customers in vulnerable circumstances. As detailed earlier in this document, some stakeholders called for greater clarity of the rules to improve consistency in how customers are treated and for greater prescription and mandated processes that suppliers should follow in how they communicate with customers, both prior to progressing to Involuntary PPM and on and enduring basis.

5.15. Within the Code we included more prescriptive rules on how suppliers should approach assessment of customers, to understand if they were in a vulnerable situation. This included:

- A minimum (10) number of contact attempts across multiple channels, and guidance on how and what should be included;
- A minimum debt trigger; (3 months/£200 per fuel)
- Requirement for a site welfare visit in all Involuntary PPM cases;
- Independent assessment teams and a Welfare officer; and
- Requirements on training and document retention.

Our position and proposal

5.16. We consider greater care and consistency is needed from suppliers when engaging with and conducting assessments to ensure that they identify customers in vulnerable situations and they take their circumstances into account when considering progression to Involuntary PPM.

5.17. This will improve suppliers' confidence that they are identifying customers in vulnerable circumstances and only progressing to Involuntary PPM when either:

- They are certain that vulnerability assessments are complete and accurate or
- Despite all attempts to engage the customer they have been unable to do so.

5.18. We also consider that adding the prescription into the PPM guidance alongside the SLC28 requirements will allow detailed prescription to exist alongside principles, and give us flexibility to adapt quickly to evidence and enable change of the prescriptive elements more quickly. For example requiring £200 per fuel as a Debt Trigger may be appropriate now, but that may need to change in future.

5.19. In addition, we received feedback during the development of the Code that the independent assessment team may be difficult for suppliers to operationalise. We have included this requirement in PPM guidance and will adjust if necessary depending on supplier and other stakeholder feedback on Code integration as part of this consultation.

5.20. Finally, we have made some minor amendments to the order of the detail in the Code.

Ability to Pay

5.21. Within the Code, we included requirements prescribing specific actions we expected suppliers to take regarding ability to pay when progressing with Involuntary PPM. These include:

- Considering the cheapest payment option for the customer, and offering energy savings advice and sustainable repayment plans.
- Not pursuing Involuntary PPM when a customer has agreed to and adhered to repayment, no matter the amount.
- Accepting information from third parties the customer may have spoken with prior to contacting the supplier.
- Ensuring that repayments taken from the PPM are based on ability to pay, and alternative approaches to debt recovery are considered.

Our position and proposal

5.22. Since before the cost-of-living crisis, concerns have been raised over practices in cases where the customer has a negative budget, and is struggling to pay for ongoing consumption costs, let alone repay debt that may have accrued.

5.23. Evidence from consumer groups and charities indicates that even in cases where a customer is engaging with a supplier on their financial situation, some suppliers are pressuring customers into setting arrangements that exceed their ability to pay. This then creates situations where customers default on the repayment plan and leads to suppliers pursuing Involuntary PPM as an alternative method.

5.24. Further, we have also heard evidence that suppliers are restricting how customers provide information regarding their financial situations, for example, by insisting on referrals to specific debt advice organisations in situations where the customer has already taken the steps to have this appropriately assessed. This can mean customers have to repeat often difficult conversations about their circumstances and exacerbate mental health challenges often associated with affordability worries.

5.25. While there are rules around setting repayment rates based on ability to pay, we have observed situations where high or excessive debt repayment amounts are applied to PPMs installed for debt (whether voluntary or Involuntary). As detailed in this document, customers who face Involuntary PPM are likely to be in financial difficulty and therefore not only should suppliers carefully consider repayment amounts, alternative approaches should also be considered to accommodate the customers' circumstances.

5.26. We propose retaining the relevant requirements as developed in the Code within Safe and Reasonably practicable guidance. We consider that in addition to executing their existing obligations regarding ability to pay with added caution when progressing a customer to Involuntary PPM, retaining the prescriptive requirements from the Code in the guidance provides a necessary level of protection to consumers.

5.27. As outlined above, the guidance will apply alongside the aforementioned SLC28, that requires suppliers to determine that an Involuntary PPM would be safe and reasonably practicable in line with this guidance.

Smart meters

5.28. Within existing obligations suppliers are required to take all reasonable steps to install a compliant smart meter (SMETS2) when replacing a meter or installing for the first time. We have also set out expectations that in the event a non-SMETS2 meter is installed, suppliers should be able to evidence why each installation was in the best interests of the customer.[38]

5.29. In developing the Code, we included a requirement to install smart meters by default when installing under warrant due to the significant benefits to consumers. We reiterated the requirement set out in existing licence and reminded suppliers we would not hesitate to take further action where suppliers are failing to uphold the intent of the requirement.

Our position and proposal

5.30. We agree that smart meters play a vital role in offering protections to customers on PPM, not only to offer temporary support such as Additional Support Credit, but also to enabling more permanent solutions (whilst retaining flexibility) such as remote switching the smart meter from PPM to credit mode. Stakeholders also unanimously agree that smart meters can provide additional protections to vulnerable consumers.

[38] Ofgem, 2022: Smart Meter Rollout: Energy suppliers Rollout Delivery Open Letter March 2022 | Ofgem

5.31. We propose retaining the requirement developed in the Code to install smart meters by default, or to record and retain reasoning for not installing a smart meter by default within PPM guidance.

5.32. We propose changing the existing requirement in the Code for suppliers to take all reasonable steps to install a compliant (SMETS2) meter whenever a meter is installed under warrant, and instead propose including a requirement to ensure compliance with relevant smart metering licences. This provides the additional benefit of remaining future-proofed should DESNZ make changes to smart metering policy.

Information provision

5.33. Within the Code we included requirements for specific information provision of key points customers need to be aware in advance of and once the recipient of Involuntary PPM. This includes:

- Any required information such as how to use the PPM, what to do in the event of disconnection and how to top up.
- That this information should be clear, and provided in alternative formats if required by the customer.
- Access to customer service staff capable of supporting them quickly and easily.
- Links to any relevant information on the website.

Our position and proposal

5.34. We have heard evidence of multiple cases where, once Involuntary PPM has been progressed in a customer's home, they have quickly gone off supply (self-disconnected) as a result of not being provided with the adequate materials or information needed to top-up the PPM. As detailed above, self-disconnection can cause or exacerbate existing conditions and increase detriment. Further, these customers appear to have faced significant challenges trying to contact their supplier for support when this has happened.

5.35. We consider that when progressing to Involuntary PPM, suppliers should take extra care to ensure that the customers being progressed to Involuntary PPM have sufficient provision of information and tools to enable understanding of how to manage a payment method they haven't requested or chosen, and how to seek support if they face challenges.

5.36. We propose retaining the requirement developed in the Code to prescribe that the information and required materials are provided to customers being progressed to Involuntary PPM in the PPM guidance.

Post installation Care

5.37. Within the Code we set out prescriptive requirements on suppliers to provide specific post Involuntary PPM aftercare, to ensure that customers being progressed would be supported with sufficient credit on the PPM and ensure customer understanding and technical ability to manage the PPM. This includes

- £30 credit (or equivalent non-disconnection period) per meter (repayable and added to debt);
- Making three attempts to contact the customer;
- PPM In-home Display (PPMID) support for those reliant for top-up; and
- Confirmation that the customer has been provided with all relevant information.

5.38. Where the supplier is unable to contact the customer during these attempts, they must ensure that written communication is provided.

5.39. We also included requirements to monitor self-disconnection and top-up patterns, support that should be offered and further assessments required if self-disconnection was frequent and/or prolonged.

Our position and proposal

5.40. As detailed above, we consider that customers should be provided with sufficient support following progression to Involuntary PPM and that suppliers must make every effort to ensure that the customer has full understanding of how to operate their PPM and is able to remain on supply.

5.41. As set out in the SLC section above, Involuntary PPM credit has been referenced in a new SLC28, however the level of this is subject to change based on customer need. We therefore propose retaining the prescriptive requirement (£30 per fuel) as developed in the Code to provide Involuntary PPM credit, and the requirements contact to ensure understanding and post debt repayment assessments.

Internal processes

5.42. Within the Code we set out prescriptive requirements for retention of all relevant assessment documentation, and requirements to conduct regular quality assurance checks of a sample of Involuntary PPM cases. This includes a proactive assessment of all identified non-compliant Involuntary PPM, the findings of which should be incorporated into continuous improvement within the suppliers.

5.43. The Code also required suppliers to have appropriate senior level oversight of Involuntary PPM and reporting requirements.

Our position and proposal

5.44. We consider that document retention and assessment for quality assurance remain an important aspect of protection for customers that are faced with Involuntary PPM. It also ensures that the supplier can identify any process challenges or issues and rectifies them accordingly.

5.45. Retention of customer records is an important requirement to ensure that in instances of any customer complaints, a supplier has retained the information to appropriately assess a complaint. Further, in instances of any investigative actions taken, suppliers should be able to produce evidence to demonstrate compliance with obligations.[39]

5.46. As the Code is being moved into licence and guidance, we no longer consider it necessary to include requirements for oversight and reporting. We expect suppliers to report to Ofgem against all SLC requirements as necessary .

5.47. We therefore propose retaining the requirements as developed in the Code, relating to document retention and quality assurance, within the updated PPM guidance.

[39] Penalty contravention time period EA1989: S27C and GA1986 S30C; Production of documents EA1989 S28(2) and GA1986 S38

6. Summary Impact Assessment

Section summary

In this section we summarise the main results of the Impact Assessment. This covers the impact on consumers and suppliers, particularly on the potential for increased bad debt. The detail of the impact assessment is set out in Annex 1.

Questions

Q5: can you provide any further evidence on the potential costs and benefits of our proposals?

Q6: we are consulting separately on an increased Additional Support Credit allowance to mitigate any impacts on bad debt. Do you have views on how we can ensure suppliers spend this ASC allowance to help PPM consumers stay on supply?

Main findings

6.1 In this Impact Assessment we modelled three main policy options, using different inputs and methodologies, to estimate the costs and benefits associated with our proposals. Under every methodology the benefits exceeded the costs. The policy options we considered are:

- Option 1: doing nothing except monitoring and enforcing existing rules.
- Option 2: bringing Code provisions into licence and guidance (plus monitor and enforce existing rules).
- Option 3: a full ban on Involuntary PPM for all consumers, though noting we do not have the powers to introduce a ban.

6.2 In estimating the costs and benefits of our proposals, we identified three main scenarios: most likely, possible, and worse case. Each scenario we analysed has a positive Benefit Cost Ratio (BCR). Under the most likely scenario the ratio of monetised costs to quantified benefits is likely to be over 1:8. Under the possible scenario, we get a cost-benefit ratio of 1:2.[40]

6.3 While we expect suppliers to have been complying with existing PPM rules, we recognise that they might not have. As the Market Compliance Review (MCR) into

[40] Health benefits are not included in the Benefit Cost Ratio.

PPM and the investigation into British Gas are ongoing, we do not yet know the extent of the additionality, i.e., the population affected by our proposals, and so cannot estimate the exact impact of the proposals. If suppliers have been complying with the existing rules the impact could be lower (so if most ’do not install’ customers have already been protected and only ‘further assessment needed’ costumers would be affected by our proposals). If suppliers have not been compliant, the impact could be higher (so ‘do not install’ and ‘further assessment needed’ customers would be affected by our proposals).

6.4 Given the uncertainties, in this Impact Assessment we focused primarily on the policy option that assumes a ‘high’ additionality, and so a higher volume of customers affected by our proposals (‘do not install’ and ‘further assessment needed’ customers). It is likely that the ratios mentioned above would remain broadly unchanged if the additionality is lower or higher than we assumed, as both costs and benefits would be scaled. However, we acknowledge that the ratios may also change depending on the types of customers affected by the proposals (for instance, an increase in non-vulnerable customers affected would only increase costs but not benefits).

6.5 For the impact of our proposals on bad debt, in our most likely scenario under our preferred methodology, the impact on customers is £74m or £3 per household. These costs are largely a transfer between customer groups as customers who are not in the ‘do not install’ and ‘further assessment needed’ groups would bear them.

6.6 We find a wide range of benefits for vulnerable customers. If we assume that implementing the Code into licence and guidance (option 2) would stop unwanted interruptions, customers could see benefits that range from £328m to £1bn, with a likely scenario value of £676m.

6.7 For the impact of our proposals on bad debt, in our most likely scenario under our preferred methodology, the impact on customers is £74m or £3 per household. These costs are largely a transfer between customer groups as customers who are not in the ‘do not install’ and ‘further assessment needed’ groups would bear them.

6.8 There is however considerable uncertainty around our estimates, which are covered in more details in paragraph 6.12 below and in the Appendix 1.

Costs – potential impact on bad debt

6.9 Since there is not an optimal approach to estimate the impact of integrating the Code into the existing rules, we triangulate estimates from two different methodologies:

- 'Top-down' (preferred methodology) analysis based on forecasting future debt from April 2023 to March 2024. This uses regression analysis and assumes energy customers' bad debt would evolve in a similar way to the water sector, where there is no comparable means to installing a PPM to recover bad debt.
- 'Bottom-up' analysis identifying the number of people in scope within the 'do not install' and 'further assessment needed' groups and making some assumptions about their behaviours.

6.10 We consider the top-down methodology to be the preferred one as it is the only one based on actual data and it has fewer assumptions about bad debt. Uncertainties on the estimates are mentioned in paragraph 6.14.

6.11 Table 6.1 summarises the results from the top-down methodology. It shows a range between £3 and £14 per household for Option 2 – Code proposals. The impact of a full ban on new PPM installations is significantly higher and ranges from £21 per household in the most likely scenario to £27 per household in a possible one.

Table 6.1: Top-down methodology, summary of 'most likely' and 'possible' difference for different policy options, £m and £per household

Options		**Most likely scenario Difference £m (£ph)**	**Possible scenario Difference £m (£ph)**
Option 2 variations	'do not install' Only	38 (2)	141 (6)
	'further assessment needed' Only	37 (2)	166 (7)
Option 2 – Code proposals	**'do not install' and 'further assessment needed'**	**74 (3)**	**307 (14)**
Option 3	All ban new PPM	472 (21)	599 (27)

6.12 Additionally, we present in Table 6.2 overleaf the results using the top down and the bottom-up methodologies. It shows the impact of option 2 - 'do not install' and 'further assessment needed' for the most likely scenario.

Table 6.2: Both methodologies, summary of 'most likely' difference for option 2 – Code proposals ('do not install' and 'further assessment needed'), £m and £per household

Methodology	Difference per year	Difference per household
Top down	£74m	£3
Bottom-up	£328m	£15

Benefits

6.13 Banning Involuntary PPM for customers with 'do not install' and restricting it for 'further assessment needed' characteristics is likely to entail multiple benefits for such customers, which are summarised below:

- If we assume that customers in the 'do not install' and 'further assessment needed' groups will not have an Involuntary PPM and that this would stop unwanted interruptions, there are large benefits that range from £328m to £1bn, with a likely scenario value of £676m.
- Using a break-even analysis, we estimated that a 4% reduction in the probability of winter deaths in people over 75 years of age, associated with increasing access to heating, would result in £328m additional benefits from lower winter deaths.

Risks & Uncertainty

6.14 We should be cautious and monitor the implementation and impact of this policy due to multiple uncertainties. One of the key uncertainties relates to the change in consumer behaviour that may result if Involuntary PPM is further constrained. Because of this uncertainty, in this Impact Assessment, we consider it would be risky to implement a full ban on PPM, which might result in a much larger increase in the level of bad debt costs that would then be passed to other users. By contrast, the additional benefits from a full ban on PPM are less clear, given that we have focussed on the benefits to vulnerable customers, and our objective is that these are captured by the description of 'do not install' and 'further assessment needed' groups. Other uncertainties relate to the reliability of our assumptions that have been gathered based on recent data and where it is too early to assess with certainty the effects of recent changes on the sector. More details can be found in the Appendix 1 under the 'Risk and Uncertainty section.

Appendices

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Appendix 1 – Impact Assessment

Rationale

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

1A.1 Suppliers have important obligations to follow in how and when they move customers to PPMs. These obligations are part of the supply licence and are there to protect customers, especially those who are vulnerable.

1A.2 Despite the obligations, there have been continued reports of suppliers not going far enough to identify, support and protect customers in vulnerable circumstances. The reports included cases of vulnerable customers being involuntarily moved onto PPMs, where it does not appear to be safe and reasonably practicable.

1A.3 Self-disconnection is likely to be more prevalent among customers who are faced with being involuntarily moved onto PPMs as they are already in debt to their energy supplier. Self-disconnection can be particularly detrimental for some customers in vulnerable circumstances where their health and wellbeing could get significantly worse by living without gas or electricity.

1A.4 Ofgem's principal objective is to protect the interests of existing and future customers and we must have particular regard to vulnerabilities, such as those on low incomes, pensioners, disabled and those living in rural areas. Given the poor practices reported and the detriment caused to some vulnerable customers, we have developed this assessment of the potential impact of our proposed changes to help inform our decision-making and are publishing the outcomes now for comment and feedback.

