Ofgem
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13 August 2020

Ofgem ref: Self-Disconnection and self-rationing final proposal
E Ref: Reg.177

Submitted via email

For the attention of the CDconsultations@ofgem.gov.uk,

E (Gas and Electricity) Ltd is a medium sized challenger UK energy retailer focussing on serving prepayment customers through our UK based call centre. We are also an active member of Energy UK and have participated and fully support their submission paper for this consultation.

We welcome the opportunity to respond to this consultation and in addition to the Energy UK submission we would like to provide our recommendations regarding both the consultation proposals and address how Ofgem and BEIS can assist both vulnerable customers and the retail market by improving current policy framework to ensure any additional supplier support for vulnerable customers is not as a result of poor policy design.

We are disappointed that the proposals put all the emphasis on energy suppliers to offer additional financial support to vulnerable consumers and there are no considerations within the consultation or impact assessment on the impact of current government policies to understand and address the root cause of increased consumer fuel debt, especially with the impact on the economy of the fallout of Covid-19. It is our view that many of the proposals put forward in this consultation are as a result of failed existing policy frameworks and we would urge both Ofgem and BEIS to look to improve existing policy prior to the introduction of increased regulation on the energy industry.

For example, we expected to have seen within the impact assessment detail of the reason for increased fuel debt and specific reference to the impact of the roll out of Universal Credit (UC) in December 2018. Since the publication of this consultation there has been a damming report published by the Lords Select Committee[1] on 31 July 2020 called 'Universal Credit isn't working: proposals for reform', which calls on the Government to make substantial changes to UC in order to protect the most vulnerable. Citizen's Advice[2] has published its own findings based on the Lords Select Committee paper, and this states that "Citizens Advice supports the principles of Universal Credit to simplify the benefits system, ensure that work pays and reduce in-work poverty. However, our evidence shows that for many people, Universal Credit is not delivering these objectives." It goes on to state that "in 2019, we found that in the previous year, 55% of people claiming Universal Credit had gone without essentials such as heating, food and toiletries, compared to 37% on 'legacy' benefits".

Within the impact assessment it states the following based on results from a Citizen's Advice survey on self-disconnection that "21% of households surveyed self-disconnecting for affordability reason" and "88% of these

[1] https://www.parliament.uk/business/committees/committees-a-z/lords-select/economic-affairs-committee/news-parliament-2019/universal-credit-report-published/

[2] https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/Citizens%20Advice%20submission%20to%20Lords%20Economic%20Affairs%20Committee%20inquiry%20on%20UC.pdf

households contained a child or someone with long term health condition and 50% reported suffering from mental health issues". What is not clear from the impact assessment is how many of these households were impacted by the changes in administration of the benefits system, it is our view that if Universal Credit was working correctly this would reduce the need for additional regulation and cost on energy suppliers / consumers. It's also not clear from the impact assessment what impact these proposals will have on the 79% surveyed by Citizen's Advice who did not self-disconnect for affordability reasons, it's our view that these proposals could increase consumer complaints from those customers who have self-disconnected due to lifestyle or choice.

Other areas of government policy where there are calls for improvements in supporting vulnerable customers is the Warm Home Discount (WHD) policy. We would like to highlight a report published February 2020 by the National Energy Action[3] (NEA) called Keeping Britain Warm and Well. This calls for the extension and expansion of the WHD scheme and addresses some of the key failures with the policy design such as: -

- Not all suppliers have to offer it;
- It is poorly advertised which means many are unaware of its existence;
- The UK Government has not yet made the most of data-sharing powers which would help low income working households benefit from the scheme without needing to apply to their supplier each year; and
- Their applications (Broader Group applications) could be unsuccessful because there is only a finite amount of money available for the limited annual budget.

