

Ofgem Energy Supply Probe – Initial Findings Report

Transact Response

November 2008

Introduction

Transact is the national forum for financial inclusion, a movement of over 1,300 organisations and individuals dedicated to practising and promoting financial inclusion. Our members include advice agencies, banks, community and voluntary organisations, funders, central and local Government, housing providers, third sector lenders, policy makers, private companies, social enterprises, training and employment agencies, as well as individuals interested in financial inclusion.

Transact welcomes the opportunity to respond to Ofgem's Energy Supply Probe Initial Findings Report. Our response to this consultation is based on online, telephone and email surveying of a range of Transact members, representing housing associations, Citizens Advice Bureaux and other money advice services. A full list of respondents can be found in Appendix 2.

Transact is an initiative of Toynbee Hall. Toynbee Hall produces practical innovative programmes to meet the needs of local people, improve conditions and enable communities to fulfil their potential. For more information on Transact, please visit www.transact.org.uk

If you would like to discuss any aspect of this response further, please contact Christine Quigley, Transact's Communications and Campaigns Officer on 020 7392 2989 or christine.quigley@toynbeehall.org.uk.

General comments

Transact's focus is on increasing financial inclusion for people experiencing the effects of poverty, including fuel poverty. Financial inclusion occurs when everyone has access to appropriate and desired financial products and services and so can manage their money effectively. It is achieved through increased financial literacy and financial capability on the part of the consumer and improved access on the part of financial product, services and advice suppliers.

There are up to 2.8 million adults in 1.8 million households in the UK¹ living without a bank account who are not able to make use of cheaper payment methods for utilities, such as direct debits. People who are financially excluded are estimated to pay a 'poverty premium' of around £1,000 a year² to pay for basic necessities such as gas, electricity and banking. They are most likely to be on a low income, live in social housing, be unable to work through sickness or disability, have low literacy and numeracy or be lone parents. These people are most likely to experience fuel poverty and be vulnerable within the energy market.

In addressing fuel poverty and the supply of energy, especially to vulnerable consumers, it is imperative that policy and practical links are made to broader financial inclusion strategies. Ofgem may also find it useful to link into work being undertaken by HM Treasury to consider how the unbanked market can best be stimulated to open accounts and use them effectively.

Whilst 68% of Transact members surveyed felt the biggest energy-related issue facing their clients was fuel poverty, with fuel prices too high for poorer people, the issue of costs related to payment methods, especially pre-payment meters, was identified as a factor exacerbating poverty and hindering both warm homes initiatives and financial inclusion. Our respondents also questioned switching as the best mechanism for ensuring low fuel costs and were concerned about the continuing practice of debt blocking.

As part of this response, Transact calls upon Ofgem to:

- Equalise charges for pre-payment meter and standard customers, eliminating the premium paid currently by pre-payment meter consumers
- Consider solutions other than switching to help vulnerable consumers
- Take more action to alleviate the problem of fuel poverty
- Put an end to the practice of debt blocking

¹ Figures relate to 2005-06 and are quoted in *Second Annual Report on Progress toward the Shared Goal for Banking*, Financial Inclusion Taskforce (September 2007). Available online:

http://www.financialinclusion-taskforce.org.uk/PDFs/second_annual_taskforce_banking_report_sept_2007.pdf

² *The Poverty Premium*, Save The Children (March 2007)

Pre-payment meters

Transact shares Ofgem's concern around the higher prices paid by consumers using pre-payment meters. We support the proposed action on licence requirements; insisting that differences in charges for different payment types must be cost-reflective (1.40). We also agree that all costs should be transparent to the end-user so pre-payment meter customers should be made aware of the price premium they pay at present. We would also ask Ofgem to go further and consider preventing any premium being charged to pre-payment meter (PPM) customers.

