CAB evidence

Citizens Advice's submission to Ofgem's Energy Supply Probe – Initial Findings Report

December 2008

Citizens Advice is an operating name of
The National Association of Citizens Advice
Charity registration number 279057

Registered office: Myddelton House
115-123 Pentonville Road, London N1 9LZ
Tel 020 7833 2181
Fax 020 7833 4371

For more information on the social policy work
of the Citizens Advice service
www.citizensadvice.org.uk

Introduction

The Citizens Advice Bureaux (CAB) network is the largest independent network of free advice centres in Europe, providing advice from over 3,200 outlets throughout Wales, England and Northern Ireland. We provide advice from a range of outlets, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- To provide the advice people need for the problems they face; and
- To improve the policies and practices that affect people's lives.

Citizens Advice statistics about fuel and fuel debt problems

In 2007-2008 the CAB service in England and Wales dealt with 5.5 million enquiries in total, including 1.7 million on debt. Of these, 69,500 were concerned with fuel debt, which represents a 15% increase on the previous year, and an increase of over 50 per cent since 2005-6.

Initial figures for the first half of 2008-9 show that this general upward trend in fuel debt problems has continued, with bureaux dealing with 36,600 new enquiries about fuel debt. Extrapolating from the figures, we estimate that bureaux will deal with over 73,000 fuel debt problems in 2008-9, representing a further increase of 5.5% on 2007-8 figures.

However, it may be that fuel debt problems may witness even more of a marked increase. Comparing the figures for Quarter 2 2008-9 with the equivalent quarter in the preceding year reveals a marked increase in the number of fuel debt issues bureaux dealt with:

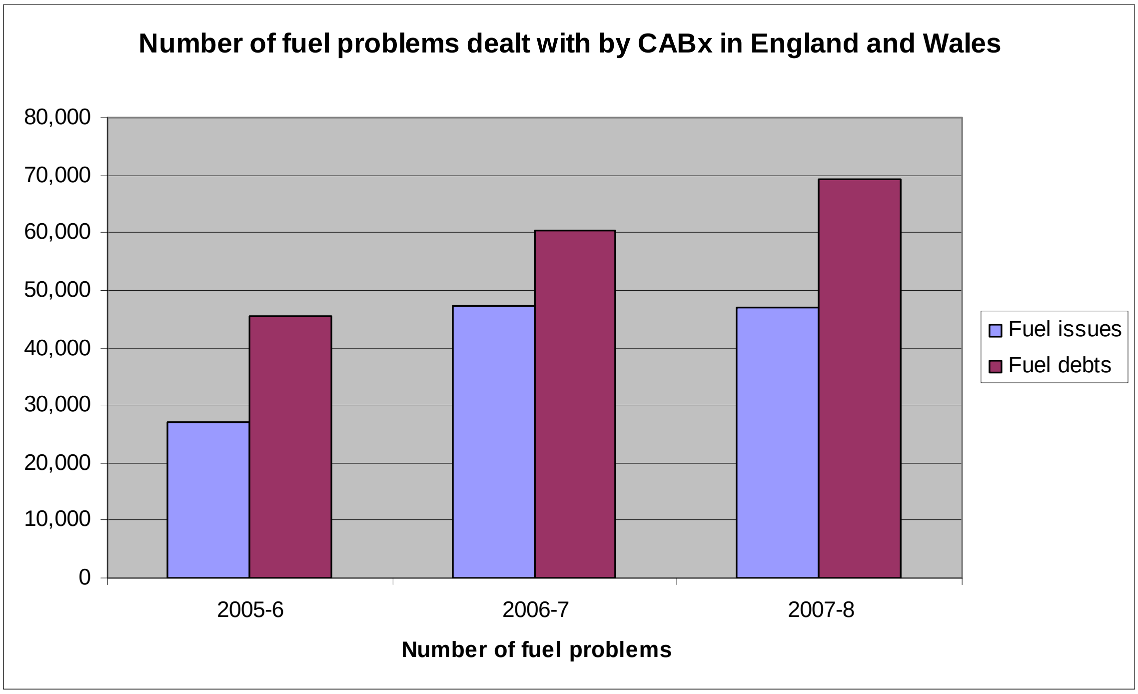
Table 1:

