

Consultation Response - Citizens Advice across Warwickshire.

Subject: 'Supplier GSOP Payments Inflation Uplift'

Deadline: June 7, 2024.

Introduction

Citizens Advice working in partnership across Warwickshire is an effort to embed and coordinate research and campaign responses to issues that impact our clients which combines the expertise and experience of three local CA offices (LCAs) - CA South Warwickshire, North Warwickshire CA, and Bedworth Rugby & Nuneaton CABx (Brancab).

Between the three LCAs, in 2023-24, over 17,000 clients were supported with over 101,000 issues. This represented a 36% increase in clients seen and a 35% increase in issues resolved. Across the county there was a 59% increase in issues around utilities.

Each LCA delivers its own energy advice projects.

It is from this perspective, and in response to conversations with front line advisers in the field, that we have responded to the questions in this consultation.

Key Questions

1: Do you agree with our rationale and assumptions for the supplier GSOP payment level uplift?

Standard payments are intended, according to the consultation document, to act as a financial incentive to drive up standards amongst energy suppliers. Logically, if the numbers of breaches of minimum consumer standards are not going down, the level of financial incentive to change supplier behaviour must not be high enough. Our advisers noted that we are not told anywhere in the consultation document whether the number of breaches have gone up or down in recent years so cannot objectively judge whether the current standard payment is working or not (though, it was felt that if the proposal is for the standard payment to go up, then it is a fair assumption that the number of breaches is increasing).

Our advisers also felt that a working 'financial incentive' would also require that access to this payment, and knowledge of it among consumers, is respectively simple and widespread; so the number of payments made accurately reflects the number of breaches experienced by consumers.

However, it is implied in the consultation document (though not clearly stated) that "suppliers self-assess their compliance", begging the question, 'how can a 'punishment payment' be judged a financial incentive to behaviour change if consumers affected by breaches aren't able to apply for compensation payments when they feel a breach has occurred?'. Taken at face value, our advisers believe supplier self-assessment seems wholly inappropriate and counter to the purpose of the payments scheme.

Having stated that payments are intended to drive up minimum standards amongst suppliers, without showing whether the numbers of breaches have gone up or down in recent years, the document then clearly states that the standard payment bears no relation to the impact of the breach on the consumer and, by extension, does not increase for repeat offences (against the same consumer) or vary according to the severity of the consumer impact. As such it is truly a token payment, that is to say it has no impact on the energy supplier breaching minimum standards. Our advisers believed this fact clearly contradicted the primary purpose of such payments being a financial incentive to drive up standards.

Our advisers agreed that the standard payment is too low and must be raised. They read the consultation document and see it is both a 'token payment' (adjudicated by the suppliers themselves) and yet, simultaneously, intended as a financial incentive to drive up standards, and believe the only way it can be both is if the standard payment is uplifted each year, or based on a 3-5 year inflation forecast, but starting from a much higher baseline. They suggest a one-off uplift to £50 (plus a doubling for repeat or severe offences), and then a 3-5 year uplift based on a 3-5 year HCI inflation forecast (rather than a CPIH forecast).

2: Do you agree or disagree with our preferred option for uplifting payments?

Our staff understand and agree with the rationale behind the pros and cons of each uplift option as described.

In accordance with the comments above, however, they firmly believe the starting point for any 'token payment' which is, simultaneously, intended to act as a financial incentive to drive up minimum standards amongst suppliers, should be much higher than £35-40.

On those grounds Option 2 is the nearest to their wishes in terms of an uplift mechanism.

3: Are there any factors that we have not considered for each of the options under consideration?

If a financial incentive is intended to drive up standards by reducing breaches of minimum standards our advisers believe it stands to reason that the success of that financial incentive can only be measured by whether reports of breaches and/or numbers of payments made to compensate for breaches are going up or down. If reports/payments are going down the incentive is working. If reports/payments are going up, or are static, the incentive isn't working.

As there appears to be no evidence provided in the consultation document either way on this score it is tempting to conclude that these payments and this scheme are 'token' in the worst way; that is, an insignificant payment, determined by the suppliers themselves, that bears no relation to the detriment they cause, and does not act as any form of incentive for suppliers to change their behaviour.

Tellingly, figures are described for the cost to suppliers of uplifting the standard payment, but on the assumption that the average number of breaches remains static. The very opposite

assumption that should be made. A worthwhile financial incentive for behaviour change will change behaviour and be reflected in reduced costs to suppliers. If the cost to suppliers remains insignificant, where is the incentive to change?

On this premise uplifting a baseline payment that is too low to begin with will have no positive impact. To make this payment scheme work, for its to fulfil its stated objectives, our advisers believe the following is required:

(i) the scheme must be well publicised to consumers so they know where and how to report a breach of minimum standards,

(ii) consumers must be able to report breaches easily (online or offline) and see prompt responses to their applications for compensation - whether for standard payments or enhanced payments (see below).

(iii) standard payments should start at a much higher figure, £50 for example, and should be doubled to £100 for breaches with a significant impact on consumers and/or for repeat offences involving the same consumer,

(iv) payment rates should be adjusted every 3-5 years based on a 3-5 year HCI inflation forecast, and

(v) data should be collected, published and reviewed annually on the number of breaches reported, the number of payments made and the total amount of compensation paid out (including a league table of suppliers according to their breaches of minimum standards).

Our advisers believe this is the only way to make this scheme work to drive up standards amongst suppliers and provide consumer confidence in the scheme.

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