

Fuel Direct Seminar – 24 September 2004

Over twenty delegates attended the fuel direct seminar. These delegates included suppliers, energywatch, Department for Work and Pensions (DWP) and the water industry.

The seminar was made up of 4 presentations

- Ofgem – overview of progress and issues
- National Consumer Council (NCC) giving a consumer viewpoint
- British Gas Trading (BGT) giving a supplier perspective and
- DWP giving their perspective

The seminar then proceeded to discuss the issues raised in the presentations before Ofgem rounded up the seminar and set out the next steps.

Background

The purpose of the seminar was to discuss the third party deductions scheme (known to energy companies as Fuel Direct and water companies as Water Direct) in order to review Ofgem's work to date on the scheme and potential improvements which could be made. There had been renewed interest in the scheme in recent months due to concern over disconnections. There was also interest in the scheme for other sectors such as water, which were experiencing increasing numbers of customers who are in debt.

Prior to the seminar, Ofgem circulated a background paper highlighting the key areas for discussion.

Presentations summary:

- Dave Barnes (Ofgem) reviewed the key areas of the background paper circulated prior to the seminar focussing on progress with improvements to date and the potential for expanding and modernising the scheme. He drew attention to the sharp decline in numbers on the scheme.
- Linda Lennard (NCC) focused on choice and access for all consumers. She drew on NCC's research into, why should the poor pay more? Key points of the presentation were:
 - Choice should be expanded to allow more customers to be included. For example, access to the cheaper tariffs for people without direct debit facilities and expanding fuel direct to include consumers who were not in debt.
 - NCC believed that further research is required targeting consumers receiving benefits to seek their views.

- Harry Metcalfe (BGT) offered a supplier's perspective on the advantages, disadvantages and potential improvements to Fuel Direct. The main benefits were:
 - the simplicity for the customer,
 - ease of administration,
 - ability to clear debt,
 - that the scheme ensures access to fuel in severe weather as there is no 'self-disconnection', and
 - the relatively low costs of administering the scheme.

The main disadvantages were:

- the inconsistency between benefits offices in terms of how eligibility criteria were applied,
- that fuel direct was used as a last resort and people were put on prepayment meters when fuel direct would be more suitable and
- the imperfect administration of the scheme on all sides in terms of eligibility, the amount taken out and the supplier receiving payment.

Potential improvements are:

- extending the qualification criteria to consumers not yet in debt,
- automation of administration
- possible specific tariff for fuel direct customers and
- possible charging by DWP for use of the service.

- Tim Roscamp and Laurie Cairns (DWP) stated that the reason the number of people on fuel direct has fallen over years could be attributed to the decrease in people receiving benefits. DWP stated that there were no current plans to extend fuel direct although it would be retained as a last resort emergency measure. Government policy was to tackle financial exclusion and encourage people to be less reliant on benefits. DWP was funding the voluntary sector to encourage people to set up bank accounts and therefore have access to all fuel payment methods and tariffs including direct debit payments.

Detailed summary of the seminar debate

- Watervoice pointed out the read across to the water industry. Research into why customers are not paying their water bills brought attention to the fact that water direct is not publicised adequately. Watervoice support these proposals to extend Water Direct and Fuel Direct to those not yet in debt. Watervoice believed that flexibility and increased access to the scheme was essential.
- NCC felt that further research could be beneficial to establish how consumers wanted to manage their household budgets. The DWP policy of mainstream financial inclusion could be combined with the extension of fuel direct and

water direct for those consumers who could not manage a bank account but were not in debt.

- Post office explained that card accounts at present do not have the facility to either make fuel direct deductions or allow direct debit facilities. The card account was designed specifically to have low functionality and lower entry criteria than basic bank accounts. Any changes would need agreement from the licence holder and specific direction from DWP.
- Suppliers felt that fuel direct could be extended to all vulnerable customers who are not necessarily in debt. Fuel direct prevented people getting into debt and paying customers cross subsidising customers in debt. PPM was more costly for suppliers to administer than fuel direct. Suppliers had concerns about DWP rejecting suppliers' applications for customers to go on fuel direct.

Summary of seminar discussions

Summarising the discussion, Ofgem suggested the key points to consider were:

- Understanding DWP's policy of overcoming the barriers of financial exclusion by encouraging people to get bank accounts and the extent to which this recognised the needs of vulnerable customers.
- Ofgem encouraged suppliers to present to Ofgem evidence of cases where applications for customers to go on fuel direct have been rejected by DWP. Ofgem offered to meet with suppliers and DWP to discuss these issues further.
- Ofgem said it would be attending the British Banking Association's meeting in November. Ofgem will take forward the views raised at the seminar and invited any further views people may have.