

moneyadvice scotland

Scotland's Money Charity

RESPONSE

Ofgem: Proposals to improve outcomes for prepayment customers

February 2016

About Money Advice Scotland

Money Advice Scotland is the national umbrella organisation in Scotland which promotes and champions financial inclusion and the development of free, independent, impartial, confidential money advice. Our mission is to be the driving force towards financial wellbeing for the people of Scotland.

Consultation questions

Question 1: Do you agree with the scope of warrant charges?

We share Ofgem's concerns about the charges imposed on vulnerable consumers when a prepayment meter (PPM) is installed under warrant.

Ofgem's own data indicates that PPM users are more likely to be on a low income, in fuel poverty, in debt or disabled. To apply additional costs on this group of consumers will only add to their financial burden as well as impacting on their overall wellbeing.

The link between debt and PPM consumers is well-established. The recent 'Poor Pay More' research briefing from Christians Against Poverty (CAP) noted that 'a direct link can be drawn from the greater incidence of PPM users struggling to pay their energy bills to the higher use of high cost credit by this group.' CAP's research also tells us that 369,000 households with PPMs are regularly sacrificing meals, a situation that is completely unacceptable and underlines the wider impact on a person's wellbeing.

Given that PPMs are most often installed under warrant when a consumer is in debt, additional charges at this time are only likely to exacerbate these difficulties. It is worth noting, too, that even before taking account of warrant charges, the PPM consumer is already likely to be paying a higher tariff than other consumers.

Question 2: Do you agree with the desired consumer outcomes?

We agree with Ofgem's desired consumer outcomes.

Policymakers can occasionally make the mistake of considering PPMs as a method which applies to a diminishing proportion of the population as more consumers elect to pay by direct debit to secure the best tariffs. Yet more and more PPMs are being installed year after year. Ofgem's own research shows that across the UK, 300,000 new electricity PPMs and 320,000 new gas PPMs were installed in 2014.

For some consumers, PPMs remain a matter of choice as a preferred budgeting system. However, in many cases PPMs continue to ask consumers with less to pay more. It may be worthwhile to consider the effects of cross subsidisation in these circumstances to ensure that the preferences of all types of PPM consumers are met, but without detriment to those already living at the margins. More than 60 per cent of PPMs are installed due to debt. Whilst offering budgeting control, this will also often mean that those who are already struggling to balance their finances will end up on a higher tariff.

The discussion of PPMs also has particular relevance in Scotland. From 2010 to 2015, the number of PPMs in Scotland increased from 19 to 21 per cent. Scottish consumers are also more likely to use PPMs than their counterparts in England and Wales. Furthermore, Ofgem's social obligations reporting shows that the number of accounts in arrears increased in Scotland, while it declined or remained static in other nations.

Ofgem's desired outcomes for consumers provide an ideal starting point in addressing the inexplicable logic that means those with the least often pay the most for their energy costs.

Question 3: Which option set (A, B or C) do you think will be most effective in meeting our consumer outcomes?

In line with our response to the preceding questions, option set B fits well in meeting the stated consumer outcomes.

Question 4: Should cases of energy theft or wilful damage to meters be exempt from our proposals?

Previous analysis has estimated the cost to the industry of energy theft at as much as £400m per year. As well as costing the energy sector, gas and electricity theft is also dangerous.

Nonetheless, exempting these cases from these proposals still requires careful consideration. In some cases, for example, consumers can be accused of energy theft without right to a hearing or appeal. What's more, previous academic research suggests that a link exists between fuel poverty and energy theft.

If these cases are to be exempt from the proposals, more research is required to determine whether consumers who resort to theft come under the category of 'can't pay' or 'won't pay.' The burden of proof on energy providers may also require review in these circumstances.

Question 5: For licensees: please explain how you identify vulnerable consumers and provide details of how any such policy or procedure is monitored and reviewed?

Not applicable.

Question 6: Do you have any views on our approach or better alternatives to achieve the outcomes we have identified?

Ofgem's approach to achieve its stated outcomes is to be welcomed.

For too long, PPM consumers have been unable to access the increasingly competitive tariffs available to other consumers. As Ofgem's own research shows, PPMs are more likely to be used by consumers on a low income, in fuel poverty, in debt or disabled.

In that sense, CAP's recommendation in the aforementioned 'Poor Pay More' research that the same tariffs should be made available to both PPM and monthly direct debit customers should find agreement amongst any fair-minded person. This recommendation also fits well with the stated outcomes of this consultation.

The approach to achieving the stated outcomes should also be considered in line with the wider fuel poverty strategy. In Scotland, there is a statutory duty to end fuel poverty by November 2016, but in all likelihood there is little chance of this pledge being fulfilled. The latest available figures from the Scottish Parliament Information Centre show that 940,000 people are in fuel poverty in Scotland, or 39 per cent of households. In rural areas, fuel poverty is still more prevalent – with over 50 percent of households affected in the highlands and islands communities. Given that those who use PPMs are more likely to be in fuel poverty, this is perhaps a link that requires closer examination alongside the stated proposals in the approach to improving outcomes for this group of consumers.

Finally, the approach should also be considered alongside as part of the debate on financial inclusion. People without bank accounts, for example, are unable to access the competitive tariffs available to direct debit customers. This contributes to what is known as the poverty premium – the additional costs incurred by families on low incomes in accessing basic goods, utilities and financial services. The Joseph Rowntree Foundation have reported that a single person on the minimum wage living in a house with high energy needs falls £77 per week short of a minimum income standard. Indebted consumers are also more likely to be using PPMs and this is where a holistic approach to dealing with all debts should be adopted by energies companies and Ofgem alike by referring these consumers to money advice agencies.

References

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For any follow-up questions, please feel welcome to contact
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