The report states that people on the lowest incomes pay more for their energy, and have named this 'Poverty Premium'. The report has identified three main ways to help address the above, they are: -

1. Reduce energy prices
2. Improve the efficiency of homes; and
3. Maximise people's income.

We recognise the positive steps taken by government intervention with the introduction of the Price Cap to reduce energy prices, but we believe that Ofgem and BEIS should be doing more to reduce energy policy costs, ensuring energy policy design is effective and removes below cost competition from the retail market. This should include maximising the benefits of data-sharing powers ensuring that all recipients of any WHD payments are for the most vulnerable in society, and increasing the allocation of the Industry Initiative element of WHD within the non-core obligation spend, which should also include the extension of debt write off to assist those customers who have built up substantial debts which include but are not limited to large energy debts.

We welcome the introduction of the Green Homes Grant (GHG) scheme as a means to improve the efficiency of homes, but would urge Ofgem and BEIS to closely monitor the impact of GHG on the existing Energy Company Obligation that suppliers are obligated to deliver.

The third point highlighted within the NEA's paper is regarding Maximise people's income. We do not feel that the proposals put forward in this consultation address this recommendation or the points we've raised above around poor policy frameworks. The measures outlined above would have a greater impact on reducing fuel poverty without adding additional debt on consumers and without increasing costs within the energy industry which could result in being paid for by through a Poverty Premium or the less engaged. We would ask that Ofgem ensures that any introduction of additional financial support is not a substitute for ineffective government policy design and existing policy is reviewed prior to the introduction of any additional governance requirements to mitigate the addition of legislation and costs on suppliers.

[3] https://fairbydesign.com/wp-content/uploads/2020/02/02_NEA_WHD_doc_v04_Front_8pgs_DOWNLOAD.pdf

1) A new requirement on suppliers to take all reasonable steps to identify all PPM customers who are self-disconnecting and offer appropriate support in line with existing and new obligations. We are proposing to place an obligation on suppliers to take all reasonable steps to identify all PPM customers who are self-disconnecting and provide appropriate support.

Since the publication of the consultation we conducted a small trial with customers on traditional prepayment meters who had not vended for 20, 30 and 40 calendar days. The purpose of this trial was to proactively make contact with a limited volume of customers reflective of our business as usual process to understand the reason for reduced spend and to avoid a potential self disconnection. We received a 5% response rate of disgruntled customers who advised that they top on an infrequent basis and were not pleased that we had made contact.

We would like to highlight our concerns with regards to both the requirement within the proposal to proactively contact customers and the additional operation impact this brings not reflecting the consumer benefit; and the requirement to monitor customers who remain on a traditional meter by utilising data that is not designed for this purpose and is often outdated by the time suppliers are in receipt of this data. All of which could result in increased costs on suppliers having to make contact with customers and an increase in dissatisfied customers due to unwanted or unneeded supplier contact.

As a supplier who predominantly supplies prepayment customers our energy supply products are capped by the Price Cap framework, any additional costs on industry as a result of both policy design and mutualised costs need to be cost reflected in future Price Cap allowances. Additional system and operational costs (increased customer contact and increased complaint management costs from disgruntled customers who deem this requirement as encroaching on their data privacy) needed to fulfil these proposals need to be included within the Price Cap. We propose that Ofgem needs to guarantee there is a level playing field across different business models within the industry; as currently the cross subsidy that exists within the Price Cap methodology impacts those suppliers with large prepayment and low credit portfolios. From our review of the impact assessment, it's unclear how the costs used to assess the impact on suppliers have been calculated and we request further clarity on the costs of delivery on suppliers (With different business models) for the proposals within this consultation prior to any final decision being made.

<u>Credit functions to reduce temporary self-disconnection and self-rationing: emergency and friendly-hours credit</u>

2) New requirements on suppliers to offer emergency and friendly-hours credit to all PPM customers and to offer additional support credit to customers in vulnerable circumstances. Our proposal is to place new obligations on suppliers to offer short-term credit. We have updated the previous terminology of 'discretionary credit' provided to vulnerable consumers to 'additional support credit'. This is to better reflect our policy intent and the obligatory nature of the requirement for customers in a vulnerable situation. The proposed legal definition of 'additional support credit' is used throughout this document.