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

1A.5 By integrating elements of the Code into the existing rules, our intent is to ensure our rules provide a robust foundation for a market where no customers are put onto PPM if that is not safe and reasonably practicable for them, and where suppliers consistently protect their vulnerable customers.

1A.6 Strengthening the existing rules would also contribute to multiple Ofgem objectives and priorities as illustrated in paragraph 1.11. We want to see vulnerable customers treated with the same level of care regardless of which supplier they have and a consequent reduction in the pressure on consumer groups and charities for advice and help.

What are the policy options that have been considered, including any alternatives to regulation? Please justify the preferred option

1A.7 When assessing how to respond to the Involuntary PPM issue illustrated above, we identified three main options:

- Option 1: doing nothing except monitoring and enforcing existing rules.
- Option 2: bringing Code provisions into licence and guidance (plus monitor and enforce existing rules).
- Option 3: a full ban on Involuntary PPM for all consumers, though noting we do not have the powers to introduce a ban.

1A.8 In option 1, the counterfactual, we do not expect to see additional protections for some vulnerable customers and therefore assume that those customers will continue to self-disconnect and face detrimental physical and emotional impact, as mentioned in Chapter 2. We assume that bad debt will continue in line with current trends and that admin costs (legal costs, site visits, setting payment plans, etc) will remain the same.

1A.9 We consider option 2 to be the preferred alternative. As mentioned in the letter sent to the Secretary of State on the 24th of January 2023, in 2022 we conducted a Market Compliance Review (MCR) into suppliers' governance and processes on how they treat Customers in Payment Difficulty and into Vulnerability. Despite these actions, there have been continued reports of suppliers not going far enough to support and protect consumers in vulnerable circumstances. Moreover, some stakeholders who responded to the Call for Evidence on Involuntary PPM practices said that the existing regulations should be reviewed.

1A.10 Option 2 is where we have launched and concluded the PPM MCR and enforcement investigations concurrently with the policy interventions, reducing the chances of further customer detriment in the near and long term.

1A.11 This option does not preclude further work if the MCR and other investigations suggest it would be appropriate, or other evidence comes to light. It also does not exclude the option for government to ban PPM altogether (option 3).

1A.12 In respect of option 3, Ofgem does not have the powers to ban Involuntary PPM, which would require legislative changes. However, we consider it is appropriate to consider the impact of a full ban to compare against Option 2. At this stage, our review suggests that option 3 would entail significant administrative costs as well as an increase in bad debt. It would also force suppliers to use alternative debt collection methods such as bailiffs much more extensively. We consider this would be a worse outcome for consumers. Additionally, we are unsure whether a ban would provide significant benefits to suppliers and customers since PPMs can be beneficial for both when used as we intend (see Chapter 2 for more details on the benefits of PPM). This conclusion is drawn in light of the findings of this IA, but we will consider further engagement if required.

Overall conclusions

1A.13 Our cost benefit analysis supports the implementation of the Code into licence and guidance for 'do not install' and 'further assessment needed' consumers. We modelled several policy options, covering different methodologies and assumptions about future debt cost and the behaviour of consumers in response to our proposals. Although there is a wide range of possible outcomes, in most circumstances the benefits exceed the cost by a considerable margin.

1A.14 Our analysis shows a wide range of benefits associated with restricting Involuntary PPM for vulnerable consumers. Some benefits are quantified, such as the value of reduced self-disconnection and the value of reduced winter deaths.

1A.15 The costs of this policy are mainly associated with a transfer between different consumers to cover the additional cost of a potential increase in the level of bad debt. This transfer takes place as a result of potential increases in the prices charged by suppliers to cover for bad debt, including the costs included in setting the price cap. This does not mean all suppliers will recover all their additional costs, as these costs will be based on estimates of efficient cost incurred by a notional supplier. This could mean that there will be a smaller increase in bad debt costs passed to consumers, if some of any increase in bad debt is concluded to be incurred inefficiently. There is also a resource cost associated with additional admin burdens on energy suppliers, although we expect this to be relatively modest compared to existing administrative costs and other operating costs.

1A.16 Noting that the generality of consumers will have to pay for any additional bad debt costs, we have treated the transfer of bad debt between customers as a cost in order to calculate a Benefit Cost Ratio (BCR). There is a positive BCR under every scenario that we have analysed. Under our preferred methodology, we think the low scenario is the most likely because it is the only one based on actual data and it has fewer assumptions about bad debt. In this scenario our estimate of the ratio of monetised benefits to costs is over 1:8. In the possible scenario, we get a BCR of 1:2. These ratios do not take into account non-quantified benefits, including on physical and psychological wellbeing, and reduced stress on vulnerable consumers. If we were to consider bad debt costs as a pure transfer between consumers the benefits would be much larger.[41] We have also identified that the use of government guidance on quantifying the health benefits from reducing self-rationing by vulnerable customers would also provide evidence in support of our preferred option.

1A.17 There is however considerable uncertainty around our estimates. It is too early to get robust estimates of the increases in bad debt and there are a number of assumptions about historical debt trends that could not be valid in future if structural conditions (such as availability of credit) in the market change.

1A.18 It is also difficult to know ex-ante the behavioural impact on consumers. If consumers' behaviour towards paying their energy bills and building up debt changed and they chose to underpay and build up more debt as a result of the removal of the risk of being placed onto a PPM, then bad debt levels could be higher than we have estimated. In this case, we would take considerably larger risks, relative to the size of additional benefits.

1A.19 These estimates are projections based on past trends and behaviours, but our analysis shows it is most clearly in consumers' interests to implement the Code for 'do not install' and 'further assessment needed' consumers. Over time we could get better data and develop more robust estimates. However, we need to implement this measure so it is in place for winter 2023/24. Some of the uncertainties relate to behavioural changes and further evidence will only become available following implementation of the policy. We need to act now because the quicker we act, the quicker consumers can be protected by enforceable obligations. Given the costs and benefits identified in this analysis, we are confident in the utility of the proposals and we will review implementation of this policy to make sure it works as intended and whether any further changes are necessary.

Summary of quantitative and qualitative assessment

1A.20 The following table (Table 1) sets out the scope of the analysis conducted as part of this cost-benefit analysis for option 2 – Code implementation. The most significant impacts have been assessed quantitatively, where possible, though

[41] In that case we would only account for the additional energy used as a result of avoiding self-disconnection and bad debt cost would be a net zero transfer.

there remains significant uncertainty in some assumptions required for the analysis.

1A.21 In response to some of the hard-to-quantify impacts, we have provided some wide ranges in our quantified assessment, supported by qualitative research. Some of the harder aspects to quantify relate to benefits such as health, emotional distress associated with forced installations and other factors affecting well-being.

Table 1: Description of impacts for option 2 - Code implementation

Criteria	Assessment
Costs	
Impact of bad debt on consumers (including those on PPM)	We assume cost of this policy would be passed through to consumers so an increase in bad debt would translate as a cost increase for them. Under our preferred methodology, our most likely scenario is the low scenario. This has an impact of £74m or £3 per household. Our possible scenario (central value) estimates show an impact on consumers of £307m or £14 per household. However, this is subject to a wide range.
Impact of administration costs on consumers	Our most likely estimate of administrative cost of dealing with bad debt shows an increase of £12m or £0.50 per household.
Impact of bad debt and administration costs on suppliers	Efficient bad debt and admin costs would eventually be passed to consumers through the price cap, if it led to a material and systematic deviation between efficient costs and the existing price cap allowances for debt-related costs. We cannot estimate which proportion of cost would not be covered by efficient cost in the price cap. There could be some adjustment cost and increase of working capital for suppliers. We have not quantified this cost.
Distributional impacts	The distributional impact for our high sensitivity case with an average cost of £14 per household shows a range of impacts from -£9 to -£23 depending on the consumer archetype for those households not in scope of this policy.
Impact of additional energy use on the environment	There would be a small negative impact of increased emissions as 'do not install' and 'further assessment needed' groups could experience an increase in energy use of up to 10%. We haven't quantified this impact.
Benefits	
Benefits for consumers in 'do not install' and 'further assessment needed' categories from additional energy use	We expect large benefits for consumers in scope of the policy as a result of no interruptions in their energy supply. Our most likely estimates show £328m and the high-sensitivity estimate shows a benefit of £676m.

Criteria	Assessment
Health benefits for consumers in 'do not install' and 'further assessment needed' categories	We estimate that a benefit of £328m could be associated with the policy if it achieved a 4% reduction in excess winter deaths.

Impact on Bad Debt

1A.22 This section estimates the impact of the proposals on bad debt. This is a part of debt which suppliers won't be able to recover. Historically bad debt has been stable at around 2% of annual revenues. However, given the increase in energy costs last winter, bad debt has the potential to materially affect supplier finances if these higher costs mean that more customers are unable to afford to pay their energy bills. PPMs are a straightforward mechanism for recovering debt and stopping debt from building up. So, the impact of the proposals on bad debt is a major potential effect of the proposed policy.

1A.23 There is not one optimal approach to identifying the impact of the Code proposals on bad debt. Therefore, we triangulate estimates from two different methodologies:

- 'Top-down' (preferred methodology) analysis based on forecasting future debt from April 2023 to March 2024 using regression analysis. This assumes energy customers' bad debt would evolve in a similar way to the water sector where there is no comparable means to install PPM to recover bad debt (best available data). This was complemented with two sensitivity analysis.
- 'Bottom-up' analysis identifying the number of people in scope within 'do not install' and 'further assessment needed' groups and making some assumptions about their behaviour.

1A.24 We have limited our analysis to the period covering April 2023 to March 2024. We think that there is significant uncertainty in the market beyond this period and longer projections won't add better insights on whether to implement the proposed option at this point.

Top-down analysis based on historical trends: 'most likely' scenario

1A.25 The 'most likely' scenario under the first and preferred methodology, based on historical data and regression analysis produced a low estimate with a most likely impact of the ban on 'do not install' and 'further assessment needed' consumers of £74m, or £3 per customer (Table 2). This low estimate results because we are using water sector elasticities, and historically bad debt has been relatively low in the water sector, despite the lack of an equivalent option for suppliers of installing PPMs.

1A.26 Table 2 shows the impact for options 2 and 3 against option 1 the counterfactual. Within option 2, at also shows the impact on the 'do not install' and 'further assessment needed' groups separately.

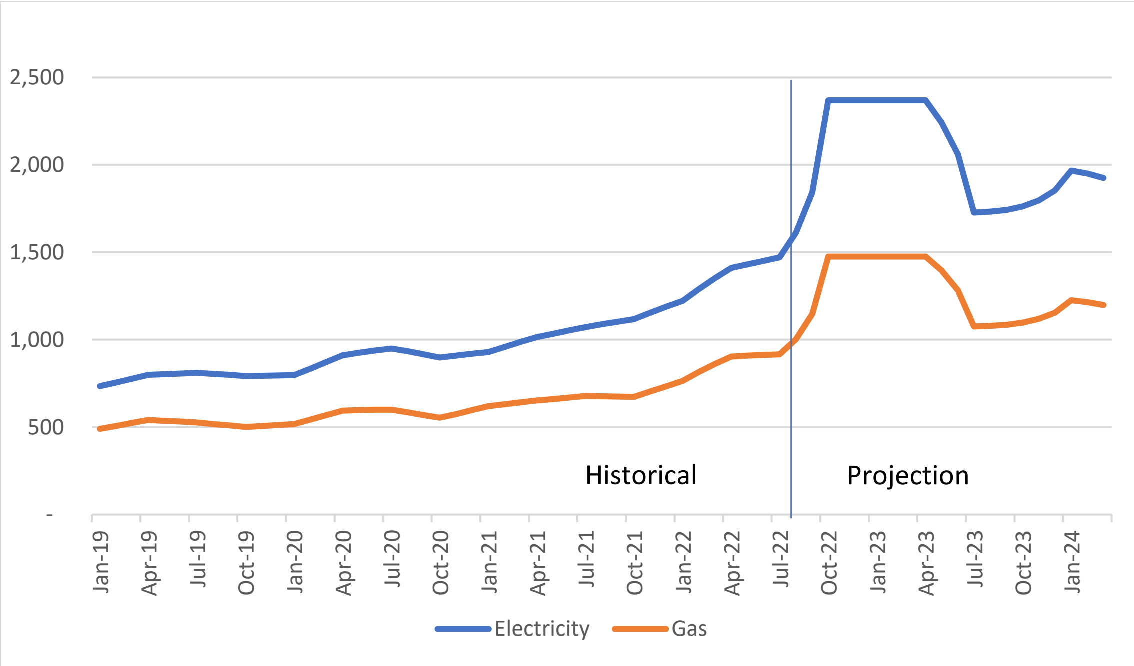
Table 2: Top-down methodology, summary of 'most likely' difference for policy options using SOR data and regression analysis no behavioural change, £m and £per household

Options		**Total Bad Debt, £m**	**Baseline, £m**	**Difference £m (£ph)**
Option 2 variation	'do not install' Only	1,110	1,072	38 (2)
Option 2 variation	'further assessment needed' Only	1,109	1,072	37 (2)
Option 2 – Code proposals	**'do not install' and 'further assessment needed'**	**1,147**	**1,072**	**74 (3)**
Option 3	All ban new PPM	1,544	1,072	472 (21)

1A.27 Figure A1 overleaf shows actual debt up to August 2022[42] and our forecast up to March 2024. It shows an expected increase in debt through the period of very high prices. Then we expect debt to go back to trend.

[42] Based on Ofgem's Social Obligations Reporting data up to Q1 2023.

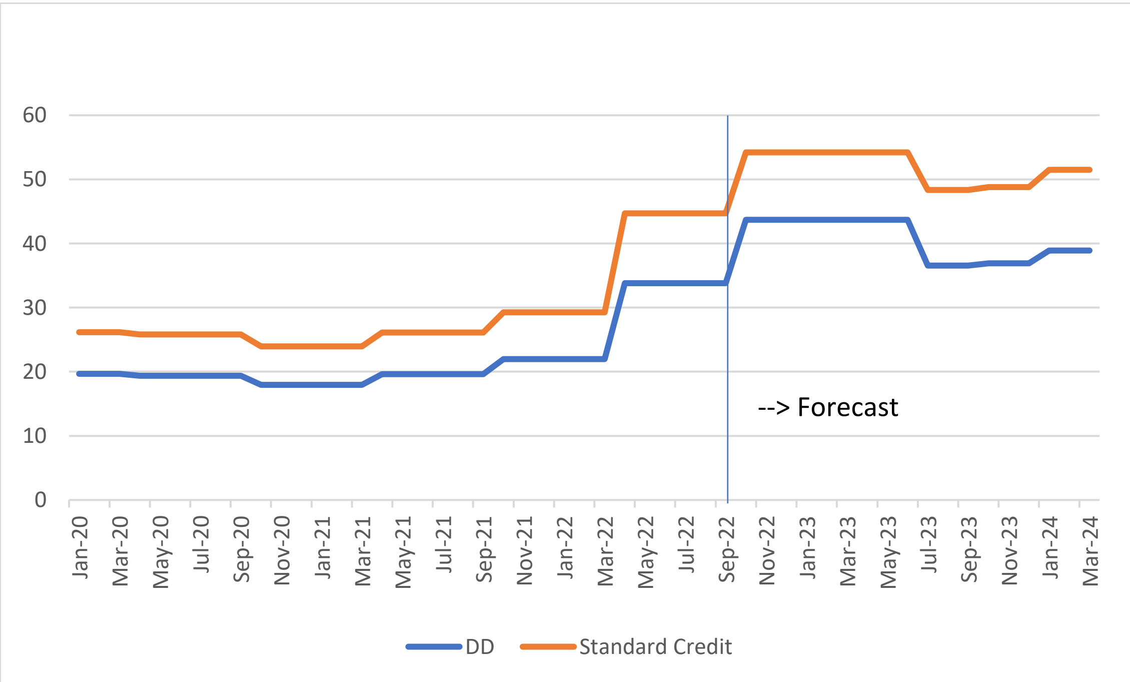
Figure A1: Debt in electricity and gas, £m per month, Jan 2019 – Mar 2024



Source: Ofgem's Social Obligations Reporting data up to Q1 2023.

1A.28 Figure A2 shows the historic and forecast levels of bad debt. Bad debt is increasing in proportion to the increase in overall debt.

