

Ofgem – Changing standing charges for prepayment meters and debt-related costs across payment methods.

A response by Scope

January 2024

Introduction

Scope welcomes the opportunity to respond to this consultation on the updated levelisation proposals. The Energy Price Guarantee (EPG) – a scheme providing some relief to standing charges – is set to end in April 2024. It is encouraging that Ofgem recognises the unfairness of the system which exists for standing charges and is consulting on adjusting costs between payment methods, to make standing charges more equitable.

At present, the approach to standing charges primarily benefits high-usage households, many of whom are also likely to be on a higher income, whilst negatively impacting lower-income households on the assumption that they have lower energy usage.

However, this does not account for vulnerable households, many of whom are on a low-income but have high energy usage associated with a disability or health condition. We found that over one third¹ of disabled adults state that their impairment or condition has an impact on how much energy they use and 91% of disabled consumers report being worried about energy bills.

There is also an intrinsic link between disability and poverty with disabled households continuing to be at a disproportionately high risk of poverty compared to non-disabled households. Many find themselves on a low income or in receipt of benefits. High energy costs are part of the significant extra cost associated with being disabled, captured in Scope's Disability Price Tag Figure. This shows that disabled households need an additional £975 a month to have the same standard of living as non-disabled households.²

¹ Scope (2022), Cost of Living – Policy report, <https://www.scope.org.uk/campaigns/research-policy/cost-of-living-report/>

² Scope (2023) Disability Price Tag - <https://www.scope.org.uk/campaigns/extra-costs/disability-price-tag-2023/>

We know that standing charges accrue on PPM as a debt that must be cleared. For PPM households - which accounts for 33% of all disabled households seeking help from Scope, a higher standing charge represents a larger barrier for these customers regaining access to their supply. Rather worryingly, this places many at risk of self-rationing or disconnecting from their supply completely.

PPM premium

We already know that people on PPMs pay more than those on credit meters, and this includes many disabled households. This is classed as part of the 'Poverty Premium'³, which has been estimated at £46⁴ more per year than people on non-PPMs. This group of consumers also pay for their energy in advance, over a shorter period, and so are already placed at a significant disadvantage.

Within our response, we have chosen only to answer the questions on which we have expertise.

1. Do you have any comments or views on our updated case for the introduction of levelisation of payment methods?

Ofgem have highlighted⁵ cohorts which are significantly more financially vulnerable, such as PPM and Standard Credit (SC) consumers compared to direct debit (DD) consumers. It was of concern to Scope that Ofgem originally proposed to only levelise PPM and DD, despite stating that some customer cohorts are considerably more vulnerable than others.

It is therefore Scope's view that levelisation should occur across payment types, including DD and SC, alongside the removal of the PPM premium.

³ Fair by Design (2022) – The cost of living and levelling up, https://fairbydesign.com/wp-content/uploads/2022/11/NOV_22_Local-poverty-premium-summary-report_v02.pdf

⁴ Scope (2022), Cost of Living – Policy report, <https://www.scope.org.uk/campaigns/research-policy/cost-of-living-report/>

⁵ Ofgem (2022), Consumer Impacts of Market Conditions survey – Wave 3 (Nov/Dec 2022), <https://www.ofgem.gov.uk/sites/default/files/2023-05/CIM%20Wave%203%20Report.pdf>

2. Do you agree with our levelisation policy aims?

Yes.

3. Do you agree with our proposed approach to levelisation?

Yes.

4. Do you have any views on the proposed amendments to SLC 28AD and model changes under Annex 9?

N/A

5. Do you agree with our proposal to include uncapped contract numbers in the levelisation reconciliation?

Yes.

6. Do you agree with our proposal not to introduce an SLC requiring suppliers to offer the same standing charge on equivalent DD and PPM tariffs?