We are confused by this proposal and request additional clarity from Ofgem regarding the interpretation of the functionality of prepayment meters when writing the proposed licence wording (Below). It is our view that Emergency and friendly-hours credit is a built in functionality feature of a prepayment meter and has similarities to an overdraft facility within banking, with the only difference that any debt consumed needs to be repaid as part of the meter operability in order for the continuation of supply.

27A.4 Where paragraph 27A.2 applies, if the licensee becomes aware or has reason to believe that a Domestic Customer is having or will have difficulty paying all or part of the Charges and a repayment rate is agreed, the licensee must adhere to SLC 27.8 when assessing the related repayment rate for the total amount of Emergency and/or Friendly-hours Credit provided.

We do not agree with the below proposed license wording and seek clarity from Ofgem how they intend this licence obligation should be administered in line with GDPR requirements of only collecting and using data that is for the purpose it was collated for.

27.8B
(b) (iii) - Using every contact as an opportunity to gain more information about the customer's situation ability to pay when the licensee becomes aware or has reason to believe the customer is having or will have payment difficulty;

Credit functions to reduce temporary self-disconnection and self-rationing: additional support credit

3) Enhanced requirements on suppliers with respect to providing support to all customers who are facing financial difficulties through the inclusion of updated Ability to Pay principles in the supply licence. Under this proposal, we would incorporate and update the existing Ability to Pay principles within the supply licence.

We welcome the proposed inclusion of the Ability to Pay principles within licence. But as a supplier who has voluntarily provided vulnerable consumers with discretionary credit (dependent on their circumstances) for several years now we are concerned the implications of these proposals mandating suppliers to provide Additional Support Credit do not recognise the increased risk of bad debt imposed on suppliers. In addition, we are concerned that the consultation and impact assessment has not considered the implications on the current customer transfer blocking and definition wording within licence; and future policy design implications, especially as the bad debt risk is increased by these proposals as we move towards a faster switching market.

It is our view that the current wording within section 14.4 of both the gas and electricity licences are no longer fit for purpose and are heavily geared towards suppliers credit offering and not those serving prepayment customers. We recognise that there are proposed licence changes under the REC review taking place, but are concerned that in either work streams there are no proposed changes to the definition of what constitutes a debt which impacts the reason for a valid transfer objection. The definition of Outstanding Charges used within licence condition 14.4a is "Outstanding Charges means the amount of any Charges which are due to the licensee from a Domestic Customer, have been demanded of that Domestic Customer by the licensee in Writing at least 28 days previously and remain unpaid". Which means that a supplier is unable to object to debt unless the supplier has billed the customer and the charges are 28 calendar days old.

Under the consultation proposal, a customer could receive Additional Support Credit, and then initiate a switch to another supplier. The losing supplier who would have had to put any Additional Support Credit on the meter as a debt due to meter functionality, cannot legitimately block the transfer away as any Additional Support Credit that has been added to the prepayment meter is not classified under the licence as a debt as the supplier has not demanded the debt in writing 28 days prior. We are concerned that the consultation and impact assessment has not taken into account the introduction of Faster Switching; and with the resulting reduced switching window, there is an increased risk on suppliers that consumers have the ability to switch supply, request Additional Support Credit and then switch to another provider every 10 days, without the supplier able to legitimately object to the transfer due to debt. A consequence of this proposal could be in increased bad debt on suppliers and increased risk of supplier failure / mutualised costs.

Before Covid-19 there was already low profitability within the sector (-0.7% combined domestic and non-domestic EBIT margin across larger suppliers in 2019[4]). With the increased risk of uncertainty that Covid-19 brings to the economy any policy design needs to support both the consumer and the industry. We would urge Ofgem to reconsider the definition for Outstanding Charges within the current licences and REC draft licence prior to these proposals being introduced; and that prior to the introduction of these proposals that Ofgem address the allowance of bad debt within the Price Cap methodology.

Please contact me in the first instance should you require any further information.

[4] Based on 2019 consolidated Segmental Statements of British Gas, EDF, E.ON, Npower and Scottish Power

Yours sincerely

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www.e.org