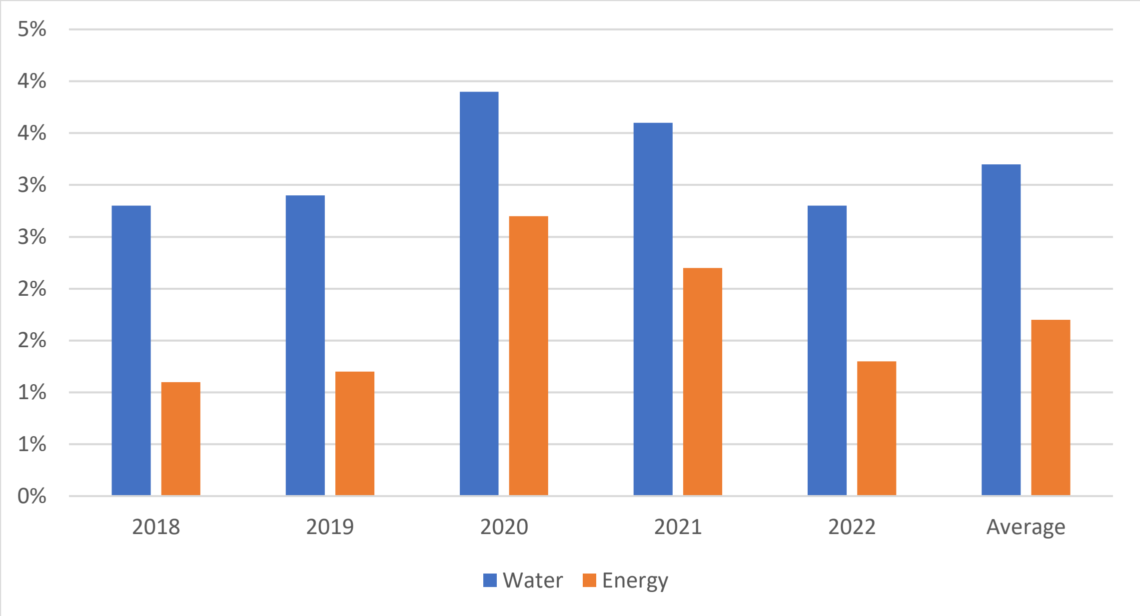
Figure A2: Standard credit and direct debit debt, £m per month, January 2020 – March 2024



Source: Ofgem's Social Obligations Reporting data up to Q1 2023.

1A.29 However, as Figure A3 shows, historically bad debt in the water and energy sectors has been a relatively low proportion of revenue: around 3% and 1.5%, respectively.

Figure A3: Average bad debt in energy & water as proportion of revenue, 2018-2022



Source: PWC. Retail Efficiency Review 2022. Report for Ofwat.

1A.30 In order to forecast debt in the period April 2023 to March 2024, we use a linear regression using bill size as the main explanatory variable. $y_t = \alpha + \beta x_t + \epsilon_t$, where y is debt and x is bill size, as set by the price cap.[43] This regression does not control for seasonal or cyclical elements in prices, so we only use it to approximate the impact over a full year (monthly figures or forecast over a longer period of time could be misleading).

1A.31 After estimating the baseline (Option 1 – do nothing), we assess the impact of Option 2 – Code proposals and Option 3- full ban. Analytically, it is easier to start by estimating the impact of a full ban on PPM installations. We do that by assuming:

- The average level of bad debt in the energy sector for those affected by the policy would be similar to the water sector (see figure 3).
- Over time, the main driver of bad debt would be energy prices. We combine a price forecast for the price cap (including the Energy Price Guarantee for

[43] We adjust the price cap level to account for government support during the energy crisis.

the relevant periods)[44] with the elasticity of bad debt to bill size as previously identified in the water sector,[45] so for every 1% increase in bills there is a 1.18% increase in bad debt.[46] We use the water sector because, except the last few months of the moratorium, we don't have a period of time in the energy sector without PPMs and so rely on evidence from a similar sector. Following analysis in the water sector,[47] we estimate the relationship between price and bad debt as follows:

$$\Delta BadDebt = \epsilon_w \Delta price$$

$$Where\ \epsilon_w\ is\ the\ average\ elasticity\ paremeter\ from\ Ofwat\ regressions$$

- To predict the response to changes in energy prices we assume that a) bad debt in groups included in the ban would change at the same rate as in the water sector where there are not PPMs. The rates modelled in the water sector before the energy crisis would represent an average year impact; b) groups not included in the ban would follow the baseline trend. Once we have a forecast of the impact of a full ban, we can adjust the impact to the different policy options choosing whether 'do not install' and 'further assessment needed' households follow the baseline trend, or the trend set for the water sector.
- In order to assess 'do not install' and 'further assessment needed' impacts, we split Standard Credit and Direct Debit customers into those who would be covered by the ban and those who wouldn't. We identify the number of consumers in vulnerable categories using different sources.[48]

1A.32 Table 3 illustrates the number of households (m) that we assume would be affected within the scope of Option 2- Code proposals ('do not install' only first and 'further assessment needed' afterwards).

[44] We do not include Warm Home Discount and other support as we are not using the price level but the rate of change which we assume is experienced by all consumers.
[45] Modelling the Propensity to Default on Payment of Water Bills. Frontier Economics. Final Report for Thames Water. October 2018
[46] We recognise that this analysis is a few years old. However, we have discussed with Ofwat and looked at the more recent data and have not identified any better evidence at this stage. As illustrated by the outcomes of the analysis, an increase in the elasticity would not change our overall assessment that the policy would bring net benefits.
[47] Modelling the Propensity to Default on Payment of Water Bills. Frontier Economics. Final Report for Thames Water. October 2018.

[48] This includes data from Ofgem's SOR, RFIs and surveys (Consumer Impacts of Market Conditions survey - Wave 3 (Nov/Dec 2022) | Ofgem.) and ONS data.

Table 3: Number of households within scope of Option 2 ('do not install' only and 'further assessment needed' only)

'customers only' assumptions [49]	Households (m)
Disability and health	4.09
Elderly over 85 and living alone	0.28
'further assessment needed' assumptions[50]	**Households (m)**
Children under 5	1.6
Over 75s (but not 85 and alone)	1.7
Health conditions	1.6
Pregnancy	0.7
Bereavement	0.3

1A.33 We also calculate the proportion of customers in 'do not install' and 'further assessment needed' groups that would fall into each payment type, shown in Table 4.

1A.34 The proportion of these categories that fall within scope of this policy would not face Involuntary PPM installation and would therefore follow the water trend set

[49] These numbers have been derived from a number of different sources including:
Association of Respiratory Nurses, 2017: Respiratory experts publish first quality standards for adult home oxygen use | Association of Respiratory Nurses
NHS: Dialysis | NHS
Diabetes UK: A guide to reporting on diabetes | Diabetes UK
TSA, 2017: A digital future for technology enabled care?| TSA
Sickle Cell Society: About Sickle Cell » Sickle Cell Society | Sickle Cell Society
Office for National Statistics, 2022: Suicides among people diagnosed with severe health conditions, England| Office for National Statistics
Office for National Statistics, 2022: Suicides among people diagnosed with severe health conditions, England| Office for National Statistics
[50] Data collected from different sources:
Office for National Statistics, 2022: Age by single year| Office for National Statistics
National Record of Scotland, 2022: Mid-2021 Population Estimates Scotland | National Records of Scotland
Office for National Statistics, 2022: Estimated number of households by age of eldest child within the household, UK, 2021| Office for National Statistics
Office for National Statistics, 2023: Conceptions in England and Wales| Office for National Statistics
CP Sport, 2022: Impact | Cerebral Palsy Sport| CP Sport
Parkinson's UK:. Reporting on Parkinson's: information for journalists | Parkinson's UK
British Lung Foundation, 2012: Chronic obstructive pulmonary disease (COPD) statistics | British Lung Foundation
NHS, 2023: Pneumonia| NHS
Muscular Dystrophy UK: Muscular Dystrophy UK
Multiple Sclerosis Trust, 2021: How common is multiple sclerosis? | MS Trust

out above. Those in groups out of scope would follow the baseline trend. Then we recalculate bad debt and compare it to the baseline as shown in Table 2.

Table 4: Proportion of 'do not install' and 'further assessment needed' customers that use different payment types, %

	Proportion on DD	Proportion on SC	Proportion on PPM
'do not install' proportion of all customers	14.0%	8.1%	18.2%
'further assessment needed' proportion of all customers	20.4%	9.4%	17.8%
	Proportion PPM/DD	**Proportion PPM/SC**	
'do not install' proportion of all customers	4.1%	12.0%	
'further assessment needed' proportion of all customers	4.0%	11.6%	

1A.35 The all-ban policy option assumes that no Standard Credit or Direct Debit customers would face an involuntary installation (See Table 2). Our estimate of the impact of a full ban is that it would result in £472m in additional bad debt (£21 on per customer basis). For 'do not install' and 'further assessment needed' consumers it would be £74m (£3 per customer) and for 'further assessment needed' only, £37m (£2 per customer).

Sensitivity analysis of historical trends: 'possible' scenario

1A.36 Since we are changing the incentives to repay debt, we also conducted sensitivity analysis to explore the consequences of a change in behaviour. First, we assume that customers in the 'do not install' and 'further assessment needed' groups would show higher rates of bad debt than the average household. We increase the rate of transformation of debt to bad debt by 50%. Then we estimate the impact of the PPM ban following the same steps as before.

1A.37 We use 50% for the same reasons outlined in paragraph A1.50 below. However, this assumption should be seen as a sensitivity and our current view is that it is likely to overstate the increase in bad debt among affected groups. For example, our customer research does not suggest that consumers in 'do not install' and 'further assessment needed' groups that face arrears are more likely to fall into bad debt.[51] We welcome any further evidence from stakeholders as to the evidence for an increase in propensity to enter bad debt, and if so for the likely size of this effect.

1A.38 Table 5 shows the impact, in £per customer, under this scenario, which results in a larger impact for 'do not install' and 'further assessment needed' groups of £307m, or £14 per household. This analysis shows the difference between 'do not install' and 'further assessment needed' impact too. The data allows to break down impacts by 'do not install' and 'further assessment needed' groups. However, it would be challenging to allow for further disaggregation of the 'further assessment needed' group. For example, the level of disaggregation in our datasets does not allow us to assess how many households would qualify for a ban on Involuntary PPM installations in the 'further assessment needed' group in line with some of the details of our proposals.

Table 5: Top-down methodology, summary of 'possible' difference for different policy option, estimation using additional assumptions about debt propensity of 'do not install' and 'further assessment needed', £m and £per household

Options		**Total Bad Debt, £m**	**Baseline, £m**	**Difference in £m and £ph**
Option 2 variation	'do not install' Only	1,213	1,072	141 (6)
Option 2 variation	'further assessment needed' Only	1,238	1,072	166 (7)
Option 2 – Code implementation	**'do not install' and 'further assessment needed'**	1,379	1,072	**307 (14)**
Option 3	All ban new PPM	1,671	1,072	599 (27)

1A.39 Finally, we take into account that a number of PPMs may have been incorrectly installed and that installation might be reversed under the new policy. We have assumed that between 5%-8% of meters were installed in this way. Although there is no direct evidence, we support this assumption by taking the proportion

[51] Vulnerable consumers could struggle to pay their bill or top-up their PPMs, but this does not automatically translate into bad debt, as long as they have some form of credit. So far, we haven't seen any clear difference with other consumers in terms of bad debt rates.

of households on the Priority Service Register and assuming that 50% of those who had a PPM installed should be on Standard Credit instead.

1A.40 Table 6 shows the impact of this additional assumption, in £per customer, under the different policy options.

Table 6: Top-down methodology, summary of 'worse case' difference for multiple policy options assuming reversals, £m and £per household

Options		**Baseline, £m**	**Total Bad Debt, £m**	**Difference in £m and £ph**
Option 2 variation	'do not install' Only	1,445	1,072	373 (17)
Option 2 variation	'further assessment needed' Only	1,240	1,072	168 (7)
Option 2 – Code implementation	**'do not install' and 'further assessment needed'**	**1,613**	1,072	**541 (24)**
Option 3	All ban new PPM	1,905	1,072	823 (37)

1A.41 In summary, taking historical data, the impact of our proposals on bad debt could be low: £3 per household, based on evidence (Table 2) from how bad debt in the water sector has increased in response to changes in bills. However, there are reasons this might understate the effects. The water sector never had PPMs and over time it would have become more efficient at collecting debt. This is probably an optimistic scenario; energy companies may not be as adept at collecting debt. In addition, water sector estimates of the elasticity between bills and bad debt were conducted at a time when households were under less financial pressure and bills were generally lower. Therefore, the elasticity estimate is being used 'out of sample'. As a result, there are reasons to think it may be higher. Alternatively, the relationship between bills and debt may not exhibit a constant elasticity at higher bill levels, as assumed. Instead, it may exhibit a relationship where bad debt levels increase but at a decreasing rate with respect to bill level, and so bad debt could be lower. A more cautious scenario suggests that bad debt cost could escalate to £14 per household. A high scenario, taking into account reversals, would result in an impact of £24 per household, but this latter scenario would result in correcting for an incorrect application of current policies, rather than as a result of the proposed option.

'Suppliers' view' of bad debt rates

1A.42 The April 2023 RFI and CFI on debt-related costs collected data and evidence on the initial impact of the PPM moratorium on bad debt. This evidence suggests that the moratorium (equivalent to a full ban on PPM installations) increased bad debt costs by between £25m and £30m per month in February and March 2023.

1A.43 These estimates are initial, and may not be generalisable to a full year's worth of costs, given the potential for costs to compound as more and more installations are prevented. However, on an annualised basis, these monthly costs would equate to between £300m and £360m per annum, or between £13 and £16 per typical dual fuel household.

1A.44 The additional bad debt resulting from the proposed changes to the PPM code of practice is expected to be lower than the market-wide moratorium. Therefore, this initial supplier evidence provides a useful corroboration of the estimated range.

'Bottom-up' analysis

1A.45 We use this methodology to sense check the outputs of the preferred methodology ('top-down'). Under this methodology we consider Option 2 – Code proposals.

1A.46 We collected data on the number, frequency and characteristics of groups that would be in scope of this ban. We then made assumptions about the proportion of consumers in scope of the ban who would not pay back their debts if they were on a credit meter. Then we added the debt from this group and applied some sensitivity analysis to produce the results in Table 9.

1A.47 We took several steps to estimate this impact. The cost assessment for this methodology is based on the estimation of the unit cost of debt, multiplied by the number of households that would fall into bad debt. First, the additional debt accrual in Table 9 was estimated as follows:

$$Total.bad.debt_{ij} = p_i \sum_j ca_j na_j + \sum_j cb_j nb_j$$

Where:

- p_i is a proportion from 25% to 75% which provides sensitivity to the uncertainty in the number of people assumed to fall in the *"further assessment"* group.
- ca_j and cb_j is the unit cost of debt for each household in the "*do not install"* and "*further assessment"* groups respectively.

- na_j and nb_j are the number of people in the "*do not install*" and "*further assessment*" groups respectively.

In addition, the cost per household ca_j and cb_j has been calculated as follows:

$$cost.per.household_i = P_i d_i$$

Where P_i is the yearly cost of energy as set by the price cap and di is the probability of default as estimated in Table 8.

1A.48 Some of the assumptions we made where:

- We checked the headline percentage of households that are in debt to their supplier in our CIM surveys (7%) against SOR data (6%). We use margins of error (+/- 2ppt) to account for quarter-to-quarter fluctuations.
- We use a specific percentage[52] for a) health/disability: 8-12% b) under 5s and/or pregnancy: 13-17% - which are applied to the relevant groups. The older age group has a lower propensity to be in debt (2%) in CIM data than the total credit customer group (7%). However, given vulnerability concentration in a proportion of that cohort, we instead use the headline % (7%) as their debt level, to again err on side of caution.
- We estimate the proportion of indebted credit customers who will not pay under this scenario in three steps:
    - SOR data finds Involuntary PPM installations accounted for under 1% of credit meters in 2022.
    - 2022 installations were 30% of warrant applications – assumed that all of that warrant applications group also no longer pay.
    - We estimate an additional 1ppt of credit customers won't pay, to account for behavioural change in the pre-warrant application pipeline. This gives us 3.5% of credit customers, which divided 7% in debt = a factor of 0.5. This factor will be applied to each of the group % referenced in 3, to calculate non-payment by specific cohorts (health/disability etc).
- For some groups, the baseline bad debt rate may already be higher than 2%. But again, we've erred with 2%, to make these estimates err on the side of overestimate of additionality.

[52] Ofgem, 2023: [Consumer Impacts of Market Conditions survey - Wave 3 (Nov/Dec 2022) | Ofgem]()

- In addition to the assumption of what proportion of indebted credit customers will not pay, this method adds a margin of error of ± 2%, generating high and low scenarios. We set baseline debt non-payment at the current bad debt allowance rate (2%) and deduct this figure from the proportion of indebted credit customers we estimate will not pay in counterfactual.

1A.49 Table 8 below reports the percentage of additional bad debt accrual that results from these calculations.