	Q2 2007-8	**Q2 2008-9**	**% increase**
Fuel debts	16,986	18,815	10.8%

In addition, in 2007-8 the service dealt with 47,000 enquiries about a range of other (non-debt) fuel matters, a 74 percent increase on 2005/06. Billing and metering issues were responsible for 38 percent of these enquiries, with complaints and redress accounting for 16.5 percent of enquiries, 14 percent due to methods of payment and 9 percent prompted by issues arising from switching supplier.

The increases in fuel and fuel debt problems over the last three years are summarised in the chart below:

Chart 1:



Citizens Advice information about fuel debt client profile

Bureaux also record information about the profile of their clients. In 2007-8 bureaux helped 39,538 clients with 69,500 fuel debt problems, and information captured about these clients reveals that:

- of the 18,041 clients who provided information about their level of income, 31% had an income of under £400 pcm, with a further 22% having an income of between £400-599 pcm and 24% having an income of between £600-999 pcm;
- of the 27,464 clients who provided information about their household status, 68% were single (37% were single, 28% were single with dependent children and 3% were single with non-dependent children);
- of the 36,620 clients who provided information about their age, only 6% were aged 65 or above;
- 32,934 clients provided information about whether anyone in their household had a disability, with 27% stating they did have a disability.

General comments

Citizens Advice welcomes the opportunity to respond to Ofgem's *Energy Supply Probe – Initial Findings Report*. Previously we called for Ofgem to actively scrutinize the way that the energy market is working as in our view there were – and remain - a number of features of the market which suggest that the market is not working as it should. Moreover, these factors disproportionately affect people on low incomes and vulnerable consumers.

We applaud Ofgem for the thorough analysis contained in the Initial Findings Report. We consider that the report accurately identifies many of the shortcomings that currently beset the energy market. **We now expect Ofgem to outline a plan of immediate and decisive action to correct the failings that it has identified.** While it is right to seek to work collaboratively with the industry to achieve these changes, Ofgem should not hesitate to take unilateral action should there be the prospect of delay or lack of cooperation. Many millions of consumers have lost out through the way the energy market currently operates – they should not be forced to wait any longer than strictly necessary for the market to be made to work better for them.

Our response to Ofgem's publication focuses on three areas which affect CAB clients and people on low incomes more generally, and where Ofgem's report highlights that competition is not working well. Specifically:

1. **we want to see an end to payment differentials for prepayment meter (PPM) customers and people who pay for their fuel by standard credit.** We would argue that there is also a role for social tariffs to be used in conjunction with cost-reflective tariffs on wider grounds of social equity;
2. **direct selling must be radically overhauled to ensure that it works in the interests of consumers, many of whom have no other means to access cheaper or competitive deals.** One option would be to limit switching via direct sales to cases where it can be proven that the consumer is moving to a cheaper deal. Alternatively, the salesperson should have to provide a quotation that compares the rate on offer to the customer's current tariff or featuring the comparative rates offered by all the major suppliers; and
3. **customers who are off the gas network are losing out on a number of fronts:** the price of domestic oil has rocketed in recent times; there is a dearth of competition in many areas; payment options are few and discriminate against people on low incomes; and access to sources of advice, information and financial assistance for people in fuel poverty is often denied to people who rely on domestic oil or liquefied petroleum gas (LPG). For too long the plight of customers off the gas network has been overlooked. **As well as continuing work to look at the feasibility of extending the gas network, immediate action must be taken by Government to extend Ofgem's regulatory oversight to cover domestic heating oil and LPG. As part of this, Ofgem should make sure that similar protections and assistance provided to customers on**

the gas network is offered to those who do not have a connection to the gas network.

