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Dear colleague

Regulatory expectations on supporting customers in payment difficulty

Energy consumers face an increase in energy prices this winter. Energy is an essential service that consumers need to heat and power their homes and other energy-dependent activities. People who are not able to afford the energy they need are at risk of serious harm.

We welcome the financial support provided by governments to help consumers manage increasing energy costs. Notwithstanding this support, many consumers remain under pressure and will struggle with their bills this winter and beyond. It is therefore imperative that we play our role in protecting consumers by making sure they are treated fairly and receive positive outcomes from their energy supplier.

We expect suppliers to fully meet their regulatory obligations covering all aspects of consumer vulnerability including affordability, debt, metering, and the Priority Services Register. Energy companies have a duty to support customers in vulnerable situations through their licence obligations and other legal requirements such as the Equality Act 2010.

We are therefore setting out key expectations on suppliers including areas where suppliers can adopt good practices to better support their customers. Alongside this letter we are publishing good practice information, our latest consumer panel research on energy affordability and the support provided by suppliers, and the results of our Market Compliance Review covering customers in payment difficulty.^{1 2 3}

Our main regulatory requirements

We expect suppliers to take the following actions in line with their licence obligations:

- Consumers can easily contact their supplier and are treated fairly when they do.

¹ Ofgem (2022) [Good practice for supporting customers in payment difficulty](#)

² Ofgem (2022) [Consumer First Panel – Affordability and Supplier Support](#)

³ Ofgem (2022) [Ofgem completes review of how suppliers support customers in payment difficulty](#)

- Customers in vulnerable situations are identified and provided additional support where appropriate. Ensure Priority Services Register data are up to date and shared with relevant parties where required and in line with data protection.
- Make proactive contact with customers in payment difficulty through a range of communication methods.
- Always take into account a customer's ability to pay, including before escalating the debt recovery process. Give due consideration to information from third parties such as charities a consumer may be represented by.
- Ensure prepayment meters are safe and reasonably practicable in every case and act quickly to change the meter to non-prepayment if necessary.⁴ This is particularly important for consumers dependent on a continuous energy supply for medical purposes.
- Debt recovery actions are always fair and proportionate. Do not escalate debt recovery actions too quickly and ensure third party representatives, such as debt collection agencies, abide by the same regulatory obligations and treat customers fairly.

Market Compliance Reviews

In recent months we have undertaken several Market Compliance Reviews to ensure suppliers are fulfilling the licence conditions they require to operate.

Our Customers in Payment Difficulty Market Compliance Review is a detailed look at suppliers' operations and governance underpinning how customers are supported when they cannot afford their bills. Whilst some suppliers have reasonable measures in place to identify and support customers in payment difficulties, the review has identified some very concerning results in some cases and more action is needed to improve arrangements.

We have therefore opened compliance engagement or enforcement action to ensure that suppliers address the weaknesses we have identified so that customers experience the best outcomes possible when they find themselves in payment difficulties.⁵

We have also conducted a Market Compliance Review into the systems and processes suppliers have in place to support consumers in vulnerable situations. The issues investigated overlap with the expectations and specific areas outlined in this letter and we will set out our findings in due course.

Specific areas of focus and good practice

Based on the range of evidence, we have identified a number of key areas which suppliers need to focus on. There is also an opportunity for suppliers to learn from good practice and consumer research on how to treat consumers who are struggling to pay their energy bills.

Identification of financial vulnerability

We are concerned that financial vulnerability is not being identified consistently or early enough in the customer journey. Proactively identifying financial vulnerability by monitoring accounts for indicators of financial stress before a customer reaches crisis point can increase the likelihood of a positive customer outcome.

⁴ Ofgem (2016) [Safe and Reasonably Practicable Guidance](#)

⁵ Ofgem (2022) [Ofgem completes review of how suppliers support customers in payment difficulty](#)

With over 50 per cent of consumers having at least one characteristic of vulnerability and at least 10 million consumers in a position of low financial resilience, we want to see more suppliers introduce or improve existing tools and processes so customers struggling with their bills can receive the right support at the right time.⁶ This could include innovations such as the financial vulnerability needs codes many suppliers introduced during the COVID-19 pandemic.

Ability to Pay

We continue to observe poor customer experiences where suppliers are not always taking ability to pay into account, and some suppliers have been setting minimum repayment rates. Customers struggling to pay their bills should not be pressured into paying what they are unable to afford.

We expect suppliers to set repayment rates that are affordable based on a customer's ability to pay. If a customer is unable to pay their arrears, staff should be empowered to provide a range of forbearance options that focus on sustainable debt solutions, not short-term debt recovery. Suppliers must give due consideration to all available information when assessing ability to pay from third parties. This could include the use of Standard Financial Statements.

Self-disconnection and self-rationing

We know the frequency and duration of self-disconnection and self-rationing will increase this winter because of high energy prices. Citizens Advice have reported more consumers unable to top up their prepayment meter this year than the last three years combined.⁷ Self-disconnection and self-rationing can cause significant negative impacts on consumers who may be forced to live in a cold home without access to, or unsafe levels of heat and power.

We remind suppliers of the rules we introduced in winter 2020 around self-disconnection, self-rationing, and supporting customers struggling with their bills. Suppliers must take all reasonable steps to identify on an ongoing and continuous basis whether a customer is self-disconnecting.⁸ This applies to both smart and traditional prepayment meter customers. We expect suppliers to offer additional support credit to customers who have self-disconnected or self-rationed where it is in the customers' best interest and/or where the customer is in a vulnerable situation.

Prepayment meters – safe and reasonably practicable

Prepayment meters should not be installed or remotely switched without carrying out the appropriate safe and reasonably practicable assessment, including identifying any vulnerability. Prepayment meters should only be used where it is safe and reasonably practicable. Where it has been assessed that a prepayment meter is not safe or reasonably practicable, for example in cases where consumers need continuous energy supply, suppliers should take immediate steps to change the meter type and remove the risk of consumer harm.

Suppliers should always have ability to pay conversations with their customers before attempting to force-fit a prepayment meter to recover debt. If a customer is unable to afford their bills, force-fitting a prepayment meter increases the likelihood of self-disconnection and associated harm. Force-fitting a prepayment meter under warrant is always a last resort and we expect all other routes of debt recovery to be fully exhausted before applying for a warrant.

⁶ Financial Conduct Authority (2021) [Financial lives survey](#)

⁷ Citizens Advice (2022) [Cost of living dashboard](#)

⁸ Ofgem (2020) [Self-disconnection and self-rationing: decision](#)

Debt recovery actions

We are concerned that too many consumers are receiving poor experiences when suppliers are recovering debt. We expect debt recovery actions are always fair and proportionate and aimed at achieving good consumer outcomes. We expect representatives acting on behalf of suppliers, such as debt collection agencies, to abide by the same regulatory requirements we place on suppliers.

Debt communications should strike the right tone, are understanding of the circumstances, and provide clear debt solutions and support. Our consumer research has indicated that consumers value being listened to and shown empathy. This can increase the likelihood of engagement and a positive outcome.

Next steps

In order to support consumers in what is going to be a very difficult winter, because of the rise in energy prices as well as the difficult macro-economic issues, we expect suppliers to do their utmost to support their customers. As a minimum that includes full compliance against their regulatory obligations and the expectations we have set out in this letter. We will take further action, including compliance and enforcement, if we see suppliers falling short of these.

Yours sincerely,

Neil Lawrence
Director of Retail