Table 8: Bad debt accrual under low, medium and high scenarios, %

Additional debt accrual:	Low	Medium	High
Disability and health (per household)	0.4%	1.3%	2.3%
Households at large (per household)	2.4%	3.4%	4.3%
Under 5s (per household)	0.0%	1.0%	1.9%

1A.50 In this method, additional sensitivities were added by assuming that a percentage of people were excluded from PPM installations. For example, if 1.55 million people are identified as suffering from qualifying health conditions, we show results assuming that 25%, 50% and 75% of these customers would be excluded from PPM installations.

1A.51 Making assumptions about behavioural change (based on qualitative views) increases the impact (relative to the RFI results). Table 9 shows the results from this estimation. In this scenario, a larger proportion of debt becomes bad, so the Medium-50% scenario produces similar results to the do not install' and 'further assessment needed' scenario (Table 5) in our first methodology which includes sensitivity analysis. By comparison, the method reported in Table 9 offers a similar range of impacts to Table 5, a range between £4 and £28. However, the most likely (central) impact in this method is £15 and in our preferred method in Table 5 is £8.

Table 9: Bottom-up methodology, estimations of difference, £m and £per household

Total Bad Debt (£m)	25% medium excluded	50% medium excluded	75% medium excluded
High	406	520	633
Medium	253	328	403
Low	99	137	174

Bad Debt Dual Fuel Equivalent (£ph)	**25% medium excluded**	**50% medium excluded**	**75% medium excluded**
High	18	23	28
Medium	11	15	18
Low	4	6	8

Impact on administration costs

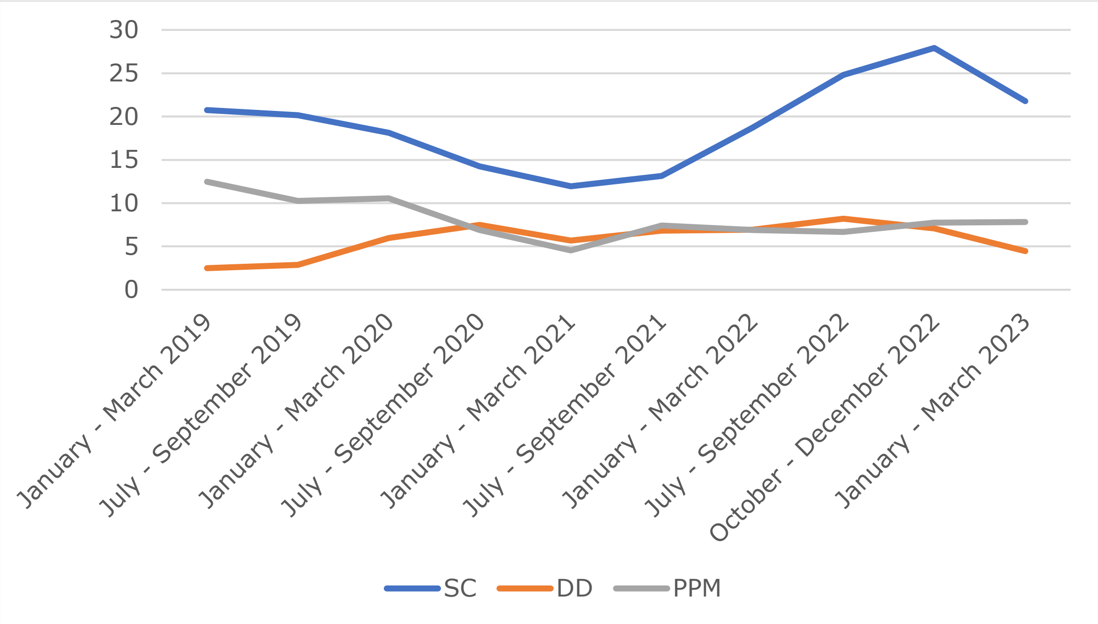
1A.52 We expect an increase in administrative cost due to the introduction of additional measures in the Code. As part of the RFI, we requested information on the main elements of administrative costs associated with managing debt.

1A.53 In the latest RFI we requested information on:

- Legal/Warrant costs (LWC);
- Costs of non-warrant field visits (CN-WFV);
- Other communication costs (OCC);
- Setting up payment plans (SUPP); and
- Debt collection agencies and Other.

1A.54 Figure A4 overleaf shows the evolution of debt-related administrative costs quarterly since January 2019.

Figure A4: debt related administrative costs from January 2019 to March 2023[53]



Source: Request for Information issued by Ofgem (April 2023)

1A.55 While there are fluctuations during and after the Covid 19 pandemic, there is no obvious pattern across the three payment types, including in the January to March 2023 period (which covers two months under the PPM moratorium).

1A.56 In the last period, we have seen some changes in the composition of admin costs. For example, a decrease in the cost of legal, non-warrant field visits and other communication costs and an increase on the cost of setting up payment plans, which is consistent with the impact of the proposals in the short term. However, this evidence was provided by a limited number of respondents. The majority of respondents did not provide any data on the composition of admin cost. So we don't think we can extract any further evidence from disaggregated admin cost data.[54]

1A.57 For this reason, we took a top-down methodology to estimate the impact of our proposals on the administrative costs associated with debt management. We projected total admin cost for next financial year and each payment method using a new regression analysis using past values of admin cost as the main predictor.

[53] Notice that last two data points are two consecutive quarters following the price cap methodology.
[54] Disaggregated data on admin cost accounted for around 24% of all customers.

1A.58 Then we assume that PPM and direct debit admin costs would stay the same as in the baseline. Then we calculated what would be the increase in admin cost in the SC payment method with a complete ban by assuming an increase of 10% in the low scenario and 50% in the high scenario. This was initially applied to all customers on standard credit. Then we split the standard credit group in those in and out of scope of our proposals. Those in scope follow the trend for the complete ban and those out of scope follow the baseline trend. Table 11 shows the expected difference in total admin costs in the different scenarios and under the different ban alternatives.

Table 11: Estimates of impact on administration costs using Low, Central and High scenarios £m

	Total Admin Cost, £m Low	**Options**	**Baseline**	**Difference**
Option 2 variations	'do not install' Only	186	182	4
	'further assessment needed' Only	187	182	5
Option 2 – Code implementation	**'do not install' and 'further assessment needed'**	**191**	**182**	**10**
Option 3	All ban new PPM	236	182	54

	Total Admin Cost, £m Central	**Options**	**Baseline**	**Difference**
Option 2 variations	'do not install' Only	187	182	5
	'further assessment needed' Only	188	182	6
Option 2 – Code implementation	**'do not install' and 'further assessment needed'**	**194**	**182**	**12**
Option 3	All ban new PPM	249	182	67

	Total Admin Cost, £m High	Options	Baseline	Difference
Option 2 variations	'do not install' Only	191	182	9
	'further assessment needed' Only	193	182	11
Option 2 – Code implementation	**'do not install' and 'further assessment needed'**	**202**	**182**	**20**
Option 3	All ban new PPM	298	182	116

Distributional impact

1A.59 The main beneficiaries of the policy are particularly vulnerable consumers in arrears, and so are at risk of Involuntary PPM. The significant benefit to these consumers are that they are not subject to the experience of having a PPM forcibly installed. In addition, as a result of not having a PPM installed, these customers may have a reduced chance of self-disconnecting and so incurring the health-related harms of rationed energy use, especially for heating during the winter months. These benefits are not amenable to Ofgem's Distributional Impacts Framework in that they apply only to the subset of consumers targeted by the policy. However, the policy is targeted specifically at vulnerable consumers and so we believe has positive distributional impacts. For example, it will further protect those that are in vulnerable situations and otherwise struggling to pay their energy bills.

1A.60 The costs of this policy are primarily distributional in that the additional bad debt as a result of not repaying debt through a PPM is technically a transfer to the generality of consumers from those consumers who default on their debt. Additional administrative costs are true economic costs and are also borne by the generality of consumers, subject to an increase in price cap allowances.

1A.61 We have used Ofgem's Distributional Impacts Framework[55] to assess the distributional impacts on consumers of the additional bad debt and administrative costs.

1A.62 Since the additional bad debt and administrative costs would be levied volumetrically, the policy's increase in bills will be progressive overall since

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[55] A full description of Ofgem's Distributional Impacts Framework and associated consumer archetypes can be found in the subsidiary documents of our Impact Assessment Guidance: [Impact Assessment Guidance | Ofgem](#).

larger households with higher incomes and higher energy usage will pay for a greater portion of the increased cost. However, there are archetypes who have both higher usage and either lower incomes or are vulnerable in some way.

1A.63 Table 12 below demonstrates the distributional impacts per household across Ofgem’s 13 consumer archetypes for the two estimation techniques described above: ‘top-down’ and ‘bottom-up’, respectively.

Table 12 : Distributional Impacts of the additional bad debt and administration costs borne by the generality of consumers (Average Savings per household in £ per year)

Archetype	Fuel	Key attributes	Estimated no. households (million)	Top-down	Bottom-up
A1	Dual fuel	High incomes, owner occupied, working age families, full time employment, low consumption, regular switchers.	2.8	-3.46	-24.06
A2	Dual fuel	High incomes, owner occupied, middle aged adults, full time employment, big houses, very high consumption, solar PV installers, care for the environment.	2.9	-6.13	-42.58
B3	Dual fuel	Average incomes, retired, owner occupied - no mortgage, lapsed switchers, late adopters.	3.7	-4.58	-31.81
B4	Dual fuel	High incomes, owner occupied, part-type employed, high consumers, flexible lifestyles, environmental concerns.	2.3	-4.88	-33.91
C5	Dual fuel	Very low incomes, single female adult pensioners, non-switchers, disconnected (no internet or smart phones).	1.9	-3.29	-22.82
D6	Dual fuel	Low income, disability, fuel debt, disengaged, social housing, BME households, single parents.	1.5	-4.28	-29.75
D7	Dual fuel	Middle aged to pensioners, full time work or retired, disability benefits, above average incomes, high consumers.	1.2	-4.91	-34.09
E8	Dual fuel	Low income, younger households, part-time work or unemployed, private or social renters, disengaged non-switchers.	2.4	-4.04	-28.05

Archetype	Fuel	Key attributes	Estimated no. households (million)	Top-down	Bottom-up
E9	Dual fuel	High income, young renters, full time employments, private renters, early adopters, smart phones.	3.1	-3.55	-24.67
F10	Off-gas	Middle aged to pensioners, full time work or retired, owner occupied, higher incomes, oil heating, rural, RHI installers, late adopters.	1.9	-3.57	-24.78
G11	Off-gas	Younger couples or single adults, private renters, electric heating, employed, average incomes, early adopters, BME backgrounds, low levels of engagement.	1.5	-3.26	-22.63
H12	Off-gas	Elderly, single adults, very low income, medium electricity consumers, never-switched, disconnected, fuel debt.	0.6	-2.50	-17.37
H13	Off-gas	Off gas, low income, high electricity consumption, disability benefits, over 45s, low energy market engagement, late adopters.	0.5	-3.33	-23.10

Public Sector Equality Duty

1A.64 Ofgem has a legal duty in making sure we consider the impact of our policies on protected groups under the Public Sector Equality Duty (PSED). The main objective of the PSED is to:

- eliminate discrimination, harassment, victimisation and any other and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant between persons who share a relevant protected characteristic and persons who do not share it.
- foster good relations between persons who share a relevant protected between persons who share a relevant protected characteristic and persons who do not share it.

1A.65 Our assessment is that the main objective of this policy (Ofgem's vulnerability duty) overlaps with the PSED for the following portrayed characteristics: age; disability; pregnancy and maternity. Our assessment of benefits identifies the impact of our policy in these group and it therefore covers requirement to do an Equalities Impact Assessment. As we explain in the section below, the benefits for these groups would be large. There is a wide range of quantified and non-quantified benefits resulting from the ban on force installations of PPMs.

1A.66 For other protected characteristics such as race, religion, or sexual orientation, we have not identified any potential for discrimination or adverse impacts. Some of the distributional impacts on these groups is included, where relevant, in the distributional impacts reported in the table above.

Benefits

1A.67 The benefits of banning forced installations on 'do not install' and 'further assessment needed' groups are potentially very large. Some of these benefits are hard to monetise, but our analysis below indicates that there is enough evidence and credible research in this field to show that they outweigh the costs that we have identified above. Avoiding distress caused by forced installation amongst vulnerable consumers is not only one of the key priorities of Ofgem's Vulnerability Strategy[56] (and in particular outcomes 1A, 2B, 3B and 3C) but also, it can be shown it has large benefits for those individuals and knock-on effects in public health. There would be benefits for the market as a whole too.

1A.68 In order to estimate benefits from our proposals, we have focused on the benefits that would accrue to energy consumers in the vulnerable categories only. Extending the ban of PPMs to all credit consumers would produce additional benefits in people who would potentially increase energy use and not pay for it. There may be examples where our identification of 'do not install' and 'further assessment needed' customers is imperfect, and that other customers would also achieve some of the benefits below. However, on balance we consider that our Code proposals focus on the customers where there is greatest non-financial benefit from the avoidance of interruptions to supply. We therefore consider that it is appropriate to consider the benefits to other customers as a straightforward transfer of resources between consumers, with net zero value in this Impact Assessment. Although, ultimately, policy decisions about where to

[56] Ofgem, 2019: [Consumer Vulnerability Strategy 2025 | Ofgem]

draw the line between those who have more and less protection will be matters of judgement balancing various different considerations.

1A.69 Our estimation of benefits for the affected 'do not install' and 'further assessment needed' customers has three elements:

- First, we assess the value of the energy lost in interruptions through self-disconnection and self-rationing[57] for those vulnerable consumers, using the Value of Lost Load (VoLL);
- Then we perform a break-even analysis showing how increased access to heating would reduce winter deaths and with a large value associated with it; and
- Third, we also use break-even analysis to show the impact on the cost of treating health related issues associated with cold homes.

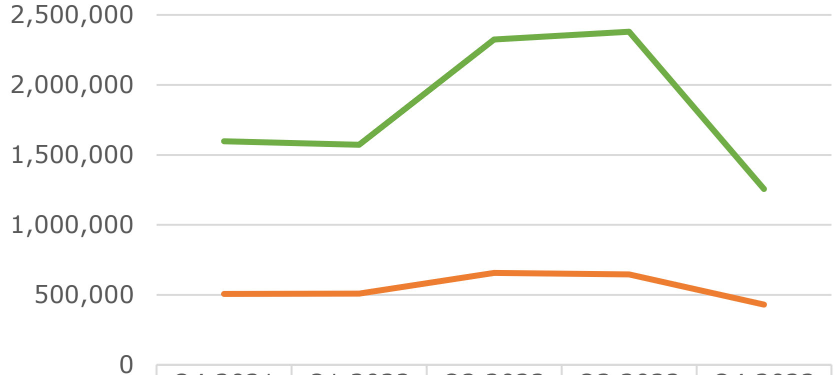
VoLL associated with interruptions

1A.70 Ofgem collects data on the number of meters that disconnect every quarter. We also collect data on the duration of the disconnections so by combining frequency and duration we can have an estimate of the number of hours of disconnection per year. Then we can apply the VoLL to find the monetised value of these disconnections. The VoLL values have a range giving different values for the length of period, time of the day and season. Since we don't have disaggregated data, we use a range between the low and high value of the VoLL.

1A.71 In accordance with our Vulnerability Strategy, our objective is that people with vulnerabilities should not self-disconnect. In many cases this would be an involuntary outcome (for example due to mobility constraints). Even if self-disconnection is a conscious decision, self-disconnection should be avoided due to the long-term health impacts in these groups. In order to assess the value associated with self-rationing we first estimate the number of and the duration of these self-disconnections. Figure 5A shows the numbers of smart PPM self-disconnections between Q4 2021 and Q4 2022, while Table 13 shows the duration of these disconnections. We combine the number and duration to arrive at an estimate of lost hours for an average customer on a PPM. This would correspond to the number of hours lost by an average PPM user.

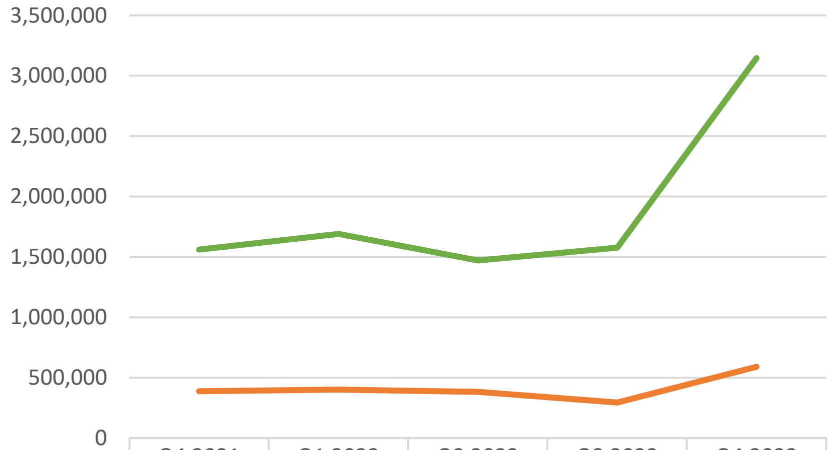
[57] Self-disconnection and self-rationing shall be referred to collectively as self-rationing.