Payment differentials for PPM customers and people who pay for their fuel by standard credit

Ofgem's initial findings report highlights areas where certain groups have been systematically overcharged, stating that:

> *"a number of the price differentials between payment types do not appear to have a cost justification – particularly for those customers who pay by standard credit"*
>
> *"some PPM customers still pay a larger premium than is justified by the costs incurred"*
>
> *"Overall, these price differentials mean that companies charge more to existing ("sticky") customers whilst maintaining competitiveness in more price sensitive segments"*[1]

We are particularly concerned about the large surcharges paid by customers with prepayment meters (PPMs) or those who pay for their fuel by standard credit. At a time when the number of people in fuel poverty has been rising rapidly, the additional amounts charged by many fuel suppliers for PPMs and standard credit have been a not insignificant contributor to affordability problems. Since those on the lowest incomes are more likely to use standard credit[2] and PPMs[3] these surcharges disproportionately affect people on low incomes, forcing them to pay significantly more than customers who pay by direct debit.

> A CAB in Oxfordshire reported a case in which their client, a single mother with a son aged 6, was struggling to pay for her fuel bills. The client is on an electricity pre-payment meter and because of her lack of money she currently has no electricity and is living in a dark house. The fact that pre-payment meters charge a higher amount for electricity than if she was paying via direct debit has further exacerbated her inability to pay for electricity. As the CAB adviser notes "the extra cost of prepayment meters compounds problems of households struggling to pay for electricity on a day by day basis".

[1] *Energy Supply Probe – initial findings*, Ofgem, p.8-9

[2] *"SC is also a particularly important payment method for vulnerable customers, with 50 per cent of the fuel poor using this route to settle their bills. In particular, SC tends to be used by over 65s and social group DE households (in both cases around 25 per cent more frequently than the average, according to Ipsos MORI)." Energy Supply Probe – initial findings*, Ofgem, p.110

[3] Ofgem research found that PPM usage is high among low income/social group E households, with approximately 25 percent of those with annual incomes below £10k using PPMs and 20 percent of those in social group E doing so. *Ofgem Accent market research*, May 2005

> A CAB in North London helped a client who is a single parent with four children aged 7, 8, 9 and 11 years of age, and who is in receipt of child benefit and Child Tax Credit. The client is a student nurse and she lives in rented accommodation where she has a prepayment electric meter. Initially the client had wanted a PPM to help her budget for the electricity she uses but the PPM is proving to be too expensive for her to use because the tariff is too high. The client is now having to consider changing the way she pays for her electricity.

We are somewhat surprised to learn that Ofgem has found that PPM tariffs to be, on average, broadly cost reflective, with service costs for PPM customers estimated to be £88 per customer higher than for a direct debit customer. However, we note that some PPM customers continue to pay more than they should due to other factors, such as regional pricing or fixed charges. The following case shows one way in which this may occur:

> A CAB in Cumbria reported that their client has a gas pre-payment meter, for which he is charged a daily standing charge. Until 27.08.08 the daily standing charge was 37.3p per day + VAT at 5% and from 28.08.08 the standing charge increased to 45.8p/day + VAT at 5%. In the last six months client has paid £145.96 for gas charges, and of this figure £75.36 (51.63%) is standing charge. The client has a pre-payment meter in house because it was there when he moved in but he had no idea that a large percentage of the credit he buys to pay for gas was used to pay a standing charge. He came to the CAB because he couldn't understand why, every time he put his card into the PPM, the amount of credit on it was reduced even though he hadn't used any gas and wasn't in arrears. When the CAB adviser called the fuel supplier, they were informed that their standing charge applies only to PPMs to cover the cost of more frequent call-outs.

