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Dear Anna

We are writing in response to your consultation on protecting energy consumers on prepayment meters ('PPMs'). This submission is entirely non-confidential and may be published on your website.

We are broadly supportive of your proposals, although we would prefer to see you deliver them through a new cap for all prepay customers rather than through an adjusted version of the default tariff cap.

The reason for this is that the default tariff cap is subject to legislative sunset provisions that mean it must expire no later than December 2023, and this may come too soon for specific competition and engagement problems blighting the prepay sector to have been solved.

The original justification for the CMA setting a sunset provision of December 2020, on its own Order introducing the current PPM cap, was the expectation that smart meter rollout would be complete by that date. The government has now consulted on a new framework to ensure smart meters are in place for a minimum of 85% of meter points by December 2024. That new deadline looked challenging even before the coronavirus pandemic[1], which is likely to result in a sustained lull in installations this year.

Because of this, there is at least a credible risk that a significant number of 'dumb' prepayment meters will still be in use at the end of 2023. It must be noted that competitive and engagement constraints remain in that segment of the market - indeed, as you note, that was the finding of the CMA's 2019 review of the PPM Order. The CMA found that the situation had not materially improved since the introduction of the Order.

Your logic for implicitly seeking a 2023 sunset provision on the PPM cap is perhaps most clearly set out in paragraph 2.29 of your consultation:

> *"2.29. A new PPM cap might be preferable if we knew that PPM customers will continue to require protection after the default tariff cap expires. Provisionally, we*

[1] For example, 2019 research by Frontier Economics for Energy UK suggested that only 54-68% of relevant premises would have a smart meter installed by the end of 2024.

> *do not consider this to be the case. We would expect that if default tariff customers (with credit meters) no longer required protection, then it is at least possible that default tariff customers with PPMs would not require protection either. Although the conditions for effective competition are not the same for PPM customers and customers with credit meters, there are common issues."*

We do not agree with this logic for two reasons.

Firstly, because it assumes that the market and engagement distortions affecting PPM and non-PPM customers are broadly equivalent. But they are not - competition and engagement are both materially worse in the prepay sector; this is the specific reason why the CMA introduced the PPM cap and recommended its extension.

Secondly, the argument that the need will have fallen away - that *"it is at least possible that default tariff customers with PPMs would not require protection"* - is weakly made. If the regulator is unsure what conditions may pertain in the market at that time, it would appear more prudent to retain the option to continue the cap than to assume, absent evidence, that it will no longer be needed.

For the avoidance of doubt, we are neither assuming a permanent need for the PPM cap, nor that it will be needed beyond 2024. If conditions allow, it may be entirely appropriate to remove it before that time. We simply think that you should keep your options open on this, given the uncertainty on its need, rather than setting an arbitrary sunset date now.

In other areas we are largely comfortable with your design proposals. As you will be aware from previous responses on the broader default tariff, we have been historically unconvinced as to the need for headroom. Price spreads on the market are sufficiently wide that it offers little incremental benefit in promoting switching, and there are already significant allowances for uncertainty in the calculation of the underlying cost components of the cap. However, recognising the extraordinary situation that currently exists with the pandemic, there will be a higher level of uncertainty over costs in the coming months than has previously been the case. Because of this, we think the arguments for including limited headroom have improved, at least temporarily.

We recognise that your proposals include some cross subsidy flowing towards PPM customers from standard credit and direct debit customers, with the proposed PPM cap effectively set below an efficient level of costs (although the PPM cap would nonetheless be set above the direct debit cap, reflecting a higher cost to serve prepay customers). PPM customers are roughly twice as likely to be fuel poor as those paying by other methods,[2] and this provides a reasonable justification for this cross-subsidy on social policy grounds. We would find it useful if you could publish more data showing what the effect on fuel poverty would be under different levels of cross subsidy, as it is hard to judge whether the level you propose strikes the optimal trade-off between cost reflectivity and social fairness.

On the implementation timetable, in principle we agree with your proposal to move over to the new methodology from 1 October 2020, rather than waiting until 1 January 2021. This is likely to reduce industry and consumer advice burdens when compared to running two three-month price caps over the winter period.

Yours sincerely

Rich Hall

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[2] 'Annual Fuel Poverty Statistics Report, 2019 (2017 data),' BEIS, 2019.