We believe that these higher prices cannot simply be justified by the additional costs of metering and providing services to pre-payment meter consumers. Transact questions why consumers are required to pay both for the product they are consuming (fuel) as well as for the payment method itself. This is rare in other industries and it is unclear why utility companies are not bearing the costs of receiving payments as part of their business. 59% of Transact members surveyed felt that customers using pre-payment meters should pay less than they currently do, as the higher prices impact unfairly on those who are trying to avoid debt. As one member argues, *"I agree that they can be useful for financially excluded people... but the rate at which tariffs are set can sometimes be prohibitive and not clearly explained."*

Transact agrees with Ofgem's assertion that many on low incomes prefer pre-payment meters as a means of controlling their budgets and avoiding unexpectedly large bills and feels that pre-payment meters are a good way for lower-income households to manage their money. One Transact member told us, *"Pre-payment meters are ideal for customers on lower incomes; however, it is unfair that they should pay more for paying as they go along."*

As the report implies clearly, less well-off consumers are more likely to use pre-payment meters. Section 9.5 points out that 25% of households in social groups DE and 37% of those in social housing use a pre-payment meter to pay for at least one fuel, up from 12% among the general population. Transact believes that pre-payment meter customers should pay the same rates as other customers, as the use of PPMs discourages debt and helps lower-income customers manage their household budgets. Energy companies benefit from the use of PPMs as they are guaranteed payment, whereas vulnerable consumers may be less likely to pay their bills if charged through direct debits, cheque or cash and so should be happy to absorb or spread the costs of installing and operating PPMs.

Transact feels that the report does not adequately consider the circumstances under which pre-payment meters are imposed upon customers. We welcome Ofgem's statement that it is essential that pre-payment meter customers are able to switch to a lower-cost option as easily as possible. However, there is little consideration of

how this should be achieved, or of how customers are provided with pre-payment meters in the first place.

Our members reported that many of their clients had pre-payment meters not because they fell behind with their payments, but owing to the debts of a previous resident of the property. We have received reports of energy companies charging to have pre-payment meters removed. One Transact member, who works with clients in debt and also has a pre-payment meter personally, reported to us, "*I feel as though charging for the meter to be changed leaves me trapped on the high tariff pre-payment meter, thus making more profit from the energy companies.*" Transact urges Ofgem to pay further consideration to the installation and removal of pre-payment meters, to ensure that customers no longer in debt are able to switch to cheaper payment methods.

Vulnerable consumers

Transact applauds Ofgem's recognition of its particular responsibility to vulnerable consumers. In this report, 'vulnerable consumers' appears to particularly refer to groups of consumers who are more susceptible to receiving poorer value for money from the energy market. We feel that this classification should include consideration of aspects of financial and social exclusion which may make consumers in some groups more vulnerable than others. Further segmentation will also help Ofgem and utility companies understand the barriers to switching among vulnerable consumers and how best to target them with information and campaigns.

Transact members have identified particular groups which they believe are likely to have the biggest problems with managing energy costs (see Fig. 1). In particular, the top-priority groups for our members are:

- Those on low incomes
- Those living in poor housing that is hard to heat
- Those with low levels of literacy, numeracy or without a good command of English

We believe that more attention needs to be particularly focused on these groups, who are vulnerable to a wide range of financial and social exclusion issues. These groups are particularly vulnerable to the complex competition within the market (including doorstep sales tactics) and are also those more likely to struggle to keep up with energy payments.

The report focuses on increasing vulnerable consumers' ability to switch from one provider or tariff to another. We welcome Ofgem's recognition that many people in vulnerable groups are not accessing the most competitive tariffs to the same extent as non-vulnerable groups and that members of vulnerable groups who do switch are

less likely to access the best deals. Transact members identified a range of reasons preventing vulnerable consumers from switching to cheaper tariffs and accessing better deals (Fig. 2). 30% saw lack of information about the different providers as the biggest issue, but other issues raised included lack of access to bank accounts (24%) and debt blocking (24%). Some Transact members also felt that consumers may be averse to move from a supplier which they know and trust: "*People tend to like the supplier they have been with for a number of years and are unwilling to switch away from them.*"

We support Ofgem's proposal to promote more active customer engagement through promoting confidence in price comparison and switching sites and call on them to consider seriously whether there is future scope to simplify the supplier switching process. However, Transact questions how realistic switching is for vulnerable consumers who do not have additional support. Consumers need to continue to check pricing in order to ensure they continue to receive the best deal. A major barrier to doing this is ready access to the internet and price comparison sites, as identified in this report. The capacity of vulnerable consumers to switch may be very limited as they are the most likely to suffer poor health and additional stress and pressures on their time. Trips to the library or internet café to check price comparison sites require a high level of commitment to switching, perhaps beyond that which might be expected of an average consumer. Transact welcomes initiatives such as *Energy Best Deal* which support vulnerable consumers and believes initiatives like this should become more mainstream.