We welcome the fact that Ofgem proposes to introduce a new licence requirement on suppliers that differences in charges for different payment types must be cost-reflective. This is a useful start. We would argue that in order to ensure that PPMs are not just cost-reflective but more affordable to people on the lowest incomes, suppliers should ensure that people who pay for their fuel by PPM or standard credit are able to access their social tariffs

We would also be instinctively in favour of imposing a prohibition on undue price discrimination or introducing a form of relative price control, and would be interested to learn more about how Ofgem envisage this would operate. We are particularly concerned that many fuel suppliers offer vastly lower tariffs to online direct debit consumers which may be inaccessible to many lower income consumers or those in C2 and DE socio-economic profiles. For example, Consumer Focus' energy supplier price comparison sheet for the South West region (dated 4 November 2008) for a medium user with British Gas reveals that someone paying for their gas by prepayment meter will pay 24% more than an on-line customer paying by direct debit (£923 compared to £746). For electricity, the difference rises to more than 50% - £487 for the PPM compared with £320 for the on-line direct debit tariff. Yet recent Ofcom research reveals while 65% of homes now have access to the internet at home, this falls to 43% for people in the socioeconomic profile DE, and 32% among those with annual household income below £11,500.[4] In our opinion, the way in which the suppliers are able to differentiate between groups of customers, actively competing for 'active' consumers while charging much higher prices for what Ofgem refer to as "sticky" consumers, is grossly unfair and leads to people who can least afford large bills paying more and effectively cross-subsiding better tariffs for more affluent and engaged consumers. In this respect, we concur with The Committee of Public Accounts which recommended that Ofgem should investigate why companies are able to charge PPM customers more and whether the apparent discrimination against them represents an infringement of the companies' licences, or of consumer protection or competition law.[5]

Although we see the need for regulation to outlaw undue price differentials, we are also supportive of complementary measures to promote more active consumer engagement. At present it can be very difficult for a customer to understand how much they are paying for their fuel, and how this compares to what would be paid if payment was made by a different payment method or different supplier. In our opinion, the proposals outlined by Ofgem have the potential to be very helpful in bringing clarity to this murky area. We are supportive of the measures outlined by Ofgem, including:

- clearer information on customer bills;
- an annual statement which would include information about the customer's current tariff plus the size of any premium they are paying above some easily-understandable benchmark, plus their annual consumption;
- information about alternative price packages and tariffs available from that supplier, including the existence of, and eligibility criteria for, the supplier's social tariff;
- an annual reminder to all customers of the ability to switch supplier and how to do so, including information about different types of payment method and the savings which can accrue from changing payment method. It will be imperative that this does more than signpost people to online switching sites which may be inaccessible to some people, particularly those on low incomes. A more radical option would be to mandate that all energy contracts be arranged on an annual basis, such that a customer would have to renew their contract each year in the same way that they do so for various general insurance products. Such a proposal may well engender new life in the market and actively encourage all types of consumer to consider shopping around for a better deal.

---

[4] *The Consumer Experience 2008,* Ofcom, p.29
[5] *Protecting consumers? Removing price controls*, Public Accounts Select Committee, October 2008, p.5

We are particularly interested to contribute to the development of an easy to understand price metric, since we think that this could help to simplify the switching experience.

In the same vein, we would strongly support Ofgem's aim to promote confidence in price comparison and switching sites, and extend their reach to low income and vulnerable groups. At present, the proliferation of switching sites can confuse since different sites may not cover all suppliers or all deals with certain suppliers, so customers get different results from different switching sites. If

Direct selling

Switching is usually referred to as a good in itself, with high levels of switching being interpreted as an indicator of healthy competition and a market that is working well.[6] However, as Ofgem's initial findings report makes clear, large numbers of people who switch do not switch to a better deal – indeed as many as one third of switchers may not achieve a price reduction, and this proportion is even higher for PPM customers (45%) and consumers who switch as a result of a direct sales approach (48 per cent for gas, 42 percent for electricity). Truly, these figures are a damning indictment of the value of direct sales from a consumer perspective, with almost half of those switching by this route moving to a worse deal.

