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Dear Sabreena,

Levelling the cost of standing charges on prepayment meters

We continue to support some levelisation of payment method cost differentials. The consultation acknowledges that customers in vulnerable circumstances account for a higher proportion of consumers on prepayment (PPM) and Standard Credit (SC) terms compared to Direct Debit (DD). The preferred option partially addresses this by reducing the differential between PPM and DD, but does not address SC.

The consultation also acknowledges the importance of maintaining some incentive for consumers to choose the most efficient payment method, when justifying maintaining a higher standing charge for SC. This logic does not appear to be applied regarding PPM, which would become the cheapest payment type under the preferred option. Over and above the potential for this to drive inefficient outcomes, we are concerned this will provide a financial incentive for consumers to switch to a payment method that may be unsuitable for their needs. Paying by DD allows consumers to plan finances more effectively and switching to PPM may increase the risk of self-disconnection.

So, our position is broadly unchanged from the Call For Input. We believe that the levelisation should:

- Apply to SC as well as PPM.
- Maintain some degree of cost-reflectivity to ensure consumers still have an effective incentive to choose more efficient payment methods. This needs to also ensure that prices do not create an unjustified incentive for consumers to choose a payment type that may not be suitable for their needs.

We assess that this means the following for how levelisation should be applied:

- Standing charges should be levelised across payment types, where PPM or SC standing charges are higher than SC.

- Unit rates should be partially levelised. Levelising the bad debt element of unit rates for SC would be a sensible way to do this.

Answers to selected consultation questions are provided below.

Yours sincerely,

Andy Manning

Principal Economic Regulation Specialist

Responses to selected questions

3) Do you agree with our initial preference to levelise PPM and DD Standing Charges?

Standing charges should be levelised across all payment types, where PPM or SC standing charges are higher than SC. The consultation states that the SC standing charges are not proposed to be levelised for SC because *'fully removing the SC and DD differential would remove the financial incentive for customers to stay on or move to DD'.* Whilst we agree with the potential negative consequences for consumers, the financial incentive will remain through the unit rate differential so we do not believe this argument is relevant.

4) Do you think we should also levelise the bad debt charges across PPM, DD and SC, which would reduce the differential between SC and DD? Please provide any evidence /data that may benefit consumers as a whole.

We believe that the bad debt charges across PPM, DD and SC should also be levelised. This appears to be a sensible way to reduce the differential between SC and DD. As the consultation outlines, customers in vulnerable circumstances account for a higher proportion of consumers SC terms compared to DD.

We agree that some cost-reflectivity should be maintained to ensure efficient outcomes for consumers generally. Analysis indicates that a reasonable differential should still exist between SC and DD if bad debt charges are levelised (and if standing charges are levelised also), so there does not appear to be a significant risk of creating an unjustified incentive for consumers to choose SC.

The preferred option, by making PPM the cheapest payment option, does create a financial incentive for consumers to choose this payment type. This creates the risk that consumers may choose a payment type that is unsuitable for their needs and could also drive higher overall costs to consumers.