No. It is Scope's view that there is insufficient reason for not introducing a Standard Licence Condition (SLC) within the uncapped contract market. Concern over harming competition and innovation as well as difficulties in assessing supplier compliance with SLC's were amongst the reasons Ofgem provided.

Introducing an SLC would hold suppliers accountable through consequences for non-compliance or breach of mandatory conditions. We are concerned that without a robust mechanism in place to identify non-compliance or breaches of conditions, such as an SLC, Ofgem would remain reliant on specific reports of supplier behaviour from Scope and other organisations. If this were the case, it is worrying that cases may go unidentified.

7. Do you have any views on our other considerations related to levelisation, regional levelisation and treatment of smart PPM?

As stated in our September response, a more robust information sharing process would allow suppliers to improve the way consumer information is recorded, such as recording:

- PSR status and age (75+ and households with children 2 and below).
- Disabilities/impairments/conditions.
- Dependents.
- Employment status.
- Occupancy type (tenancy/mortgage/outright owner).
- Meter type (pre-pay/credit).
- Debt amount.
- Property type and age.

A strong method of data sharing between Ofgem and Government could enable greater collaboration and create a much more effective method for ensuring that vulnerable consumers are protected and supported.

8. What are your views on our updated options including the need for a reconciliation mechanism and phasing of implementation?

N/A

9. Do you agree with our proposal to exclude fixed term contracts agreed prior to our decision date from our levelisation proposal?

No. Whilst Ofgem's own assessment found that suppliers could lose up to £20 million by including pre-April 2024 fixed term contracts in the reconciliation, excluding those consumers would be going against the aims of levelisation.

It is Scope's view that levelisation would be futile, and more costly to consumers if pre-levelisation tariffs still existed post-April 2024.

Findings from Scope's Disability Energy Support (DES) Service.

Scope's DES Service receives referrals from disabled people. A percentage of these people will then have an appointment with a DES

adviser where they share information about their circumstances, such as meter type, debt amount, and whether they use medical equipment.

Between 01 January 2022 and 30 November 2023:

- 14,689 disabled households contacted Scope's DES service.
- February 2023 saw a 129% increase in referrals, with July 2023 at a close second of 120%, and October 2023 third at 31%.
- Average annual consumer debt has increased by 4%, with September 2023's monthly average standing at an all-time high of £1,794.

Many of the households contacting DES are being pushed further into debt simply to power often lifesaving medical equipment:

- Average annual percentage of consumers turning off their medical equipment stands at 18%.
- 33% turned off equipment in April 2023, and 20% turned off equipment in November 2023.

10. Do you agree with our proposal for suppliers not to carry out, at their expense, an audit of their systems, processes, and data to be used in reconciliation?

Paragraph 6.29⁶ of the consultation states that consumers would be responsible for funding auditing, and paragraph 6.31 states this will be at the supplier's expense.

More transparency and clarity would be welcome regarding whether consumers or suppliers would bear the costs of a more robust auditing system. Any extra increase to bills for disabled consumers is

⁶ Ofgem (November 2023), Changing standing charges for prepayment meters and debt-related costs across payment methods, <https://www.ofgem.gov.uk/sites/default/files/2023-11/Changing%20standing%20charges%20for%20prepayment%20meters%20and%20debt-related%20costs%20across%20payment%20methods1700666797619.pdf>, 6.29, 6.31, Page 48

unacceptable, especially given Ofgem's recent proposal⁷ to increase consumer bills by £16 through a price-cap adjustment. Ofgem have shared that they do not foresee this increase as the solution to bad debt and will seek alternative approaches through policy changes. If policy changes are being viewed as a potential resolution, increasing bills could be seen as acting prematurely.

For more information, please contact:

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⁷ Ofgem (December 2023), Energy regulator sets out proposals to help ensure customers at risk of getting into debt are better supported, <https://www.ofgem.gov.uk/publications/energy-regulator-sets-out-proposals-help-ensure-customers-risk-getting-debt-are-better-supported>