Problems with direct sales in the energy market are not new. Despite the introduction of the Energy Retail Association's *Code Of Practice For The Face-To-Face Marketing Of Energy Supply,* Citizens Advice Bureaux continue to report significant numbers of cases in which customers are hoodwinked or aggressively persuaded to switch their energy supplier. In some instances this would appear to be blatant mis-selling or fraud:

> A CAB in Worcestershire reported a case in which their client received a call from a salesperson from a fuel supplier. The salesperson asked various questions relating to the client's electricity supply, during which the client disclosed his telephone number. The salesperson advised the client that his supplier could offer him electricity more cheaply than his current supplier and invited him to sign a form. The client refused to do so, however, as he did not wish to change supplier. On 27 October the client received a letter from a new supplier (which the salesperson had been working for) asking for his meter reading and informing him that his supply would be switched on 4 November. The client phoned his existing supplier informing them of his wish to remain with them, and they promised to attempt to resolve the matter. On 5 November the client received a new PPM payment card from the new supplier and a letter that informed him that his current card was no longer valid. On telephoning the gaining supplier, the CAB adviser was informed that the switch had already taken place despite the fact that the client never signed the appropriate form.

[6] *Over 2.8 million households switch supplier*, Press Release, Ofgem, 17 October 2007

A CAB in Leicestershire reported that their client was visited by a doorstep salesperson for a fuel supplier on 28 May 2008 and willingly switched supplier. Two days later he was visited by another doorstep salesman from another supplier. The client explained he has switched supplier just 2 days previously and was not interested in switching again. The salesman asked the client to sign a form to confirm they had visited, and the client did so. About a week later he looked at the paperwork the salesman had left and realised it was a welcome pack and included a signed contract to switch.

As well as cases of mis-selling, bureaux report large numbers of cases where people have been persuaded in an aggressive manner to switch supplier or hoodwinked into switching by salesmen who make promises that they will get a better deal and pay less for their energy. Unfortunately these promises often turn out to be hollow.

A CAB in Greater Manchester reported a case involving their client, a 78 year old widow who lives with her 86 year old partner. The client has had two bouts of cancer and is in remission, she also has arthritis while her partner is also sick and in receipt of Attendance Allowance. The client had a visit on the doorstep from a fuel supplier who persuaded her to switch supplier with a promise that her direct debit would be £50 a month for both fuels, which was less than the £65.45 that she was currently paying. However this turned out to be far from the case, and her dual fuel bill went up to £121 per month. Following intervention from the client's son and the local CAB a complaint was made about the switch. However, it took over six months of phone calls and correspondence for the matter to be resolved, and even then the client did not receive the £75 compensation that she had been promised.

A CAB in North London reported a case in which their client, an elderly lady with hearing difficulties who has a son with a learning disability, received a visit from a fuel supplier's salesman. The salesman persuaded the client to switch supplier because he told her that it would be cheaper. In fact, the tariffs for the new supplier were more expensive and prompted the client to switch back to her original supplier after a short time. The client is now receiving demands from a debt collector for £41.86 for the period when she switched supplier because the rates were so much higher. The client is very upset and frightened by the red letters she has received from debt collectors.

If Ofgem is serious about making the market work better for all, including those who may not have access to the internet or may not be 'active' consumers, then it is imperative that direct sales are made to work correctly. At present, it would appear that suppliers can engage direct sales agents to boost their customer numbers without having to actually offer a competitive price since almost half of people who switch after being approached by direct sales end up switching to a worse deal.

Citizens Advice would be supportive of Ofgem's attempts to clean up this area, so that people can make use of direct sales to access the competitive market in a way that delivers benefits to them rather than commission to dubious salesmen, or new customers to uncompetitive suppliers.

Ofgem rightly proposes that suppliers' sales and marketing activities should be strengthened to enable consumers to make well-informed decisions in response to a direct sales approach, and to prevent any misleading marketing or sales activity. To do so, it proposes that suppliers could be subject to an obligation to provide consumers with a written quotation and comparison with the consumer's current price. This is a very useful first step, but we would suggest going even further, and only permitting switched to take place where it can be verified that the consumer is being offered a better deal than that which they are currently on. Alternatively, the salesperson could be obliged to provide a quotation that features the comparative rates offered by all the major suppliers. Certain protections would also need to be put in place to ensure that people were not induced to switch immediately prior to a forthcoming price rise – perhaps this might take the form of allowing the customer to cancel the arrangement should a price rise subsequently be introduced. A simpler approach might be that the terms of the contract should be honoured by the supplier and the price guaranteed for the following year, though of course any price reductions should be passed on to the consumer.

