

February 2022

Clarification on the application of section 7.1.10 of the Customer Protection Code of Practice

Clarification on the application of section 7.1.10 of the Customer Protection Code of Practice

On 20 January 2022 Ofwat published its decision ([CP0010](#)) to make updates to the [Customer Protection Code of Practice](#) (CPCoP). These changes, which will come in effect from 20 April 2022, aim to:

- Ensure business customers who enter into advance payment arrangements have an appropriate level of awareness of the potential benefits and risks of paying in advance.
- Increase business customer awareness of the amount of credit they have built up and that alternative payment terms are available in the market.
- Require Retailers to refund credit balances to business customers at the end of their contract.

Since publishing our decision we have been contacted by a Retailer who raised two queries relating to our decision, both of which were specifically about the application of 7.1.10 of the CPCoP. **We are not making any changes to our published decision on CP0010 – instead, this document clarifies the position in relation to both of these queries and is supplementary to our decision on CP0010.**

Section 7.1.10 of the CPCoP states:

7.1.10 Where a customer has accrued credit against their account Retailers are required to clearly communicate the following information to the customer in writing, at a minimum of once every 3 months:

- a) the amount of credit that they have accrued against their account
- b) what the credit relates to (e.g., Security deposit, an allowance refund, money paid in advance of services delivered, etc.).
- c) the customer can contact the Retailer should they wish to explore alternative payment terms or if they can obtain a credit refund (if available); and
- d) subject to contractual terms and conditions, customers can switch to an alternative Retailer if they are not satisfied with the terms on offer.

The queries and our responses are set out below.

The application of section 7.1.10 to customers who pay monthly by Direct Debit

- The Retailer noted that the updates to the CPCoP now require Retailers to communicate the information under section 7.1.10 at a minimum of once every three months.
- The Retailer highlighted that some of its customers make Direct Debit (DD) payments on a monthly basis and are billed on a 6 monthly cycle.
- They queried whether these customers should receive the information outlined under section 7.1.10 at the three-month stage of their billing cycle.
- The Retailer noted that, as a bill would not have been raised at the three-month point, the information communicated to customers will show three months of accumulated payments.
- They raised concern that this might give a customer the false impression that their account is in credit, while in reality, the monthly payments are intended to cover the services actually consumed during the initial three-months of that billing period.
- The Retailer questioned whether the intention of the CPCoP update was for customers on such payment arrangements to receive the information under section 7.1.10 before a bill has been calculated.

Our response

We anticipate that Retailers should already understand whether the vast majority of their existing customers have accrued credit against their accounts, and what this credit relates to. Where this is the case, the requirements under section 7.1.10 come into effect from 20 April 2022. However, we acknowledge that the scenario presented above is more likely to occur when Retailers take on board new customers, on a similar billing cycle.

The following example illustrates a customer who is making monthly DD payments, with the billing cycle running from April to September.

Month	April	May	June	July	Aug	Sep	Oct	Nov	Dec
DD amount	£50	£50	£50	£50	£50	£50	£50	£50	£50
Bill amount	£0	£0	£0	£0	£0	£275	£0	£0	£0
Balance	£50	£100	£150	£200	£250	£25	£75	£125	£175

In this example, it is feasible that a Retailer might only be able to determine that a credit balance exists at the point when the bill is calculated (September). If this is the case, the Retailer would update the customer on their credit balance in September.

The example also suggests that the account will be in credit to the amount of £25 in December, which would be the mid-point of the next six-monthly billing cycle. In December the Retailer should issue a further communication to the Customer confirming that their account may be in credit. At this stage, the Retailer might need to advise the customer that

the actual credit balance is still subject to confirmation (noting that this could be at the end of the billing period or following an earlier submission of a meter read).

The end of the billing cycle is the not the only point where a Retailer could conclude that a customer is "overpaying". A Retailer could determine that credit is being accrued against an account if they obtain data indicating that the service being consumed by a customer amounts to less than what is being covered by the monthly DD payment. For example, this situation could arise if a customer is able to submit meter reads to a Retailer before the billing cycle is completed.

The application of section 7.1.10 for customers who pay 6 months in advance

- The Retailer raised a further query as to whether the requirements under section 7.1.10 apply to customers who pay six months in advance and receive bills on a six-month cycle.
- They were concerned that the update to the CPCoP would require them to contact these customers three months into the billing cycle. As a bill wouldn't have been raised at this stage, the communication could suggest to the customer that they have a significant credit balance against their account.
- The Retailer suggested that this could result in the customer receiving unwanted and misleading communications from the Retailer.

Our response

In this scenario, the customer clearly has a credit balance against their account as they have paid a full six months in advance of services received. We consider it reasonable that all customers who pay in advance receive the three-monthly communication, as set out under section 7.1.10.

Under section 7.1.10 (b) of the CPCoP Retailers are expected to explain to their customer what the credit balance relates to. In this scenario, when issuing its three-monthly communication, a Retailer could advise the customer that the credit balance relates to their projected expected consumption over the remainder of the billing period. Alternatively, if the Retailer has obtained a meter read during the first three months of the billing period, they may need to advise the customer that the credit they have accrued has exceeded the value of their consumption over the initial three-month period.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

© Crown copyright 2022

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL