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CAS response to Ofgem: Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing (September 2019)

Citizens Advice Network in Scotland

Citizens Advice Scotland (CAS), our 59 member Citizen Advice Bureaux (CAB) and the Extra Help Unit (EHU), form Scotland's largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone. Our self-help website Advice for Scotland provides information on rights and helps people solve their problems.

In 2017-18 the Citizens Advice Service network helped over 295,100 clients and dealt with almost 800,000 advice issues for clients living in Scotland. With support from the network clients had financial gains of almost £142.2 million and our self-help website Advice in Scotland received approximately 3.2 million page views. On energy consumers issues in particular, we advised on over 41,000 energy-related issues in 2017-18, generating over £1.8m in client financial gain[1].

Our extensive footprint is important in helping us understand how issues impact locally and nationally across the country and the different impacts that policies can have in different areas.

[1] https://www.cas.org.uk/system/files/publications/cas_energy_advice_detail_2017_18_published.pdf

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Who we are

The policy teams at CAS use research and evidence to put people at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations. We aim to represent the views of different consumer groups using evidence of consumer views and supporting research wherever possible.

Our response format

To avoid repetition, we have combined answers where the content is applicable to more than one question; this is the case for: questions 1 and 2; questions 3, 3a, 4 and 4a; and questions 5 and 6. Where our commentary refers to a particular paragraph in Ofgem's consultation document, the number of the relevant paragraph is indicated at the end in brackets. Illustrative case studies are included under each section; these are based on feedback from advisors in our CAB network that highlight issues that one or more of their clients are facing.

Background

In December 2018, CAS responded to Ofgem's Call for Evidence on self-disconnection and self-rationing (SD/SR). We raised our concerns over the detrimental impacts of SD/SR on peoples' financial, physical and mental health, and we flagged how vital discretionary credit can be to consumers in vulnerable situations. We also raised the point that a patchwork nature of support exists in regards to crisis intervention, with only some suppliers offering emergency fuel vouchers (fuel credits). Building on this point, we brought together the Big 6 suppliers in a round-table summit on fuel credits in November 2018 to encourage those who offer fuel credit schemes to share their lessons, and to encourage others to follow suit. A representative from Ofgem attended our follow-up summit in May 2019.

In the Call for Evidence, we cited the number of issues related to disconnection and emergency credit from prepayment meters brought to the CAS network in Scotland in 2016/17. Since then, we have published Energy Advice in Detail; this publication provides a quantitative and qualitative analysis of all energy issues that CAB, EHU and the Citizens Advice Consumer Service (CACS) have given advice on in Scotland. The findings show that the number of times advice was given on prepayment meters and disconnection has risen across the network in the last year. From a total of 31,225 regulated fuel cases in CAB in 2017/18: 1,913 were related to prepayment meters (6%) with a further 978 giving advice on emergency credit (3%), up from 695 the previous year. A further 358 issues were relating to disconnection of supply (1%), up from 250 in 2016/17. In the EHU: 162 complaints from Scotland related to debt/disconnection (16%), with a further 72 specifying issues with prepayment meters (7%).[2]

Later the same month, CAS welcomed the publication of Ofgem's draft Consumer Vulnerability Strategy 2025. We were particularly encouraged by the focus on improved support for prepayment customers who self-disconnect and we called on the industry to engage with the strategy to improve outcomes.[3] The extension of this consultation's scope to include households who experience self-rationing is also to be applauded. The lack of visibility makes this issue particularly challenging, but it is vital that the strategy does not leave these consumers behind.

Key points

CAS welcomes Ofgem's proposals to improve outcomes for consumers who experience self-disconnection and self-rationing. We have identified a number of priorities:

- The standardisation of friendly credit dates and hours, where technically feasible
- Improvements to emergency credit provision, which maintains flexibility, but allows for the maintenance of supply in a reasonable worst case scenario
- The removal of barriers to discretionary credit, which maintains protection from excessive debt, but enhances consumer choice
- Improvements in how suppliers communicate with their prepayment customers, for e.g. as regards the seasonal accrual of standing charges
- The formalisation of Ofgem's Ability to Pay principles in the licence code
- Utilisation of the full suite of smart functionality, for e.g. suppliers switching meters to credit mode to maintain supply
- Viable alternatives to prepayment, for e.g. clarification on the future of Third Party Deductions for energy (Fuel Direct)
- The extension of fuel voucher schemes (fuel credits)

[2] CAS, Energy Advice in Detail, 2019
[3] https://www.cas.org.uk/news/cas-welcomes-ofgem-vulnerable-consumer-strategy

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Question 1: Do you agree with our proposal to require suppliers to identify prepayment self-disconnection and the associated proposed licence conditions? **Question 2:** Do you agree with our proposal to require suppliers to identify self-rationing and the associated proposed licence conditions?

1.1 CAS agrees with, and warmly welcomes, the proposal to require suppliers to identify self-disconnection and self-rationing. CAS agrees that the main challenge in supporting households that experience SD/SR is how to identify them, particularly those with traditional meters. Non-vending can be a useful proxy; it is widely used by suppliers in revenue protection cases, but this is arguably more effective over a longer time period, and perhaps a similar system of monitoring low/infrequent vends could be adopted in regards to self-rationing. Relying on consumers self-identifying can also be problematic, more of which later.

1.2 CAS welcomes calls to prioritise smart meter installation in prepayment households that frequently disconnect. This would be an example of smart technology being used to target support. Ofgem correctly points to the improved outcomes that smart technology should deliver to prepayment households – real-time identification is an excellent example of this. However, amidst a backdrop of delays to the rollout, CAS would have concerns about an approach which is overly reliant on innovation (2.12).

1.3 Build-up of standing charges due to seasonal use is a well-known issue with gas prepayment meters. The EHU regularly sees a spike in priority calls in early autumn as a result of households starting to access gas again for heating purposes. There is a need for better awareness of this issue and Ofgem is correct to point to a role for suppliers here (2.7). As regards self-rationing, extending the scope to households with credit meters is necessary, as rationing is not payment-type specific (2.15). Despite this, the data from Christians Against Poverty (CAP) suggests that self-rationing remains largely a prepayment issue.[4] In addition to the difficulties identifying affected households, there is the question of how self-rationing is defined; CAP makes reference to restricted consumption by time, but we should not forget that households can also restrict consumption by space. It is common for fuel poor households to restrict heating to certain rooms to reduce costs (1.8).

Case study: Client lives with her two children and pays £70 a week for electricity in the winter. Client has electric heating in her flat. Client does not turn on the radiator in her bedroom.

[4] Ofgem, Consultation: Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing, 2019

1.4 We consider the inclusion of 'customer choice' to be over-emphasised in comparison to other risk factors. The process of identifying SD/SR homes will uncover vacant properties and those who are choose to disconnect for whatever reason, but this will be the exception as opposed to the rule, and arguably out-with the scope of this consultation. Standing charges will by definition accrue when a property lies empty – this is an example of a situation where effective use of the meter's back-screen can help to restore the supply and set an affordable recovery rate. Of course, this must only be done where it has been confirmed that the current occupant, and therefore the bill-payer, is liable for the charges (2.6). CAS welcomes the distinction between 'one-off' and 'ongoing' self-disconnection; the circumstances surrounding these are often very different, so a single remedy is unlikely to be sufficient (2.24).

1.5 Being able to quickly identify off-supply households, without smart technology, remains a considerable hurdle and one of the key challenges in this strand of Ofgem's strategy. The consultation guidance notes point to reluctance on the part of consumers to contact their supplier directly in regards to self-disconnection, so there could be a role for third-party intermediaries (TPIs) here. CAS has long argued that a holistic approach is required to prevent the repetitive cycle of self-disconnection whilst improving financial health; formalising this concept throughout the industry, with a more defined role for TPIs, could yield better outcomes (2.10).