Figure 5A: Smart PPM self-disconnections, Electricity and Gas



	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Number of meters that have been disconnected at least once	505,772	508,848	656,760	646,032	430,405
Number of smart ppm self-disconnections	1,597,936	1,571,715	2,323,819	2,379,980	1,256,354

Electricity



	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Number of meters that have been disconnected at least once	387,122	401,118	381,883	294,421	590,381
Number of smart ppm self-disconnections	1,561,071	1,689,344	1,470,730	1,576,218	3,146,140

Gas

Table 13: Duration of Smart PPM self-disconnections, hours and days

Gas	1h	3h	7h	12h	1 day	3 days	7 days	28 days	28 days+
2021 Q4	30.7%	17.3%	14.5%	8.1%	5.8%	6.9%	3.2%	2.6%	8.7%
2022 Q1	29.6%	17.6%	14.8%	8.5%	5.8%	7.2%	3.5%	3.2%	8.9%
2022 Q2	27.4%	14.7%	13.5%	8.9%	6.8%	9.2%	4.7%	4.1%	10.7%
2022 Q3	25.9%	11.9%	11.4%	8.7%	7.1%	12.0%	6.2%	5.6%	11.2%
2022 Q4	6.7%	13.0%	17.2%	14.2%	8.4%	16.7%	8.5%	6.9%	8.4%

Electricity	1h	3h	7h	12h	1 day	3 days	7 days	28 days	28 days+
2021 Q4	54.8%	12.5%	8.5%	4.8%	3.5%	4.4%	2.2%	2.0%	7.3%
2022 Q1	52.5%	12.7%	8.4%	5.0%	3.8%	4.9%	2.5%	2.4%	7.7%
2022 Q2	48.3%	13.9%	9.2%	5.7%	4.2%	5.3%	2.9%	2.1%	8.6%
2022 Q3	47.5%	14.0%	9.4%	6.0%	4.2%	5.7%	3.2%	2.5%	7.4%
2022 Q4	31.8%	18.2%	16.1%	8.0%	4.5%	6.2%	3.4%	4.4%	7.4%

1A.72 In table 14 we calculate the percentage of people on the Priority Services Register (PSR) and the proportion who said they could have difficulties to afford the cost of energy. Combining this proportion with the number of customers and the average hours lost, gives us the number of hours of energy lost to self-rationing for customers on Standard Credit and PSR, which we use as an approximation to the loss to vulnerable customers[58] (using PSR instead of "do not install" and "further assessment needed" groups would probably underestimate the number of people in scope of the proposals).

[58] We do not include Direct Debit because we expect them to cancel their debits before being exposed to bad debts. We don't take account of PPMs either because they are part of the counterfactual.

Table 14: PSR customers, and proportion of those who would have difficulty affording cost of energy, %

	%	No survey respondents
Proportion of all customers on PSR and SC	2%	72/3457
Proportion of customers on PSR that responded "I can't afford the cost of energy"	69%	245/345

Source: Ofgem CIM survey[59]

1A.73 In table 15 we show the average hours of lost by disconnection length. Then we estimate the average use of energy in every hour and multiply by the loss load to estimate the value as in table 16.

Table 15: Average hours lost by duration for vulnerable households

Hour lost (000)	**Up to 1 h**	**Up to 3h**	**Up to 7h.**	**Up to 12h.**	**Up to 1 day**	**Up to 3 days**	**Up to 7 days**	**Up to 28 days**	**28 days or more**
Average lost hours Gas	209	388	869	1,009	1,415	6,496	7,592	26,065	145,989
Average lost hours Elec	408	372	626	616	836	3,322	4,146	15,639	116,968

1A.74 Table 16 shows the impact on PSR households from self-disconnection, using the VoLL as the value of the reduction in usage. We use VoLL to proxy the value consumers place on energy consumption, which can be many times the retail rate. The VoLL can vary with circumstances, such as duration, season and time of interruptions, as well as the methodology used to calculate it. As a result we use a low, medium and high value based on range published by Ofgem.[60] If we assume that a ban on PPM would stop unwanted self-rationing, the results in table 16 show that there are large benefits from our proposals. It ranges from £328m to £1bn, with a central value of £676m. [61]

[59] Ofgem, 2023: Consumer Impacts of Market Conditions survey - Wave 3 (Nov/Dec 2022) | Ofgem
[60] Ofgem, 2011: The Value of Lost Load (VoLL) for Electricity in Great | Ofgem
[61] Notice that in the benefits case, there is no probability associated with each scenario, so they don't necessarily match with the cost scenarios.

Table 16: Value of reduced consumption due to self-disconnection, £m

	Low	Central	High
VoLL from Gas Interruptions	244	335	426
VoLL from Electricity Interruptions	84	341	598
Total VoLL	328	676	1,024

Benefits from a reduction of winter deaths and health problems

1A.75 Cold homes can cause and worsen respiratory conditions, cardiovascular diseases, poor mental health, dementia, hypothermia and problems with childhood development. In some circumstances, health problems may be exacerbated to a degree that they may cause death. Groups that are already vulnerable such as young children, older people and those with pre-existing health problems will be particularly susceptible to cold.

1A.76 A recent report by the Institute of Health Equity shows that:[62]

- In 2019 it was estimated the NHS spends at least £2.5 billion per year on treating illnesses that are directly linked to cold, damp and dangerous homes.
- Cold homes and fuel poverty contribute to the phenomenon of excess winter deaths. England saw an estimated 32,058 excess winter deaths in 2020–21.[63]
- Estimates suggest that some 10 per cent of excess winter deaths are directly attributable to fuel poverty and 21.5 per cent are attributable to cold homes.

1A.77 In addition, the Marmot report on fuel poverty found that some indirect health impacts from cold housing were: [64]

- Cold housing negatively affects children's educational attainment, emotional well-being and resilience.
- Fuel poverty negatively affects dietary opportunities and choices.
- Cold housing negatively affects dexterity and increases the risk of accidents and injuries in the home.

[62] Institute of Health Equality, 2022: Fuel Poverty, Cold Homes and Health Inequalities in the UK | IHE
[63] ONS: Winter mortality in England and Wales | Office for National Statistics
[64] Institute of Health Equality, 2011: The Health Impacts of Cold Homes and Fuel Poverty | IHE

1A.78 In our calculations there is a break-even point for each of the scenarios. We have estimated (Table 18) that just a 2% reduction in the probability of winter deaths in people over 75 years of age would result in £91m additional benefits from lower winter deaths. If the probability increased to 7% it would result in a benefit of £328m and if it was 12% it would result in a benefit of £576m. Given that people over 75 years of age are more at risk in cold homes, and we estimate the reduction of energy consumption of this group to be around 10%, we think that a break-even point between 2% and 7% reduction in winter deaths would offset the cost of these proposals.

1A.79 Our break-even analysis starts by using the monetary Value of a Life Year (VOLY).[65] Current guidance (HM Treasury, 2018; Annex A2) recommends the following monetary values for the different measures:

- Value of a Prevented Fatality (VPF): £1m (1997 prices) updated to £ 1.6m (2010 prices);
- Value of a Life Year: £60,000; and
- Quality-adjusted Life Year: £60,000.

1A.80 In order to apply VOLY to our break-even analysis, first we found the life expectancy for people in the age category of 75 and 85 years. [66] We assume that all excess winter deaths (63,000) per year would fall into this category. [67]

Table 17: frequency of excess winter deaths for customers with different characteristics and corresponding VoLY (£m)

	Frequency	VOLY £m
Excess winter deaths over 75	53,907	39,412
Excess winter deaths over 85	9093	3443
Excess winter deaths over 75 due to cold homes	11,590	8,473
Excess winter deaths over 85 due to cold homes	1,955	740
Total	**-**	**9,214**

1A.81 We calculate the number of excess winter deaths attributed to cold homes by using the Institute of Health Equity estimate of 21.5%. We then estimate the

[65] Health and Safety Executive, 2020: A scoping study on the valuation of risks to life and health: the monetary Value of a Life Year (VOLY).
[66] ONS: National life tables – life expectancy in the UK | Office for National Statistics
[67] A proportion of winter deaths would be from other vulnerable groups. A larger value would be obtained if we include younger groups in the analysis but it was quite challenging to obtain estimates of life expectations for people with other vulnerabilities.

total number of lost years using ONS life expectancy for 75 and 85 year olds and multiply that by the VOLY to arrive at the total VOLY attributable to cold homes. This gives a total cost of winter excess death for this group of vulnerable consumers in scope of 'do not install' and 'further assessment needed' proposals. Every year there is a £4.7bn associated with excess winter deaths.

1A.82 Table 18 shows that just a 2% decrease in the excess winter deaths by year would offset the cost of our proposals in our most likely scenario. People living in better heated homes will also likely experience an improvement in quality of life, for example a reduction in some of the health impacts cited by the Marmot report. These have not been quantified separately, as the benefits could form part but would not represent all of consumers' value of lost load, used above to calculate the loss of consumer welfare from reduced consumption.

Table 18: Estimated benefits from fewer winter deaths under different scenarios, % and £m

Break-even analysis	**Low**	**Medium**	**High**
Percent reduction in winter deaths	2%	7%	12%
Benefits from fewer winter deaths	£91m	£328m	£576m

1A.83 In summary, we have seen that there is a large BCR when we only use the VoLL against the bad debt and admin costs. When we use break-even analysis on the value of winter deaths, we also see relatively small percentage improvements would offset all cost. And finally, we have not quantified the health improvements associated with warmer homes. All these benefits put together are in our view high enough to justify the intervention.

Risks and Uncertainty

1A.84 This Impact Assessment presents a wide range of costs and benefits. While we think the lower range of benefits exceeds the higher range of costs, we should be cautious and monitor the implementation of this policy on bad debt levels in particular.

1A.85 One of the key uncertainties relates to behavioural change of restricting Involuntary PPM on debt behaviour. Our analysis shows an increasing trend of debt and arrears in the sector in line with energy prices, which could affect our calculations based on historical data and relationships, especially if economic conditions changed, reducing access to credit.

1A.86 Under a complete ban on PPM installations a significant number of consumers could opt to default on their energy bill. Although this would be a temporary shock, it could take a while for energy suppliers to develop new, more efficient tools for managing debt. For this reason, we think it would be create additional risks to implement a full ban on PPMs.

1A.87 Our regression analysis and other assumptions we have made based on past evidence could also be misleading if there was a structural change in the sector in relation to bad debt. We have collected data via RFIs, which does not indicate a significant increase in bad debt. However, this data only covers one month since the moratorium on PPM installations and the relation between debt and bad debt could take longer to see or have a complicated dynamic. It may be too early to identify any significant changes in the sector.

1A.88 While we think there is a compelling case to improve protection for vulnerable consumers, the estimation of benefits is subject to a number of caveats. It is difficult to assess additional benefits compared to existing licence conditions because we would need detailed evidence on the frequency of cases and medical impacts. In this assessment we cover winter deaths but we don’t know all the benefits related to wellbeing associated with warmer homes However, we think that the range of benefits is so large that a small improvement would very likely offset the cost.

1A.89 Finally, not all suppliers face the same type of consumers. Some suppliers have a much larger proportion of vulnerable consumers so they could experience higher levels of bad debt compared to a notional supplier.

Appendix 2 – Existing Standard Licence Conditions and guidance

Section summary

This section sets out the existing Standard Licence Conditions and guidance that apply to consumer protection and Involuntary PPM. It sets out the policy objective and expectations for suppliers. This section is structured chronologically along the customer debt journey.

2A.1. The following paragraphs outline existing licence conditions and guidance on PPMs. They are presented in an order that follows the customers' debt journey. Each paragraph describes what suppliers should do according to the different licence conditions and guidance and, importantly, the policy objective behind each of them. We remind suppliers of the importance of the policy objective behind these conditions, and expect suppliers to ensure their policies and processes are reflective.

2A.2. This section has been included to set out the existing rules and guidance, including the policy objective that was explained in detail within our previous consultation and decision documents. This helps to demonstrate how these existing rules should be applied by suppliers. Earlier in this document we have set out new or more prescriptive requirements that we propose be inserted into SLCs and guidance which we consider build on that which already apply as set out below.

Treating customers fairly

Standards of Conduct – SLC0

2A.3. The Standards of Conduct contain overarching principles that require suppliers, and their representatives to treat each customer fairly. Suppliers and their representatives must behave in a fair, honest, transparent, appropriate, and professional manner. When applying the Standards of Conduct suppliers need make extra effort if a customer is in a vulnerable situation. The policy objective of the Standards is to improve the interactions and experiences consumers have and thereby improving engagement and trust in the market.[68]

[68] Ofgem, 2017: [Decision to modify the domestic and non-domestic Standards of Conduct | Ofgem]

Information provision

Communicating with customers – SLC0.3B; SLC26.5 (e); SLC31G.2(b)

2A.4. There are several rules underpinning how suppliers communicate with customers. Suppliers must provide information to customers which is complete, accurate, and not misleading. Information must be communicated in plain and intelligible language that consumers can comprehend and understand. If a customer is in a vulnerable situation and has been added to the Priority Services Register, communications must be in an accessible format and as far as is reasonably practicable, appropriate to the customer’s needs. Suppliers must ensure consumers are provided, as is appropriate for the circumstances, with information on how to access assistance and advice, including information about debt support, ways to reduce energy consumption safely, and any relevant social, financial, and energy efficiency programmes.

2A.5. The policy objective behind these requirements is that consumers are made aware of, and can make informed decisions about, their energy supply and consumption. For customers in vulnerable situations who may not be best placed to represent their own interests in the market, it is vital that suppliers are proactive and take all reasonable steps to ensure communications are appropriate to help ensure positive outcomes.

Information on PPMs – SLC28, SLC27A.8

2A.6. For traditional and Smart PPM, suppliers must provide the customer with information on the advantages and disadvantages of PPM; information about the process for and methods by which the customer can pay in advance through the meter; where to obtain information if the meter is not operating effectively or one of the devices to pay is not operating effectively. The supplier should also provide information on the procedure that will be followed when removing or resetting the PPM, including timescale and conditions for removing or resetting it. All the information should be provided to the customer as part of a statement. The statement should also set out in plan and intelligible language suppliers’ obligations to publish the statement and make it readily available in their websites, to take all reasonable steps to inform each PPM customer at least once a year of the statement and how to obtain and give a free copy to any person if requested. The policy intent is to reduce the chances of customers self-disconnecting or self-rationing because they lack understanding or have not been provided with information on how to use PPM or support contacts.

Suppliers also benefit from providing customers with support contacts so that they can be contacted early and respond to various customer needs quickly.

2A.7. Suppliers must also ensure customers are given adequate information in a form and frequency that is sufficient to allow that customer to quickly and easily understand how to use different credit facilities (Emergency Credit, Friendly-hours Credit and Additional Support Credit facilities), how they can be used and are repaid. The policy intent behind this licence requirement is to ensure customers know the credit functions available. Having confidence in their availability, application, and accessibility should encourage their use, ultimately preventing self-disconnection.[69] [70]

Debt management

Options for repaying debts – SLC27.6 (a)

2A.8. Suppliers are required to offer customers in payment difficulty with three options to repay the debt owed. These include deductions from benefits at source (Fuel Direct / Third Party Deductions), repayment plans through means other than a PPM, and the use of a PPM where safe and reasonably practicable. Alongside providing energy efficiency advice to reduce usage, suppliers must proactively discuss repayment options with individual customers and agree the best option with the customer based on their ability to pay and their personal circumstances.

2A.9. The policy intent here is that consumers are provided with several ways of managing – and ultimately paying off – their debt in an affordable, sustainable way that meets their personal circumstances and avoids disconnection. It also allows suppliers to recover unpaid charges for energy they have supplied a household and reduces the accumulation of bad debt.

Ability to pay – SLC27.8; SLC27.8A (a) – (e)

2A.10. Suppliers must take all reasonable steps to consider a customer's ability to pay if they are in, or at risk of, payment difficulty. In 2020 we incorporated the Ability to Pay Principles (2010) into the supply licence to provide better and greater consistency across suppliers, ensure consumers receive targeted support when struggling with their bills, and give the consideration of

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[69] Ofgem, 2020: Self-disconnection and self-rationing final proposals – statutory consultation | Ofgem
[70] Ofgem, 2020: Self-disconnection and self-rationing: decision | Ofgem

customers' ability to pay added prominence as an important obligation on suppliers.[71]

2A.11. **First, suppliers must have appropriate credit management policies and guidelines**. As far as is reasonably practicable suppliers must allow for customers to be dealt with on a case-by-case basis and avoid having a one-size-fits-all approach to dealing with customers in payment difficulty. Staff incentives should be linked to successful consumer outcomes rather than repayment rates and as such should not reward the collection of higher debt repayment amounts.