Transact is also aware that not all vulnerable groups identified in this report are likely to benefit through increased switching. In particular, switching to a cheaper supplier is unlikely to impact significantly on people living in poor housing that is hard to heat. Ofgem should work with energy companies to promote and encourage a wider range of initiatives to ensure that these customers get a better deal. Similarly, those living in rented accommodation who are prevented from switching by their landlords are unlikely to benefit significantly from the proposals to promote more active customer engagement (1.36) and to help consumers make well-informed choices (1.37). Transact encourages Ofgem to look at alternative solutions to help vulnerable consumers for whom switching may not be an appropriate or even a possible option, including greater promotion of social tariffs.

Debt blocking

Transact welcomes Ofgem's resolution to look again at the issue of debt blocking (1.36). Our members are concerned that suppliers have an automatic right to block switching by customers who are in debt. 94% of Transact members surveyed stated that the practice of debt blocking was unfair. The ability to switch to a cheaper supplier may help customers to manage their money better and repay their debt faster. We urge Ofgem to review the current status of debt blocking at the earliest possible opportunity.

Fuel poverty

This report does not specifically concern itself with the issue of fuel poverty (i.e. the lack of affordability of fuel which is pricing out of the market those on the lowest incomes), concentrating instead on improving the functioning of markets and ensuring that vulnerable consumers can access better prices through switching. However, improving access to better prices through switching will only constitute a small step towards reducing fuel poverty while fuel prices remain so high. While Transact members acknowledge that consumers have a responsibility to use fuel efficiently, 68% of Transact members stated fuel poverty as the biggest fuel-related problem for their clients, with only 9% identifying inability to switch to cheaper accounts as the top issue. As one member said, "*[Problems include] lack of understanding of how to use fuel efficiently... causing high bills and over-use of heating systems, plus high prices.*" Transact recognises that fuel poverty is a complex issue and that the energy market is not entirely responsible for alleviating fuel poverty in the UK, as many fuel-poor customers are fuel poor for reasons unrelated to the functioning of the energy market.

We believe that the cost of fuel needs to be borne in mind in implementing changes in regulations on energy supply. We call on Ofgem to take more action to alleviate fuel poverty, in partnership with energy companies, and to link further investigations on energy supply to halting the increases in fuel prices, which are pushing more families into fuel poverty.

Appendix A – Tables

Fig. 1

Respondents were asked to identify up to three categories identified as 'vulnerable' in this report which they would consider to have the biggest problems with managing energy costs.

Those on low incomes	64.7%	1
Those living in poor housing which is hard to heat	61.8%	2
Those with low levels of literacy, numeracy or without a good command of English	44.1%	3
Those without access to bank accounts	26.5%	4
Those disabled or chronically sick	23.5%	5
Those of pensionable age	23.5%	5
Those living in rented accommodation who are restricted by their landlords from switching supplier	11.8%	7
Those without easy internet access	5.9%	8
Those residing in rural areas	2.9%	9

Fig. 2

Respondents were asked what the biggest issue facing their clients is in preventing them from switching to cheaper tariffs:

Lack of access to clear information on different suppliers and tariffs	29.4%	1
People without bank accounts can't use direct debits to access cheaper rates	23.5%	2
Debt blocking	23.5%	2
Literacy, numeracy or language issues preventing people from finding out what tariffs are best for them	17.6%	3
Other	5.9%	4

Appendix B - Respondents

Transact would like to thank all of its members from the below organisations who generously contributed their time and views to this response. In total, we received 35 responses from a variety of members representing housing associations, Citizens Advice Bureaux and money advice services.

Adactus Housing
Berneslai Homes
Broadland Housing Association
Calico Housing
Castle Vale Community Housing Association
CHAS Advice Centre
CHAS Housing Aid
Chorley and South Ribble CVS
Crawley CAB
East Midland Housing Association
Forth Housing Association
Gallions Housing Association
Grampian Housing Association – SMART Money Advice Project
Great Places Housing Group
Hammersmith and Fulham CAB
Helena Partnerships
Hillcrest Housing Association
Housing Hartlepool
Isle of Wight Law Centre
Northampton and District CAB
North Liverpool CAB
Orwell Housing Association
Peterborough CAB
Plus Dane Housing Group
Prospect Community Housing
Toynbee Hall
Weston-super-Mare and District Credit Union