1.6 Self-disconnection rates for gas are higher due to its primary use as a heating fuel and the seasonal nature of its use. However, as explored in our Hard-Wired Problems report, large areas of Scotland are not connected to the gas grid, and a disproportionately high number of households that use electricity as the primary heating fuel are defined as being in fuel poverty (51%).[5] We would therefore urge caution as regards using gas consumption as a proxy for SD/SR (2.13).

1.7 BEIS statistics show that a greater consumption gap exists for prepayment households than other payment types – this applies to both fuel poor and non-fuel poor homes.[6] This suggests that there is a very fine line between the effective management of household finances and self-rationing. A frequent selling-point of prepayment meters by suppliers is that they help households to manage their finances – this is often cited to try

[5] CAS, Hard-Wired Problems, 2018
[6] Ofgem, Consultation: Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing, 2019

and encourage consumers in debt to voluntarily have prepayment meter(s) installed. It may be time for such practices to be reviewed, if it could be interpreted that suppliers are effectively encouraging self-rationing (2.16).

1.8 CAS welcomes the consideration of mental health detriment. The link between cold homes and physical health is more visible and, as a result, the impact tends to be more widely reported than those relating to mental health. Citizens Advice has correctly identified how mental health can be exacerbated by the practicalities of having a prepayment meter – this can be compounded by the limitations of traditional meters.[7] An example is the difficulties faced by consumers trying to apply discretionary credit to some legacy gas meters, where up to 5 token top-ups are required within a short space of time for the credit to activate, thus requiring repeated visits to the top-up point. It is not difficult to envisage how such a process could be stressful and embarrassing for the individual involved (2.22 – 2.23).

1.9 CAS recognises that forgetting to top-up can result in disconnection, but this does not necessarily require remedial action. This can be easily resolved when the issue becomes apparent, and emergency credit should be in place to prevent this, more of which later (2.26).

1.10 CAS is aware of anecdotal concerns in the industry that the term 'self-disconnection' in some way infers blame or choice on the part of the consumer, but we are satisfied that the term generally achieves what it sets out to. However, if we are operating on the presumption that 'self' as a prefix to 'disconnection' means that the disconnection is a direct result of a consumer's actions/circumstances, is the term 'self-disconnection' appropriate for disconnection that occurs as the result of a technical issue? All of the examples given (faulty equipment, balance errors, etc.) are the responsibility of the supplier, so there is a need for clarification here. The term 'self-disconnection' is even less appropriate where the actions of a supplier have contributed to the consumer going off-supply – for example, a delay in the supplier issuing a top-up device. Misuse of the term may give the impression that no remedial action is required, when in fact the issue is the supplier's responsibility to resolve.

1.11 CAS is aware of at least one energy supplier that charges its customers £6 for replacement top-up devices. Whilst we understand that the supplier incurs a cost in such circumstances, we feel it is unfair to charge a consumer for the right to access energy. We

[7] https://www.citizensadvice.org.uk/consumer/energy/energy-supply/get-help-paying-your-bills/stop-your-energy-supplier-installing-a-prepayment-meter/

would like to see a standardisation of practice which promotes fairness and reduces the number of instances of disconnection (2.29).

1.12 Prepayment meters are not suitable for many households due to vulnerability. The consultation document correctly identifies a number of such scenarios, but there are countless reasons why this method of payment may not be suitable for a household. Advisors in our network are all too familiar with the detriment caused when prepayment meters are installed without due care or consideration. Pre-disconnection visits (PDVs) were introduced to give suppliers and installers an opportunity to assess suitability, but the level of success of PDVs is debateable. Lack of access is frequently cited by suppliers, whilst a regular complaint from consumers is that no such visit was attempted prior to the execution of a warrant (2.30).