2A.12. The policy objective behind this requirement is that consumers are more likely to receive poor outcomes if inappropriate policies are in place which encourage or force potential consumer harm. We expect suppliers to take all reasonable steps to consider the personal circumstances of a customer so they can receive targeted support that meets their needs. The policy objective behind linking staff incentives to successful outcomes rather than repayment rates is to prevent suppliers prioritising higher repayment rates above their obligation to take all reasonable steps to consider a customer's ability to pay.

2A.13. **Second, making proactive contact with customers to assess ability to pay.** We expect suppliers to identify whether a customer is in payment difficulty and avoid reliance on the customer contacting them. We do not prescribe what this early engagement should entail but we do expect suppliers to start from the presumption that a customer in arrears is having payment difficulties (rather than avoiding payment), offer assistance through a range of options to repay debt, and helpfully signpost to appropriate support services.

2A.14. The policy objective behind this licence requirement is that early intervention can prevent the likelihood of a customer falling further into debt. This has clear benefits for the customer and there are also commercial incentives on suppliers to avoid the build-up of debt.

2A.15. **Third, understanding an individual customer's ability to pay.** This includes clear guidance and training for staff on how to elicit information and facilitate conversations around a customer's ability to pay. If customers have concerns about their ability to pay their bills, they should be able to raise them easily and quickly. The policy objective here is to highlight the importance and widespread benefits of creating a company culture in which customers can disclose their circumstances and receive the right help and support. For customers in

[71] Ofgem, 2020: Self-disconnection and self-rationing: decision

vulnerable circumstances there may be complex reasons why self-disclosing their vulnerability or circumstances may be challenging and burdensome. Creating an environment in which customers feel able to raise concerns, discuss their situation, and are listened to can help ensure positive outcomes. Conversations frontline staff may have with consumers in vulnerable situations can be extremely difficult to handle and cope with, especially through the cost-of-living crisis. Clear guidance and training can empower staff to deal with difficult situations compassionately and effectively, providing a higher quality of customer service and can contribute towards achieving positive outcomes.

2A.16. We also require suppliers to make full use of all available information when understanding an individual customer's ability to pay. This means ensuring that all information that may have been gathered from interactions with the customer is used when considering ability to pay, such as previous telephone calls, emails, or correspondence with persons the customer may be represented by. Third party advice organisations and specialist teams within the supplier's business can help build a fuller understanding of ability to pay. We expect suppliers to have the right processes in place to be able to store and manage customer information in line with data protection rules. The policy objective here is to ensure suppliers use the full range of information that is available to them in order to develop a holistic understanding of an individual customer's ability to pay so debt can be repaid in a way that is affordable and sustainable. We have seen examples where suppliers have not used all the information available to them when assessing ability to pay.

2A.17. Suppliers must also proactively explore payment amounts and payment methods which are appropriate to the individual circumstances of each customer. This includes debt repayment schemes such as Fuel Direct. The policy objective here is to ensure that customers in payment difficulty are made aware of the full range of payment options available. We have seen cases where customers are not made aware of the options, including Fuel Direct, and instead pushed towards other forms of debt repayment such as PPMs.

2A.18. **Fourth, having established a customer's ability to pay suppliers must take all available information into account.** Suppliers should only set default repayment amounts when there is insufficient information to set a bespoke amount, for example if a customer has not engaged with the supplier. Default repayment rates should be reasonable and suppliers should make it clear that the repayment rate can be revised if they receive more information about the customer's ability to pay. We do not prescribe what is reasonable but we expect default repayment rates to sit within the normal range compared to other PPM customers repaying debts.

2A.19. The policy objective here is to ensure that repayment rates are affordable and based on customers' ability to pay. We have had ongoing concerns that repayment rates can sometimes be too high and based on unrealistic timescales. The policy objective behind including warrant and site visits in setting repayment rates based on ability to pay is that if a supplier has been unable to contact a customer, the warrant or site visit can potentially provide the first opportunity to identify any vulnerabilities in the household and understand a customer's ability to pay. We expect suppliers to take all reasonable steps to ensure that any supplier representatives, including third party field agents, are fit and proper to visit and enter the customer premises and possess the skills to be able to gather information on a customer's ability to pay. This information should be communicated back to the supplier and used when setting repayment rates. Furthermore, we have had longstanding concerns on repayment rates sometimes being set too high (eg between £10 - £25 per week).[72]

2A.20. **Fifth, ensuring the customer understands the arrangement that has been made to repay the debt.** This includes clear communication with the customer which details how much they are regularly repaying; how it will be deducted; when the debt will be repaid; and what to do if they experience difficulties during the arrangement. We expect suppliers to write to customers when a repayment arrangement is agreed clearly outlining the above requirements. The policy objective here is to avoid consumers not knowing how much debt they are repaying and for how long. Not providing this information to consumers could result in consumer harm and detriment.

2A.21. For PPM customers repaying a debt by a weekly amount, suppliers should explain that this will be recovered regardless of usage. The policy objective behind this requirement is primarily that during the summer months when gas consumption is minimal or nil, debt will still accrue. Customers topping up their PPM after a period of nil consumption need to pay off the debts on the meter before they can get back on supply. This can cause consumer harm and

[72] Ofgem, 2010: Review of suppliers' approaches to debt management and prevention

suppliers must ensure they explain this to their PPM customers who are repaying debts.

Proportionality principle – SLC28B.5

2A.22. Suppliers must act proportionately to the original amount owed when they take action to recover debts. This applies to every form of debt recovery action a supplier may undertake, including Involuntary PPM. We expect suppliers to have relevant processes in place to ensure charges and actions are proportionate. We do not prescribe what proportionality is but we expect suppliers to be able to evidence that they took all reasonable steps to proactively engage with the customer and offer a variety of options to repay debts before escalating to debt collection agencies or court action.

2A.23. The policy objective behind this licence requirement is to make the debt collection process fairer by ensuring suppliers do not act disproportionately when recovering debts. Escalating debt recovery actions can reduce the build-up of debt but can result in consumer harm through increased charges and impacts on consumer wellbeing. When we introduced this requirement we saw inconsistencies in the market, with suppliers adopting different approaches to debt recovery. Although we recognise that market conditions and customer affordability have changed significantly since then, we continued to see this in our Market Compliance Review into Customers in Payment Difficulty.

PPM Installation

Safe and reasonably practicable PPM – SLC26.5(d); SLC27.6(a)(iii); SLC28.1A, 2016 Guidance

2A.24. Suppliers are required to offer a customer in payment difficulty a PPM only where it is safe and reasonably practicable. There are a number of reasons why a PPM may be unsafe or difficult for a customer to operate. These can vary depending on whether the PPM is traditional or smart. Such as:

- The meter is in an inaccessible place/hard to reach;
- The customer has a physical, mental disability or other circumstances meaning they are unable to operate a PPM;
- The customer's circumstances mean they need continuous electricity supply; and
- The customer's circumstances mean topping-up a PPM is difficult, such as distance to and ability to travel to a top-up retailer.

2A.25. PPMs require specific ways of being operated (eg being topped up) and can result in self-disconnection, there is a risk they can cause or exacerbate consumer harm. The objective behind the rules being principles-based is that we have historically taken the position that suppliers should be flexible in meeting the needs of their customers in vulnerable situations on a case-by-case basis. The objective behind this is to avoid suppliers taking a tick-box approach to assessing whether a PPM is safe and reasonably practicable and instead understand the needs and circumstances of each customer to provide them with the best service and consumer outcomes.

Force-fitting PPM under warrant – SLC28B [73] [74] [75] [76]

2A.26. In 2017 we introduced rules pertaining to the installation of PPMs under warrant. We extended these protections in 2020 up to 2025 to tie in with the completion of the smart meter rollout due to warrants not being required when suppliers can remotely switch smart meters from credit to prepay mode.

2A.27. Suppliers should not install a PPM under warrant for the purpose of recovering debt where the process would be severely traumatic due to a customer's mental capacity or psychological state. The policy objective behind this licence requirement is to protect these customers from having these traumatic experiences. It also aims to encourage suppliers to identify vulnerable customers during the warrant application and execution process and to direct suppliers to pursue other, more suitable debt recovery methods.

2A.28. Suppliers should not levy charges associated with the installation of a PPM under warrant where either the consumer's vulnerability has significantly impaired their engagement with the supplier during the debt recovery process or where the charges would exacerbate a consumer's existing financial vulnerability by requiring them to pay additional warrant-related charges. The policy objective is to ensure customers who were impaired from engaging with their supplier during the debt recovery process due to a vulnerability are not unfairly charged; and that customers who are already in severe financial difficulty will not have this situation exacerbated. We want to encourage suppliers to identify

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[73] Ofgem, 2016: [Prepayment meters installed under warrant: final proposals | Ofgem]

[74] Ofgem, 2017: [Prepayment meters installed under warrant: statutory consultation | Ofgem]

[75] Ofgem, 2017: [Decision to modify gas and electricity supply licences for installation of prepayment meters under warrant | Ofgem]

[76] Ofgem, 2020: [Extending protections on prepayment meters installed under warrant: decision | Ofgem]

customers in severe financial difficulty utilising various proxies as well as information from third parties. As above, it also aims to encourage suppliers to pursue other, less distressing debt recovery methods.

2A.29. The amount that suppliers can levy for warrant-related costs in all other cases where a warrant is used to force-fit a PPM is capped at £150. The cap is set below the level of the indicative cost of warrant application and execution. The policy objective is to incentivise suppliers to use alternative debt recovery methods and to only use warrants as a last resort. It also aims to encourage greater engagement with indebted consumers by suppliers because they will only be able to recover some warrant-related costs if they pursue this debt recovery option. Additionally, this policy aims to ensure all customers are protected from facing disproportionate costs where a warrant is used and will be clear on the maximum amount they may be charged if a warrant is used.

Smart metering – SLC35; 23.8A(f)

2A.30. When installing a smart meter there are rules to ensure that customers have a good experience. During the process suppliers must identify and meet the needs of specific groups such as customers in vulnerable situations.

2A.31. Under the New and Replacement Obligation, suppliers are required to take all reasonable steps to install a smart meter for all new connections or replacement meters.[77]

2A.32. If remote switching a smart meter from credit to prepay mode, suppliers must provide a 7 working day notice period in line with SLC 31I. Suppliers are also still required to assess whether a PPM is safe and reasonably practicable.

2A.33. When installing a smart meter there are rules to ensure that customers have a good experience. During the process suppliers must identify and meet the needs of specific groups such as customers in vulnerable situations.

Post Installation Support

Repayments monitoring - SLC27.8A(f) – (g)

[77] Smart Meter Rollout: Open letter on Energy Suppliers' Delivery of the Rollout and Regulatory Obligations (ofgem.gov.uk)

2A.34. After moving a customer to PPM, suppliers should monitor whether the meter is being used initially and then on an ongoing basis. Additionally, suppliers have an ongoing duty to monitor customers' accounts to determine if the repayment amount set on the PPM is manageable for the customer. For example, whether there has been an uncharacteristic fall in usage or low vend amounts. When a failed repayment rate is identified, suppliers should reach out to the customers to discuss the repayment plan, offering a different plan or different repayment method that would be more suitable for the customer. The policy objective behind these licence requirements is to ensure customers on unmanageable rates/unsuitable repayment methods are identified early and moved into plans and repayment methods that meet their personal circumstances, thereby reducing the chances of debt becoming unmanageable and self-rationing or self-disconnecting.

Self-disconnection monitoring & support– Safe and Reasonably Practicable PPM Guidance 2016, SLC27A.1

2A.35. Suppliers should be taking all reasonable steps to identify on an ongoing and continuous basis if a PPM customer is self-disconnecting. We expect suppliers to use all available information to identify customers, directly engage with customers as well as proactively monitor PPM accounts. If suppliers identify that a customer is self-disconnecting, they are expected to make multiple attempts to contact the customer by various means and at different times of the day, to understand the reasons for the disconnection.[78] Suppliers should also offer the customers appropriate support, considering whether the customer is in a vulnerable situation. The policy objective behind these licence requirements is to reduce the number of self-disconnections and self-rationing happening each year as well as the level of detriment caused to customers, particularly those in vulnerable circumstances.[79] [80] [81] By quickly identifying and proactively contacting customers at risk of self-disconnection suppliers can offer support needed.

PPM financial support (Emergency, Friendly Hours Credit and Additional Support Credit) – SLC27A.2 – SLC27A.8

[78] Ofgem, 2016: Authority's decision to Modify the Safe and Reasonably Practicable Guidance, pursuant to Standard Licence Condition 28.1B of the Electricity Supply Licence and the Gas Supply Licence (ofgem.gov.uk)
[79] Ofgem, 2019: Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing | Ofgem
[80] Ofgem, 2020: Self-disconnection and self-rationing final proposals – statutory consultation | Ofgem
[81] Ofgem, 2020: Self-disconnection and self-rationing: decision | Ofgem

2A.36. Suppliers should provide all PPM customers with emergency credit and friendly hours credit (or equivalent). These aim to provide consumers who self-disconnect for a short period of time the ability to stay on supply until they next top-up. Moreover, if a customer who is in a vulnerable situation is self-disconnected/self-rationing, the supplier must provide timely Additional Support Credit. The latter is another important short-term method to get customers back on supply, but it is tailored for vulnerable customers, who might need extra support. If the customer who has been provided any of these credits is in payment difficulties/there is a suspicion that this is the case, suppliers should consider the customer's ability to pay when calculating instalments to repay. Suppliers must also provide information to customers to enable them to understand these provisions. The policy objective behind these licence requirements is to ensure customers who are self-disconnecting and/or self-rationing as a result of a short-term situation are able to quickly get back on supply to limit any physical and/or emotional impacts.[82] [83] [84] We do not prescribe the credit amounts to be provided as suppliers are best placed to assess this.

Altering or replacing a PPM – SLC28.1A

2A.37. Where suppliers become aware or have reasons to suspect that a PPM is no longer safe and reasonably practicable for a customer, suppliers should offer to change the position of the PPM, put in place other arrangements that would make the PPM safe and reasonably practicable for the customer or offer a different payment method. By requiring suppliers to ensure customers are on PPM only when it is safe and reasonably practicable, the ultimate aim of this policy is to ensure debts are recovered by suppliers through arrangements that are affordable, sustainable and that meet customers' personal circumstances and avoid disconnection. We do not prescribe exactly what arrangements suppliers might be put in place to make PPM safe and reasonably practicable for the customer, as customers' circumstances and needs vary.

[82] Ofgem, 2019: Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing | Ofgem
[83] Ofgem, 2020: Self-disconnection and self-rationing final proposals – statutory consultation | Ofgem
[84] Ofgem, 2020: Self-disconnection and self-rationing: decision | Ofgem

Appendix 3 – SLC modifications

We have included the SLC 26.7, 27.8C, 27A, 28 and 28B below and the changes we propose to make. Deletions are shown in ~~strikethrough~~ and new text is double underlined.

Definitions for condition

26.7 In this condition:

"Minimum Details" means the Domestic Customer's name, details of any relevant Personal Characteristics and/or vulnerable situation, and such other details which are relevant to the subject matter of standard condition 26 as the Authority may from time to time specify by publishing a statement in Writing (following public consultation and giving at least two months' prior notice).

"Personal Characteristics" means:

(a) the Domestic Customer being of Pensionable Age;

(b) the Domestic Customer being chronically sick, or having an impairment, disability, or long term medical condition (including but not limited to a visual, auditory or mobility impairment);

(c) any other characteristics identified by the licensee as being relevant due to the nature of the Priority Services.

"Priority Services" is to be interpreted in accordance with paragraph 26.5.

"Relevant Industry Mechanisms" means arrangements for the purposes of sharing the Minimum Details with specified persons as:

(a) set out in the Retail Energy Code, or

(b) designated by the Authority by publishing a statement in Writing (following public consultation and giving at least two months' prior notice).

"Safe and Reasonably Practicable in all the Circumstances of the Case" is to be interpreted in accordance with ~~paragraph 28.1B of standard condition 28~~ SLC 28.4.

27.8C The licensee must ensure that the terms and conditions of each Domestic Supply Contract or a Deemed Contract reflect the following provisions of the standard conditions:

(a) paragraphs 5 to 8 (inclusive) of standard condition 27 and ~~paragraphs 5 and 6 of standard condition 28B~~ SLC28.15 and SLC 28.16, stipulating that charges may not be demanded or recovered and until it can be established that the corresponding contractual terms have been complied with; and

(b) paragraphs 17 and 18 of standard condition 27.

