Regulatory Policy Committee

Decision to make modifications to the gas and electricity supply licences to reform the switching process for indebted prepayment meter customers using the Debt Assignment Protocol

Department for Business, Energy & Industrial Strategy - Ofgem

RPC rating: validated

Description of proposal

The Debt Assignment Protocol (DAP) allows customers of energy companies using pre-payment meters (PPM) to switch suppliers when they are in debt with their current supplier. Under the current arrangement, suppliers cannot prevent customers with a debt level of under £200 from switching. The new measure would increase this threshold to £500.

The objective of the change is to make switching easier for indebted customers.

In addition, Ofgem has published new guidance on Social Obligation Reporting (SOR), which simplified reporting requirements related to the number of PPM customers in debt.

Impacts of proposal

The BIT assessment states that 22 energy suppliers would be affected by the changes to SOR guidance. Only 16 of those would be affected by the increase in the DAP threshold, as 6 major energy companies voluntarily adopted the higher threshold in November 2012.

Costs indentified by the Regulator included:

- transitional costs related to updating internal processes
- familiarisation costs
- recurring costs related to handling greater numbers of customers switching accounts.

Based on the number of switches between the 6 major companies adopting the new threshold voluntarily in 2012 and 2013, Ofgem estimates that, as a result of the policy, an additional 125 switches per company every year will occur. As this number applies to large companies it is multiplied by 13% (reflecting the market share of these companies) and then by 16 (the number of companies affected by the change) ; this gives, as a consequence of the increase, 260 additional switches.

The assessment does not provide an estimate for the cost of switching as it claims that calculating this would not have been possible. Ofgem assumes that it would be minimal as the additional 260 switches per year constitute a marginal fraction (0.004%) of all switches handled by energy suppliers every year (6.3 million); this assumption appears reasonable.

The BIT assessment does not monetise the transitional costs related to making adjustments to internal processes; it is assumed that they would be negligible as they are only likely to involve minor adjustments to databases and internal and external documents.

Total costs of familiarisation with "*the Decision document*" (which includes the amendments to the revised guidance) are estimated at £605. This is based on the assumption that it takes 20 minutes to read this document, that it will be read three times for understanding and that the weekly wage of a "senior regulatory official" is £700-£800 (excluding non-wage cost uplift).

Using data on the savings from switching to customers on dual tariffs (£300 per customer per year), the BIT assessment gives an indicative estimate of the benefit of the measure. On a conservative assumption of 366 switches a year (for gas customers only) the annual total benefit to consumers is estimated at £38,000.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of zero. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

The analysis presented in the BIT assessment is clear and concise. The methodological approach and assumptions are presented in an accessible way. The approach taken to preparing the assessment appears proportionate.

The assessment would have benefited from a more detailed discussion of the number of switches likely to take place each year. The estimate of the number of customers deciding to switch every year is based on only two years of historical data, which make this estimate relatively uncertain. This uncertainty should have been addressed in the assessment.

A more detailed explanation of the difficulties in estimating the cost to suppliers of handling new customers would also have improved the assessment. The same applies to the treatment of transitional costs which are only briefly discussed in the assessment.

The assessment correctly identifies benefits that this measure could bring to customers. The analysis should, however, have discussed any related loss of profit to energy suppliers. It should also have considered whether benefits to customers and costs to companies could be classified as indirect impacts. Based on the estimates presented in the assessment, additional cost, if included, would have been unlikely to change the EANDCB materially – so, in this instance, we are still able to validate the BIT score. However, the assessment should have analysed the conditions under which the total annual cost would increase to over £50,000.

In addition, Ofgem might have considered whether this measure can be classified as a pro-competitive non-qualifying regulatory provision.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	Zero
Business net present value	Zero

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated[1]	Zero
Business Impact Target (BIT) Score[1]	Zero
Small and micro business assessment	Not required

Michael Gibbons CBE, Chairman

[1] For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.