1.13 The issue for suppliers is a lack of debt recovery options for households that cannot have, or choose not to have, prepayment meters. Similarly, a lack of viable alternatives can result in consumers agreeing to the installation of prepayment meters, even if this is detrimental to their wellbeing. CAS believes that clarity is required around the future of Third Party Deductions for energy (Fuel Direct) as both a debt repayment and an on-going payment method for consumers. Whilst originally created as a debt repayment tool, Fuel Direct became the payment method of choice for many consumers who had previously cleared debt through the scheme and valued the stability and regularity that it offered. Our advisors have reported increasing difficulties with Fuel Direct since the rollout of Universal Credit, citing compatibility issues with the new benefit; the lowering of energy on the priority debt list; and, the closure of the paper application service with little prior warning. CAS calls on suppliers and the Department of Work and Pensions to recognise the value of Fuel Direct and to make the service accessible to consumers moving forward. As the regulator, we would ask that Ofgem help to facilitate this process wherever possible.

1.14 Prepayment consumers in rural areas are disadvantaged by a lack of top-up points and connectivity issues. Again, these difficulties are exacerbated by delays to the smart meter rollout, which further highlights the logic in prioritising installations for these households. The Fuel Poverty (Scotland) Act[8] makes provision for those in remote, rural and

[8]https://www.parliament.scot/S5_Bills/Fuel%20Poverty%20(Target%20Definition%20and%20Strategy)%20(Scotland)%20Bill/SPBill37BS052019.pdf

island communities, in recognition of the challenges and increased costs faced by households in these areas; this echoes the view from stakeholders in Ofgem's guidance notes (2.32).[9]

Question 3a: Do you agree with our proposal to require suppliers to offer emergency and friendly credit functions? **Question 3b:** Do you agree with our associated proposed licence conditions? **Question 4a:** Do you agree with our proposal to require suppliers to offer discretionary credit for customers in vulnerable circumstances? **Question 4b:** Do you agree with our associated proposed licence conditions?

2.1 This strand of Ofgem's Vulnerability Strategy provides an opportunity to review existing industry practices in relation to friendly credit, emergency credit and discretionary credit. CAS is calling for the standardisation of friendly credit hours and dates, where technically feasible; improvements to emergency credit provision, which maintains flexibility, but allows for the maintenance of supply in a reasonable worst case scenario; and, the removal of barriers to discretionary credit, which maintains protection from excessive debt, but enhances consumer choice.

2.2 Standardisation of friendly credit hours would reduce the risk of self-disconnection arising from a lack of understanding or recall of a given supplier's friendly credit hours. This facility should not be seen as a commercial differentiator and should be common across all suppliers, though could remain justifiably variable by distribution area or some other geographic and/or rurality identifier (4.27).

2.3 If the aim of such provision is to prevent self-disconnection, the amount of emergency credit made available should be sufficient to ensure continuity of supply for that household until at least 10am on the next working day (i.e. when setting the amount of emergency credit available, assume a worst case scenario where gas goes off-supply at 4pm on the Saturday of a Bank Holiday weekend). The less frequent (on average) use of gas emergency credit may be partially accounted for by the seasonal use of gas by many financially vulnerable consumers. It is also true however that the emergency credit function on a gas meter is less obviously accessible than it is on an electricity meter, and this may also be a factor in the lower levels of take-up of gas emergency credit compared with electricity emergency credit (4.11 - 4.12).

[9] Ofgem, Consultation: Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing, 2019

2.4 Suppliers should be encouraged to provide a flexible amount of emergency credit that takes account of an individual household's circumstances and typical seasonal consumption. Simply stating that "emergency credit should enable the continuity of supply" is arguably open to a broad range of interpretations which could result in on-going consumer detriment. Strictly speaking, any amount of emergency credit enables the continuity of supply. Despite this, we recognise a need to strike an appropriate balance between principles-based regulation and the licence code becoming too prescriptive, hence we have stopped short of calling for a minimum emergency credit value, or similar (4.20 – 4.22).