Provision of Involuntary Prepayment Meter Credit

27A.7A On each occasion the licensee installs an Involuntary Prepayment Meter in accordance with SLC 28.7, the licensee must ensure that each Domestic Customer receives Involuntary Prepayment Meter Credit, unless it is technically infeasible and/or outside of the control of the licensee to offer those credit facilities to that Domestic Customer.

27A.7B -Where paragraph 27A.7A applies, the licensee must adhere to SLC 27.8 when calculating instalments for the Domestic Customer to repay the total amount of Involuntary Prepayment Meter Credit.

27A.7C In the event it is technically infeasible to apply the Involuntary Prepayment Meter Credit in paragraph 27A.7A, the licensee must take all reasonable steps to ensure that the Domestic Customer does not experience an interruption to their Electricity Supply.

Provision of Information

27A.8 The licensee must ensure that each Domestic Customer who uses a Prepayment Meter is given adequate information in a ~~F~~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 and Involuntary Prepayment Meter Credit facilities (as appropriate) including what this is, when this can be used and how this is repaid by the Domestic Customer.

Definitions for condition

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 electricity supply or return on supply.

"Emergency Credit" means a fixed amount of credit provided to a Domestic Customer when that Domestic Customer's Prepayment Meter credit runs low or runs out to ensure continuity of electricity supply or return on supply.

"Friendly-hours Credit" means an amount of credit provided overnight, at weekends and public holidays to a Domestic Customer when that Domestic Customer's Prepayment

Meter credit runs low or runs out to ensure continuity of electricity supply or return on supply.

"Involuntary Prepayment Meter Credit" means an amount of credit to be specified in guidance to be provided automatically upon installation of an Involuntary Prepayment Meter in accordance with SLC 28.7

"Self-disconnection" means when a Domestic Customer uses a Prepayment Meter and experiences an interruption to their electricity supply because the credit on the meter has been exhausted. Terms derived from this, such as 'Self-Disconnected' and 'Self-Disconnecting' shall be construed accordingly.

"Self-rationing" means when a Domestic Customer deliberately limits its electricity use to save money for other goods or services. Terms derived from this, such as 'Self-Ration' and 'Self-Rationed' shall be construed accordingly.

Information about Prepayment Meters

28.1 If the licensee offers to enable a Domestic Customer to pay or a Domestic Customer asks to pay Charges through a Prepayment Meter, the licensee must provide, prior to or upon the installation of that meter, appropriate information to that customer about:

(a) the advantages and disadvantages of a Prepayment Meter;

(aa) information relating to the operation of the Prepayment Meter, including information about the process for, and methods by which, the Domestic Customer can pay in advance through the Prepayment Meter;

(b) where ~~he~~ they may obtain information or assistance if:

(i) the Prepayment Meter is not operating effectively; or

(ii) any device used to allow the Charges to be paid through the Prepayment Meter is not operating effectively;

(bb) the licensee's Emergency Credit, Friendly-hours Credit, ~~and~~ Additional Support Credit and Involuntary Prepayment Meter Credit facilities as defined in SLC 27A including what this is and when this can be used by the Domestic Customer; and

(c) the procedures that the licensee will follow when removing or resetting the Prepayment Meter, including the timescale and any conditions for removing or resetting it.

Safety and reasonable practicability of Prepayment Meters

~~28.1A~~ 28.2 Where a Domestic Customer requests, is offered or uses a Prepayment Meter, or a licensee installs an Involuntary Prepayment Meter and the licensee becomes aware or has reason to believe that it is ~~no longer~~ not safe and reasonably practicable in all the circumstances of the case for the Domestic Customer to have a Prepayment Meter ~~do so~~, the licensee must offer:

(a) to alter the position of, or replace with one which has been specially adapted, the Prepayment Meter installed in the Domestic Premises, either in accordance with its obligations under Schedule 6 (Electricity Code) or otherwise, if it would make it safe and reasonably practicable in all the circumstances of the case, for the Domestic Customer to continue to use the Prepayment Meter;

(b) to make such other arrangements as are necessary to ensure that it would be safe and reasonably practicable in all the circumstances of the case, for the Domestic Customer to continue to use the Prepayment Meter; or

(c) a facility for the Domestic Customer to pay Charges through a means other than a Prepayment Meter, including, where ~~condition~~ SLC 27.5 applies, the services referred to in ~~condition~~ SLC 27.6(a)(i) and (ii).

28.3 In complying with SLC 28.2, the licensee must contact the Domestic Customer, in a form that takes into account their communication preferences, as a minimum, on an annual basis, to assess whether the Prepayment Meter remains safe and reasonably practicable in all the circumstances of the case.

Prepayment Meter guidance

~~28.1B~~ 28.4 The licensee must at all times have regard to the Prepayment Meter guidance, which includes the interpretation of “safe and reasonably practicable in all the circumstances of the case” which, following consultation, the Authority may issue, and may from time to time revise.

Resetting of Prepayment Meters

~~28.2~~ 28.5 Where a Domestic Customer pays Charges for the Supply of Electricity through a Prepayment Meter, the licensee must take all reasonable steps to ensure that the meter is reset within a reasonable period of time:

(a) after 1 August 2007, if any change has been made to Charges before that date and the meter has not been reset;

(b) after any change is made on or after that date to Charges for the Supply of Electricity; or

(c) if payments are being made by instalments using the meter:

(i) after any change is made to the amount due in instalments; or

(ii) after instalments are no longer required.

Provision of information

~~28.3~~ 28.6 The licensee must:

(a) prepare a statement that sets out, in plain and intelligible language, its obligations under SLC 28 ~~this condition and includes the information referred to in paragraph 28.1;~~

(b) publish that statement on and make it readily accessible from its Website (if it has one);

(c) take all reasonable steps to inform each of its Domestic Customers who pay Charges through a Prepayment Meter, at least once each year, of the statement and how to obtain it; and

(d) give a copy of the statement on request and free of charge to any person.

Condition ~~28B~~ 28.7 Involuntary PPMs, Warrants relating to PPMs and other supplier actions to recover debt

Involuntary Prepayment Meters

28.7 A licensee must not install an Involuntary Prepayment Meter unless, in accordance with the guidance issued under SLC 28.4, each of the following requirements are satisfied:

(a) the Debt Trigger has been met;

(b) the licensee has made multiple attempts to engage with a customer;

(c) the licensee has complied with its obligations to customers in payment difficulty (including but not limited to under SLCs 27, 27A and 28);

(d) a Site Welfare Visit has been carried out; and

(e) the licensee has determined that an Involuntary Prepayment Meter would be safe and reasonably practicable in all the circumstances of the case (including but not limited to the Precautionary Principle and having carried out checks of all information relating to the Priority Services Register).

28.8 The licensee must comply with any other obligations relating to Prepayment Meters (including but not limited to those in SLCs 27, 27A and 28 and set out in the guidance issued under SLC 28.4). In the event of any irreconcilable inconsistency between SLC 28.7 and any other SLC or any other provision made under them, SLC 28.7 shall prevail.

28.9 In relation to the installation of an Involuntary Prepayment Meter, the licensee:

(a) when considering the customer's ability to pay and conducting financial assessments, must accept any information relevant to the subject matter of paragraph 28.9;

(b) must accept information from and actions on behalf of a customer by any person or organisation legally entitled to act on their behalf;

(c) must not link any staff incentives to the number of installations;

(d) must ensure that Site Welfare Visits include the use of audio recording equipment or body cameras;

(e) must ensure that post installation aftercare support is provided;

(f) must retain any assessment documentation and audio or body camera recordings for an appropriate period; and

must have regard to the guidance issued under paragraph 28.4.

Prohibitions on exercising a warrant and recovering costs

~~28B.1~~ 28.10 The licensee must not exercise a Relevant Warrant (or otherwise exercise a statutory power which would give rise to the grounds for obtaining a Relevant Warrant) in respect of a Domestic Customer's premises where such action would be severely traumatic to that Domestic Customer or any member of their household due to an existing vulnerability which relates to their mental capacity and/or psychological state and would be made significantly worse by the experience.

~~28B.2~~ 28.11 The licensee must not charge a Domestic Customer in respect of any costs associated with a Relevant Warrant where:

1. that Domestic Customer has a vulnerability which has significantly impaired their ability to engage with the licensee or a Representative in relation to the recovery of a Relevant Payment; or

2. that Domestic Customer has a severe financial vulnerability which would be made worse by charging them any costs associated with a Relevant Warrant.

Cap on warrant costs

~~28B.3~~ 28.12 Subject to paragraph ~~28B.3A~~ 28.13 where the licensee or any Affiliated Licensee obtains and/or exercises one or more Relevant Warrants in respect of particular Domestic Premises of a particular Domestic Customer, the total amount of charges they recover (or seek to recover) at any time from the same Domestic Customer in relation to any costs associated with those Relevant Warrants and incurred within the Specified Period, must not exceed the Specified Amount (and, for the avoidance of doubt, no additional costs that were incurred within the Specified Period may be recovered during any other period of time).

~~28B.3A~~ 28.13 Where the licensee or any Affiliated Licensee obtains and/or exercises one or more Relevant Warrants in respect of more than one Domestic Premises of the same Domestic Customer, paragraph ~~28B.3~~ 28.12 applies separately to each of those Domestic Premises.

Proportionality principle for debt recovery activities

~~28B.4~~ 28.14 The licensee must only exercise a Relevant Warrant where such action would be proportionate in the context of the amount of the Outstanding Charges.

~~28B.5~~ 28.15 In relation to the recovery of Outstanding Charges, Other Outstanding Charges or any other debt ('the charges') from a Domestic Customer, the licensee must ensure that:

1. any action it or a Representative takes (including, but not limited to, the exercise of statutory powers); and
2. the costs which they seek to recover from that Domestic Customer as a result,

are proportionate in the context of the amount of the charges and the customer's ability to pay (as assessed in accordance with SLC 27.5), having regard to the guidance issued under SLC 28.4.

~~28B.6~~ 28.16 Paragraph ~~28B.5~~ 28.15 does not apply in relation to a Transfer Objection.

Debt completion assessment

28.17 The licensee must ensure that once a customer using an Involuntary Prepayment Meter has repaid all debt owed, the customer is contacted and offered:

(a) an assessment of whether a Prepayment Meter remains the most appropriate payment method (including but not limited to in accordance with SLC 28.2 and the guidance issued under SLC 28.4);
(b) appropriate information on alternative payment methods and tariffs; and
(c) the option to move to an alternative payment method.

28.18 If the customer decides, pursuant to paragraph 28.17 to move to an alternative payment method, the licensee must:

(a) agree to and implement this change as soon as reasonably practicable, subject to required credit checks; and

(b) ensure that any security deposit required as part of this process does not exceed a reasonable amount.

Duration of the restrictions

~~28B.7~~ 28.19 Paragraphs ~~28B.1 to 28B.4~~ 28.10 to 28.13 will cease to have effect on ~~31 December 2020~~ 30 June 2025 unless the Authority specifies a later date by publishing a statement in Writing.

~~28B.8~~ 28.20 The power to specify a later date in paragraph ~~28B.7~~ 28.19 may be exercised by the Authority on more than one occasion (before, on, or after the expiry of any later date specified by the Authority).

Definitions for condition

~~28B.10~~ 28.21 For the purposes of this condition:

"**Involuntary Prepayment Meter**" means:

(a) a Prepayment Meter installed by execution of a Relevant Warrant in respect of a Domestic Customer; or

(b) a Smart Metering System switched to a mode which requires a Domestic Customer to pay Charges for the Supply of Electricity in advance when there are Outstanding Charges and the customer has failed to comply with other payment methods in paragraph 27.6(a) (i) and (ii), notice has been given under paragraph 23.8B, and the Domestic Customer has not given explicit Consent for the switch to Prepayment mode;

and references to the installation or removal of an Involuntary Prepayment Meter include the switching of any Electricity Meter to or from such a mode.

28.22 Each of the following has the meaning given in guidance issued under SLC 28.4:

"Consent"

"**Debt Trigger"**

"**Precautionary Principle**"

"**Site Welfare Visit**"

"Relevant Warrant" means:

(a) a warrant pursuant to paragraph 23(2)(c) of Schedule 2B to the Gas Act 1986 for the purposes of paragraph 7(3)(a) of Schedule 2B to the Gas Act 1986;

(b) a warrant pursuant to paragraph 7(4) of Schedule 6 to the Electricity Act 1989; and

(c) any other type of warrant specified or described by the Authority by publishing a statement in writing (or by issuing a direction to the licensee), following consultation.

"Specified Amount" means £150 or such higher amount as may be designated by the Authority from time to time by publishing a statement in Writing or as set out in any guidance issued by the Authority and which the Authority may revise from time to time.

"Specified Period" means twelve months or such other (shorter or longer) period which may be specified by the Authority by publishing a statement in writing (or by issuing a direction to the licensee), following consultation.

"Transfer Objection" means to prevent a Proposed Supplier Transfer on grounds permitted by SLC14.

"Relevant Payment" has the meaning given in paragraph 7(1A) of Schedule 2B to the Gas Act 1986 and paragraph 2(1A) of Schedule 6 to the Electricity Act 1989.

Appendix 4 – Safe and reasonably practicable guidance

Prepayment Meter (PPM) Guidance (Safe and Reasonably Practicable)

This document contains guidance for prepayment meters and the interpretation of Safe and Reasonably Practicable for the purposes of Standard Licence Condition 28 of the Gas Supply Licence and the Electricity Supply Licence. It supersedes the 2016 guidance on safe and reasonably practicable.[85]

1. Overview - Prepayment only where safe and reasonably practicable

1.1. This guidance applies where:

a) the Domestic Customer requests or a supplier offers a Prepayment Meter (PPM) to a Domestic Customer or is considering installing an Involuntary PPM

b) the supplier becomes aware that it is no longer safe and reasonably practicable for the customer to use a PPM.

1.2. As well as having regard to this guidance, suppliers should comply with other obligations under their licences and in other legislation and guidance. For example, suppliers need to ensure that communications materials are appropriate to the needs of customers, referring where applicable to relevant legislation such as the Equality Act 2010. Suppliers should behave and carry out any actions in a fair, honest, transparent, appropriate and professional manner when considering a customer's ability to pay by complying with 'Customers in payment difficulty' SLCs 27.5-27.8E and self-disconnection SLC 27A and any other relevant licence conditions or guidance.

1.3. This guidance is not intended to be exhaustive and it is ultimately for suppliers to determine the steps they need to take to meet their supply licence conditions. However, for instances of Involuntary PPM, suppliers should have regard to the steps listed and in conjunction with their licence obligations in SLC28. These steps provide important protections, particularly for vulnerable consumers. Ofgem will take compliance with these very seriously and is likely to consider enforcement action to be a proportionate response to a single case of breach.

1.4. This guidance is structured as follows:

- Assessment of Safe and reasonably practicable when installing PPM;
- Assessment for installation of Involuntary PPM;

[85] Ofgem, 2016: Open letter: Authority's decision to Modify the Safe and Reasonably Practicable Guidance | Ofgem

- Identification of customers' circumstances;
- Identification process for Involuntary PPM;
- Ability to Pay;
- Smart Meters;
- Information provision for Involuntary PPM;
- Post installation of a PPM;
- Post Installation of Involuntary PPM and Aftercare; and
- Internal processes (After Involuntary PPM).

2. Assessment of safe and reasonably practicable when installing PPM

2.1. Assessment of ~~W~~what is safe and reasonably practicable should be considered from the Domestic Customer's perspective.

2.2. Relevant factors are likely to include:

1. whether the customer is able to understand and operate the PPM and visit top-up points (where needed) to add more credit. (For example, whether the customer has a physical or mental disability that prevents them from being able to appropriately use a PPM).
2. whether the customer lives quite a distance from any top-up outlets (This would not apply if a customer does not want or need to top up by cash, and has actively asked to pay by alternative top-up methods). What constitutes 'quite a distance' is likely to vary depending on the customer's circumstances. For example, it may not be reasonably practicable to provide a PPM meter if a Domestic Customer needs to travel over two miles to top up the credit and does not have a car.
3. whether the customer requires a continuous supply for health reasons, such as dependency on medical equipment requiring an electricity supply.
4. whether the PPM is situated in a position (such as high on a wall) that means the customer could not operate the PPM.
5. whether the PPM would have to be situated outside or in a room to which the household does not have continuous access.
6. any advice/guidance received from the Health and Safety Executive (HSE).

2.3. Many of these circumstances may be addressed by technological innovations, particularly where a smart meter is installed, or some other form of initiative. Technical innovations addressing the issue of what is safe and reasonably practicable should only be adopted where suppliers are confident that the solution will enable them to provide a supply to the customer at all times. It is also possible that adults, other than the customer living in the premises, may be in a position to understand and operate the PPM.