Customers who are off the gas network

Ofgem's report highlights how the 4.3 million customers living in rural areas who are not on the gas network can lose out in a number of ways. Not only do such consumers have to pay significantly higher costs for their fuel (be it domestic heating oil, LPG or electricity) but their high costs are compounded by the fact that they are unable to benefit from dual fuel discounts. This is made even more difficult to bear since Ofgem's report reveals that the five former incumbent electricity suppliers earn significantly higher margins on electricity supply than on gas and that there is no cost basis for this practice.

Bureaux situated in rural areas highlight other issues which discriminate against their clients, such as:

- the dearth of competition between domestic oil heating or LPG suppliers in many rural areas;
- the lack of comparison sites for domestic oil heating and LPG which might allow consumers to shop around;
- the limited number of payment options available;
- the minimum delivery amounts which discriminate against people on low incomes; and
- the lack of access to sources of advice, information and financial assistance for people who rely on domestic oil or liquefied petroleum gas (LPG).

The following cases show the impact that these unwelcome features of the market can have on people on low income:

> A CAB in South West Wales reported a case in which their client, who is in receipt of pension credit and disability living allowance due to arthritis, experienced real difficulties in paying for her fuel. The client's heating and hot water are provided by oil which is now costing £740 per tank when it cost only £150 a few years ago, and recently prices have increased dramatically. The client is very concerned that she will no longer be able to afford heating oil this winter, yet she needs to keep warm to avoid aggravating her arthritis. She is thinking of turning off the upstairs radiators and sleeping downstairs, and has also thought about selling her home.
>
> A CAB in Gloucestershire reported a case in which the client's immediate problem was that she could not afford to heat her home which is served by an oil-fired boiler. The client cannot move because, to redeem her deposit, she has to fill up the oil tank (it was full when she moved in August 07). The client has incurred two loans for extra oil since then and these are being paid back out of her income support. The client has tried to resolve this matter and approached a number of organizations for assistance, such as the local council, various helplines (including the Home Heat Helpline) as well as social services. She has also tried to negotiate with two oil companies but they are only willing to accept unaffordable minimum payments and will not make a delivery (minimum 500 litres) until she has built up some credit.
>
> A CAB in Cornwall helped client who was struggling to purchase oil to heat her home. The client is a single person with dependent children and is living on benefit income in a rented property that is heated by oil. She came to the bureau because she had almost run out of oil and could not afford to pay for a delivery due to spiraling costs. When she rang up to order more oil she found that the price had risen enormously and no supplier was prepared to deliver less than 450 litres at a cost of about £300. Since the client is on income support she does not have such money available. The bureau applied for a grant for the client and she was awarded up to £200 but the client was unable to afford the additional £100. As a result, the client and her children are living in a property that has no heating and no hot water.

For too long the plight of customers off the gas network has been overlooked. As such, fuel poverty in rural areas has not been accorded the attention it merits. Yet the definition of fuel poverty does not discriminate by the type of fuel people use so there is a strong case for equal treatment. We therefore think that as well as continuing work to look at the feasibility of extending the gas network, Ofgem should actively seek to extend the scope of its jurisdiction to cover customers who are off the gas network and who therefore have to rely on domestic heating oil and LPG. As part of this extended remit Ofgem should, as a matter of priority, make sure that similar protections and assistance that are provided to customers on the gas network are offered to those who do not have a connection to the gas network. This should include launching an investigation of the operation of competition in this market, ensuring that customers can purchase smaller amounts of fuel and pay for their oil at an affordable rate, and enabling customers to take advantage of the same information, advice and assistance that is available to customers on the gas network.