2.5 Traditional gas meter customers are often able to be issued with a RTI code in a similar fashion to those issued for electricity. However, the limitations of some systems means that any such code issued after 4pm on a working day is not available for collection until after 10am on the following working day. Thus, while some traditional gas meters require a 'wind-on' in all circumstances, even those that do not will require a site visit by a meter engineer in the event that discretionary credit is required 'out of hours'. Providing a more genuinely helpful amount of emergency credit to customers could help to mitigate this and would reduce the incidence of vulnerable customers self-disconnecting for longer periods of time than is necessary whilst arranging for the provision of discretionary credit while off-supply. This would mitigate against the technical constraints around the provision of friendly credit on traditional prepayment gas meters and reduces the likelihood that discretionary credit or a meter 'wind-on' will be required. It would also reduce the level of distress experienced by the consumer arising from their self-disconnection event and would reduce the costs incurred by suppliers as a result of emergency, out-of-hours meter operator callouts.

2.6 CAS agrees that the value, frequency and repayment rate of discretionary credit should be agreed between the consumer and the supplier, taking into account relevant circumstances and ability to pay, with one caveat: some smart prepayment suppliers calculate the level of assistance to be provided by discretionary credit based on that customer's recent consumption patterns. This takes no account of any self-rationing that may have occurred prior to the request for discretionary credit being made. It also takes no account of changes in climatic conditions or changes to the household's circumstances (4.34).

2.7 CAS agrees that there should be no limit to the number of times a consumer is given discretionary credit where all previous credits have been repaid, but suppliers should also not be allowed to place an automatic bar to further requests for discretionary credit where a previous vend has not been fully repaid. The requirement to treat each application on its merits must therefore be underlined. Where a consumer contacts their supplier to request discretionary credit, the individual has already decided that repaying debt is a price worth paying in order to have their energy supply maintained. Therefore the industry should, within reason, support consumers in this decision (4.35).

2.8 CAS supports the call for holistic support and the recognition that debt recovery rates offered by suppliers need to be monitored and fluid. It is perhaps also worth reminding suppliers that if the repayment of debt through a prepayment meter is the principal driver of SD/SR in financially vulnerable households, the supplier should discuss whether the on-going use of a prepayment meter is appropriate given the availability of alternative methods of payment, as aforementioned in relation to Fuel Direct. It is vitally important that all available information is taken into account for setting repayment rates in all cases. Suppliers should also be reminded of their duty to obtain as much relevant information as possible, and not just to rely on the information they already hold about the customer (5.11).

2.9 One of the difficulties is reaching those who would benefit most from the proposed changes. A greater level of education is needed about the assistance available to those in vulnerable circumstances. The strategy should also remind suppliers of their obligations in this regard and for the industry to redouble its efforts on Priority Service Register (PSR) awareness.

Case study: Client has been sleeping rough as he has no electricity. Client is £90 in debt to his supplier. CAB advisor helped Client access emergency credit and set up a repayment plan with his supplier.

2.10 There is considerable scope for suppliers to educate their prepayment customers on seasonality. By giving consumers sufficient advice about their likely on-going costs based on previous consumption, suppliers could encourage consumers to spread their energy payments more evenly throughout a 12-month period. This would result in a credit balance accruing over the summer months to be used as a cushion against the inevitably higher costs of winter. Changing how consumers think about prepayment could have a significant beneficial effect on self-rationing and self-disconnection in winter (2.36).

2.11 The traditional prepayment meter infrastructure certainly presents constraints to the timely identification of self-disconnection. Contacting a customer prematurely surely presents the opportunity for a supplier to update their understanding of the customer's vulnerabilities and payment patterns, and to remind the customer of the support and assistance that is available from the supplier and/or their partners to prevent or deal with instances of SD/SR.

Rather than driving complaints, if this was presented in an appropriate way, a more likely outcome is that the consumer feels more valued by their supplier and it would improve levels of trust in the wider industry (3.10).

2.12 A market-led approach seems like an appropriate way to encourage innovative methods by which a supplier can monitor self-rationing. However, it will be important that the industry is encouraged to adopt best practice and that such best practice is shared on a regular basis (3.24).

Question 5: Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence? **Question 6:** Do you agree with our proposal to update the Ability to Pay principles to reflect changes in supplier debt recovery practices? Are there any other changes that we should implement?