3. Assessment for installation of Involuntary PPM

3.1. Involuntary PPM means where a supplier wants to install a PPM without a customer's Consent.

3.2. **Consent:** Suppliers must consider consent to be unmistakably stated by the customer, whilst Involuntary PPM is under active consideration by the supplier, rather than implied or retained in terms and conditions. It may be given in writing, or verbally and suppliers must not exert undue pressure on the customer to provide consent. Suppliers must record the date and method used to gain consent.

3.3. In all cases of Involuntary PPM, suppliers must be sure of the validity of the debt amount and liability of any customer. Any alternative actions taken to recover debt in instances where a PPM is not suitable for the household should be fair, reasonable and appropriate for the customer's circumstances and level of debt owed. Where it is not possible to be sure of the validity, liability and proportionality, suppliers must be able to demonstrate they have made every effort to attempt assessment.

3.4. In all cases of Involuntary PPM, suppliers must not install a PPM where a customer falls into any of the 'do not install' categories below. They must also carry out additional checks for customers in the 'further assessment needed' category including the Precautionary Principle.

3.5. Since the process of exercising a warrant may be severely traumatic for vulnerable consumers, suppliers should make every effort to identify such high-risk customers before applying for and seeking to exercise warrants.

3.6. The personal circumstances and characteristics listed are examples, which have been determined using a number of sources and have been included where risk of detriment when subjected to Involuntary PPM are considered highest. They are not absolute or exhaustive.[86]

3.7. In all cases, suppliers must seek to identify vulnerable customers and take into account their situation and that of their household.

[86] Including: Find guidance | NICE; Guidance and regulation - GOV.UK (www.gov.uk) ; Warm Home Prescription - Energy Systems Catapult ; Cold weather plan for England - GOV.UK (www.gov.uk)

Do not Install

3.8. Suppliers must not install a PPM if, within the household, there is no one able to access, operate and/or top up the meter due to physical or mental incapacity or for technical reasons and/or have any of the below personal circumstances and characteristics. These fall under 'Do not install' (DNI) category:

- Household requires a continuous supply for health reasons, including:
    - Dependency on any powered medical equipment (such as heart/lung ventilators, dialysis equipment, stair lift, hoist or refrigerated medication);
    - dependency on carelines or health and wellbeing alarms;
    - a medical dependency on a warm home; (for example due to illness such as emphysema, chronic bronchitis, sickle cell disease).
- Households with a very elderly occupant (85+), without support in the house;
- Households with chronic/severe or terminal health conditions (such as cancer, cardiovascular/respiratory disease and organ failure).

Further assessment needed

3.9. Suppliers must give due consideration to the below personal circumstances and characteristics, alongside the Precautionary Principle, in making their assessment of safe and reasonably practicable. These circumstances and characteristics fall under 'further assessment needed' (FAN) category:

- Age: Children under 5/Elderly 75+;
- Other serious medical/Health Conditions (such as neurological diseases (Parkinson's, Huntingdon's, Cerebral Palsy) respiratory conditions (COPD) and mobility limiting conditions (Osteoporosis, Muscular Dystrophy, Multiple Sclerosis));
- Serious mental/developmental health conditions (such as clinical depression, Alzheimer's, dementia, learning difficulties, Schizophrenia); and
- Temporary situations (such as pregnancy, bereavement).

3.10. Suppliers must also ensure they have performed additional checks to satisfy themselves that PPM installation is safe and reasonably practicable for any household with adults over 65 and/or children under 16.

3.11. Where a supplier becomes aware or has reason to believe that a customer/household has a personal circumstance or characteristic, such as those demonstrated in the FAN examples, that could be exacerbated by frequent or prolonged periods of self-disconnection, the supplier must ensure that the severity and level of potential detriment of an Involuntary PPM is assessed, taking into account specific metering arrangements and after care support that can be provided.

3.12. **Precautionary Principle**: Suppliers must assume that any customer faced with Involuntary PPM for debt is likely to be in financial difficulty and therefore more likely to self-disconnect.

3.13. Suppliers must therefore assess the ability to pay of any household they know or have reasonable cause to believe has a personal circumstance or characteristic that falls under the requirement for FAN, to understand if the customer will be unable to afford their ongoing energy needs. If a supplier concludes (taking into account meter type, aftercare support and reasonable energy saving assumptions) that the household will, frequently or for prolonged periods self-disconnect and risk causing significant consumer harm, then the supplier must consider PPM to be not safe and reasonably practicable.

3.14. In circumstances where suppliers have attempted contact via multiple channels and conducted a Site Welfare Visit but have been unable to establish with certainty the level of detriment in association with FAN characteristics and/or financial assessments, suppliers should apply their own discretion on progression to Involuntary PPM, noting that any move to PPM may need to be reversed if vulnerabilities are subsequently discovered in the household.

4. Identification of customers' circumstances

4.1. The sort of proactive steps that we would generally expect suppliers to consider in order to identify whether it is safe and reasonably practicable in all the circumstances of the case where a customer requests, a supplier offers and/or customer uses a PPM ~~to a customer~~ include:

- recording the location of the meter when installed or inspected;
- reviewing appropriate notes on the customer's accounts to ascertain whether any vulnerability which would mean it was not safe and reasonably practicable for the customer to have a PPM is recorded;
- making multiple attempts to contact the customer by various means and at various times of day to discuss the option of paying through a PPM;
- where a discussion with the customer had not been possible or, if following discussion, there was still uncertainty about whether it would be safe and reasonably practicable for the customer to pay through a PPM, the supplier should take reasonable steps to visit the customer at their premises, which could include making visits at various times of day;

- checking whether there has been a change of occupancy;
- attempting to check with any appropriate advice or other agency such as local authority or housing association; and
- obtaining authorisation of an appropriate seniority prior to moving a customer to a PPM.

5. Identification process for Involuntary PPM

5.1. **Debt trigger:** A supplier must not begin any process to install an Involuntary PPM for Charges which have not been outstanding for three months or more after the bill has been issued, or Outstanding Charges are not more than £200 per fuel and the customer is on, or is transitioning, to a repayment plan.

Involuntary PPM communications and Site Welfare Visits

5.2. To understand a customer's individual circumstances and offer support in the three months preceding any execution of an Involuntary PPM. A supplier must achieve this by:

- Making at least 10 attempts to engage with a customer using multiple communication channels, where relevant at various times of day.
- Make translation services and accessible formats (eg braille, large print, easy read) available as required.
- Multiple communication channels may include: written (email and/or letter), phone (where a number is available), and Site Welfare Visits.
- A Site Welfare Visit is required at least once in all instances before progression to Involuntary PPM. **Site Welfare Visit**: Visit to customers' premises by appropriately trained staff or representatives to attempt to make contact with the customer to further assess personal circumstances and characteristics to identify any vulnerabilities that may be present in the household to determine if PPM is safe and reasonably practicable.

5.3. All communications from a supplier to a customer must be written in a manner which is consistent with good practice on debt communications and supporting customers who are in payment difficulty, and must also encourage engagement with the supplier in all cases.[87] [88]

5.4. Suppliers must accept information on potential vulnerabilities and a customer's ability to pay from a third party, where offered to the supplier. For example, this may be from the customer's representative (either by the explicit consent from the customer or in the form of a registered and relevant power of attorney) or from

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[87] Debt communications messaging: Evidence from customer and behavioural insights | Ofgem

[88] Good practice for supporting customers in payment difficulty | Ofgem

support organisations such as Citizens Advice, Advice Direct Scotland and other customer support and debt advice organisations.

5.5. If no contact is made with the customer during the Site Welfare Visit, and all engagement attempts have been exhausted, the supplier may:

(a) proceed with obtaining a Relevant Warrant; or

(b) proceed with remote mode switch

5.6. However, the supplier must:

(a) Make reasonable attempts to assess any potential vulnerabilities without customer engagement, seeking support from Welfare Officer in Edge Cases if not present; and

(b) Provide further written communication that the visit had been attempted and next steps (eg if Involuntary PPM will be progressed following this attempt).

5.7. Suppliers are required to maintain records of each attempted contact with the customer, and ensure that any personal circumstances and characteristics are recorded appropriately, stored and easily available including on the Priority Services Register.

5.8. Where only a postal address is held for a customer, the full 10 attempts may not be undertaken to avoid harassing the customer, but a supplier must be able to evidence to the Gas and Electricity Markets Authority (the Authority) any attempts to access additional contact details, including email address and telephone number.

Site welfare visit, independent assessment and installation teams

5.9. A supplier is fully responsible for the actions and behaviour of all staff, including any third-party contractors or other representatives, and is required to ensure all staff and any third-party contractors or other representatives are appropriately trained, including in health and safety for their own protection.

5.10. The Authority encourages suppliers to seek external accreditation, such as the British Standards Institute (BSI) and for debt enforcement from the Enforcement Conduct Board (ECB).

5.11. Where a supplier has determined a case may proceed with Involuntary PPM in accordance with this guidance and any Licence Conditions, suppliers must ensure each case progressed for installation has been assessed by a team or individual which is independent of the debt recovery and installation teams.

5.12. Supplier must ensure a Welfare Officer or other senior decision maker able to determine Edge Case decisions must be present or contactable for decision on site welfare and installation visits to check for any personal circumstances or characteristics that might make the PPM not safe and reasonably practicable

5.13. Suppliers must ensure that all assessments are retained for audit, and their basis for assessment be clear and unambiguous.

5.14. Welfare Officer: A person(s) within supplier organisation with responsibility for overseeing the safeguarding of consumer protection in cases of Involuntary PPM. This may be a senior member of staff related to independent team assessments and must be attested to be fit and proper person(s) capable of making Edge Case decisions.

5.15. Edge Case: Where a supplier considers that the customer's circumstances are on the boundary of safe and reasonably practicable and risk assessment is either not possible or inconclusive.

6. Ability to Pay

6.1. When considering progression to Involuntary PPM, suppliers must consider the cheapest payment option for the customer and attempt to offer this alongside energy savings advice and an affordable, sustainable repayment plan prior to progression to Involuntary PPM.

6.2. Where a customer agrees, and adheres to, a debt repayment plan the supplier must accept this and should not threaten Involuntary PPM to try and secure higher payment than is affordable.

6.3. Where a supplier progresses with Involuntary PPM, they must take all reasonable steps to ensure that any debt repayments recovered via the PPM take into consideration the customer's ability to pay. Where any financial assessment concludes that the customer will be able to afford to pay for ongoing energy needs but not debt repayments, suppliers must consider alternative approaches to recovering the debt such as delaying repayment start (seasonality or change in financial circumstances).

6.4. Suppliers must ensure that any alternative actions taken to recover debt (including bailiffs, CCJs) in instances where a PPM is not suitable for the household remain fair, reasonable and proportionate for the customer's circumstances and level of debt owed.

7. Smart Meters

7.1. Given the significant benefits to PPM customers, suppliers should install smart meters by default when installing under warrant.

7.2. Suppliers must ensure they adhere to Smart Metering obligations in relation to installation of smart meters under warrant, and any other relevant codes or guidance.

7.3. The reason for installing any non-smart PPM meters should be recorded and retained for audit.

7.4. Smart meters allow alternative ways of topping up for prepayment customers that do not require a visit to a top-up outlet. Customers can actively ask for alternative top-up methods so as not to require cash as a payment option. We expect suppliers to ensure that consumers are able to make their choice based on relevant information, including on advantages or disadvantages associated with such a request. We also expect suppliers to give due consideration to a range of factors when applying the safe and reasonably practicable test to a consumer's request to pay by non-cash top-up methods only. These factors may include:

- Whether the customer has access to a bank account and whether such access is needed to make use of alternative top-up methods
- The reliability with which the customer can access alternative top-up methods, including the extent to which reliable access to their top-up device is not under threat from their inability to pay. For example, a customer who intends to pay by their mobile phone will be reliant on having reliable access to this service, and needs to be able to afford any charges associated with accessing the top-up service; or a customer who pays online via a desktop may be dependent on having continued access to electricity.
- Whether the customer seems to need more than one alternative, non-cash way of topping up to ensure they are able to do so.

7.5. An example where it may be considered safe and reasonably practicable to switch the customer to prepayment mode even if the meter is inaccessible to the customer would be if the In Home Display unit or some additional device is accessible and allows all the necessary features of a PPM to be easily accessed by the customer, including the ability to re-enable supply.

7.6. Suppliers should also consider their obligation not to disconnect unless they have first taken all reasonable steps to recover charges through a PPM. Given this requirement, in some circumstances it may be reasonable for measures to be taken which ensure it is safe and reasonably practicable for the customer to use the PPM where the alternative is disconnection.

7.7. What is safe and reasonably practicable can also be considered from the supplier's perspective. However, there are likely to be limited circumstances where we considered it was not safe and reasonably practicable from the supplier's perspective, particularly where the alternative for the customer is disconnection. An example of such a circumstance may be where the customer has had a history of theft of gas or electricity or meter tampering.

8. Information provision for Involuntary PPM

8.1. Suppliers must provide clear supporting information, and top-up provision for any Involuntary PPM. This should include:

- Provision of any required information, such as how to use the PPM, what to do in the event of self-disconnection and materials needed to top-up. ie the customer must be offered help to install and start to use a smart phone app where applicable, or provided with information on how to use top up cards/keys. The supplier must use translation services and make accessible formats available as required.
- Access to appropriately trained, priority customer service team, through an easy access route.
- Links to any relevant information on supplier website.

9. Post installation of a PPM

9.1. The sort of proactive steps that we would generally expect suppliers to follow after putting a customer on a PPM in order to ensure it is safe and reasonably practicable for the customer include:

- where technically feasible, monitoring whether the customer is self-disconnecting.
- where it is identified that the customer is self-disconnecting, making multiple attempts to contact the customer by various means and at various times of day to understand the reasons for this.

9.2. Where it becomes apparent that the reason for self-disconnection is that it is not safe and reasonably practicable for the customer to use a PPM, then the supplier should make alternative arrangements.

10. Post Installation of Involuntary PPM and Aftercare

10.1. **Involuntary PPM Credit**: On each occasion a supplier installs an Involuntary PPM, a supplier must provide the Domestic Customer with a repayable £30 credit per meter (or equivalent non-disconnection period). This Involuntary PPM Credit will help remove the risk of the Domestic Customer going off supply due to any issues or challenges using the newly installed PPM.

10.2. Following an Involuntary PPM, the supplier must seek to speak to the consumer. In attempting to make contact the supplier must make at least three attempts via multiple channels (where possible) to contact the customer in the first fortnight. This must include:

- Initial attempt within the first three days

- Checks on customer understanding, technical and physical ability to top up and use the meter and for smart, checks on understanding of how to top up via their PPM Interface Device (PPMID) or smart phone app.
- Where a consumer relies on PPMID for top up, the supplier must make sure to offer a replacement or to repair if the PPMID breaks
- Confirmation that the customer has been provided with information on support that is available (including suitable third-party support).

10.3. In the event that attempts at contact have been unsuccessful, suppliers should ensure that that written communication containing the information has been provided.

10.4. The supplier must monitor top-up and disconnection patterns. When self-disconnection occurs, in line with existing SLCs and guidance, suppliers must make multiple attempts to contact the customer using various contact channels to understand the reasons for self-disconnection and offer appropriate support including sufficient Additional Support Credit (ASC) amounts and frequencies.

10.5. If frequent or prolonged periods of self-disconnection are identified and the customer is considered reliant on ASC to remain on supply (exceeding supplier policies of number of or frequency of ASC), suppliers must assess whether PPM remains S&RP in line with this guidance.

10.6. Where a supplier proceeds with Involuntary PPM in a way that does not comply with guidance and the licence conditions, the supplier will offer to remove the PPM / switch a smart meter back to non-PPM mode and offer compensation reflective of any detriment suffered.

11. Internal processes (After Involuntary PPM

11.1. All assessment documentation and audio/body camera recordings are to be retained for a minimum of five years.

11.2. Retention period is to ensure evidence of practices if subject to investigative action and aligned with Electricity Act 1989 and Gas Act 1986 for penalty contravention time-period and requirement for production of documents.[89] This also allows customer confidence that complaints can be adequately assessed.

11.3. Documentation to include, but not limited to:

- PSR checks completed;

[89] Penalty contravention time period EA1989: S27C and GA1986 S30C; Production of documents EA1989 S28(2) and GA1986 S38

- Copies of all written contact;
- Summary of all verbal contact; and
- Copies of any relevant recordings.

11.4. Suppliers must conduct monthly Quality Assurance of a sample of Involuntary PPM cases.

11.5. This must include additional proactive assessment of all identified erroneous or non-compliant Involuntary PPM.

11.6. Suppliers must incorporate failings identified in QA assessments to drive continuous improvements in training and processes.

Appendix 5– Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

Your personal information is never shared with anyone outside of Ofgem. However, we may publish your response to our consultation on our website. If your response includes personal information we will publish your response as is, unless you tell us you wish to have any names on the document redacted.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project has closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete

- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".