3.1 CAS supports the proposal to formalise Ability to Pay principles in the licence code. This should help to tackle the affordability challenges faced by many prepayment households repaying debt. Moves towards formalising SD/SR monitoring owe much to previous attempts to introduce standardised practices, in particular Energy UK's voluntary code for PPM Principles (2011). The introduction of new licence codes will provide clarity for both consumers and suppliers and should aim to enhance the existing principles-based regulation (2.33).

3.2 Ofgem is correct to state that a failure to link a consumer's ability to pay to the repayment rate increases the likelihood of self-disconnecting again. This is particularly true when the supplier recovers debt through an unaffordable percentage of the next vend – a practice which has become more common in recent years. The consumer may reluctantly agree to these terms in order to restore the supply in the short-term in the knowledge that they are likely to be in the same situation again shortly. This is an argument in favour of more widespread use of the Fuel Direct equivalent debt recovery rate (circa £3.70 per week) or the introduction of an even lower, more affordable rate (2.5).

Case study: Client was recently released from prison and is awaiting reinstatement of his benefit payments. As Client has no income, he is unable to pay for utilities. Client has no gas or electricity in his flat.

3.3 While the current licence conditions certainly help mitigate the risk of self-disconnection arising from a lack of knowledge or understanding, it would be difficult to argue that the risk is removed entirely. Existing safeguards should help to make it less likely that an existing customer who moves from a credit meter to a traditional prepayment meter will self-disconnect because of a lack of knowledge as to how to remain on supply, but issues continue to exist where a new tenant moves into a property with both the prepayment meter and top-up infrastructure present as many do not think to contact their supplier to inform that they are now responsible for the energy supplies to the property, and will often only make such contact for the first time when there is an issue relating to their ability to remain on supply. It is difficult to see how this could be reliably addressed via a licence condition but we should not pretend that it does not remain an issue.

3.4 As part of the proposal to improve outcomes for SD/SR households, CAS strongly urges Ofgem to engage all suppliers in the subject of fuel voucher schemes (fuel credits). We believe that this is a missing part of the picture which is not referenced within this proposal. Fuel credits, which are issued on a non-repayable goodwill basis, can offer an essential life-line to those who simply cannot afford to keep the lights on, and where consumers may have exhausted other avenues of support, for e.g. the Scottish Welfare Fund. Not all welfare funds provide support with fuel costs and application processes can be difficult, which is why fuel credits are such a unique concept.

3.5 We have seen examples of good practice from three of the Big Six suppliers: Scottish Power's Hardship Fund 'Quick Voucher Scheme', nPower Fuel Bank™ and the Scottish Gas Energy Trust. These are privately-funded schemes which provide fuel credits to prepayment customers who are in financial crisis and at risk of self-disconnection. We highlighted in our response to Ofgem's Call for Evidence in December 2018 that there is a "patchwork of support, which can be difficult to access and is not widely promoted. Schemes often operate under restrictive criteria, meaning consumers may have to contact multiple organisations to access help and assistance… we see big variation across the industry. Some suppliers offer discretionary credit, but don't check debt recovery rates or signpost to debt/financial advice which is crucial. Some newer suppliers entering the prepayment market are often not expecting to have to offer this support".

3.6 CAS co-hosted an Energy Credit Summit with Christina McKelvie MSP in November 2018, and a follow up event at the Scottish Parliament in May 2019, to which a representative from Ofgem attended. Representatives from the Big Six and other stakeholders were also in attendance. The purpose of these Summits was to share best-practice from the 3 suppliers that operate fuel credit schemes, and to encourage other suppliers to launch similar initiatives. There was consensus from the suppliers in attendance that funding from a centralised pot could produce better outcomes, and that there could be a role for Ofgem in regards to management and administration. The Energy Redress Scheme, where grants are paid from supplier fines money, was offered as an example of how such an approach can work well in practice. CAS is agnostic about how this would be funded, however, it would be essential that all suppliers contribute a pro-rata share to the pot. This approach would overcome the patchwork nature of support that currently exists.

3.7 CAS therefore urges Ofgem to facilitate industry discussion on this subject and unlock the benefits that a broader, more orchestrated approach to fuel credits could offer.