Evidence

Citizens Advice's Response to Ofgem's Report on Direct Debit arrangements

May 2009

Introduction

Citizens Advice statistics about fuel and fuel debt problems

1. In 2008-2009 the CAB service in England and Wales dealt with almost 6 million problems in total, including 1.9 million on debt. Of these, almost 83,000 were concerned with fuel debt, which represents a 19% increase on the previous year, and an increase of 82 per cent since 2005-6.

2. Comparisons for specific quarters in 2008-9 with the corresponding period from the previous year reveal a sharp increase in the latter part of the financial year, when it can be assumed that bills reflecting higher fuel prices were received by customers:

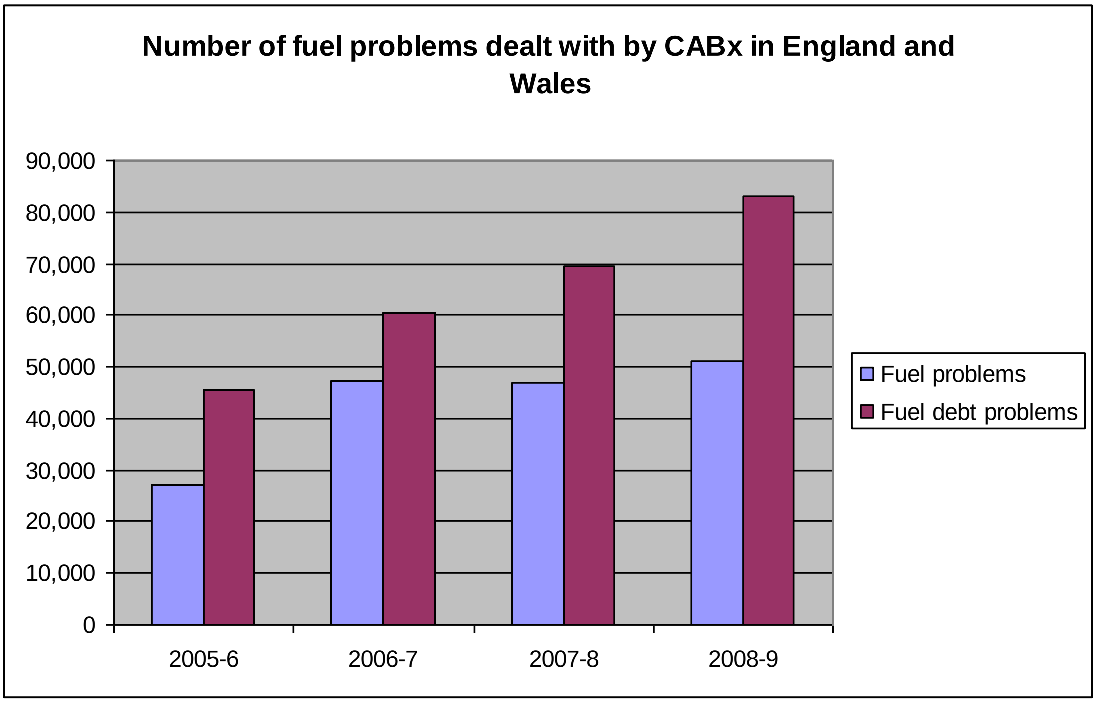
Fuel debt problems dealt with by CABx in England and Wales - quarterly comparisons from 2007-8 to 2008-9

	Q1	Q2	Q3	Q4
2007-8	17,825	16,986	16,687	17,880
2008-9	18,161	19,038	19,406	26,121
% increase on corresponding quarter from 2007-8 to 2008-9	**2%**	**12%**	**16%**	**46%**

3. In addition, in 2008-9 the service dealt with almost 51,000 problems about a range of other (non-debt) fuel matters, which equates to an 89 percent increase on the figures reported in 2005/06. In 2008-9 billing and metering issues were responsible for 34 percent of these problems, with 14 percent due to methods of payment, complaints and redress accounting for 13 percent of enquiries, and 8 percent prompted by issues arising from switching supplier.

4. A summary of the increases in fuel and fuel debt problems dealt with by bureaux in England and Wales over the last four years is given in the chart below:

Chart 1:



General Comments

5. We are pleased that Ofgem's investigation into direct debit payments has confirmed that fuel suppliers have not engaged in a deliberate or systematic strategy to increase cashflow to the detriment of consumers through raising the level of their customers' direct debit payments. However, it is unhelpful that the usage of direct debit as a payment method has been called into question by the way that energy suppliers operate direct debit payments.

6. Citizens Advice Bureaux have reported significant numbers of cases in which clients have required assistance in understanding or challenging massive increases in direct debit payments. Having had their confidence in direct debit undermined, many clients have understandably opted to switch payment method – in the long-term this is unlikely to be in the interests of either customers or suppliers since they are likely to both face the prospect of higher costs.

7. The energy industry would seem to have a strong self-interest in making direct debits work and in promoting their usage. Given this, it is deeply disappointing that it has failed to take adequate steps to address the concerns detailed in Ofgem's analysis of the problems associated with direct debits. We therefore support Ofgem's proposal to deal with this area through the introduction of a licence condition which would seek to improve communication to customers on an individual basis. In terms of how this should be implemented, **we would support Option B** (as outlined in Ofgem's report) as we consider that this would better endow Ofgem with sufficient flexibility to address the current direct debit issue as well as future changes in payment methods. In our view Option A risks being too narrowly defined, while Option C strikes us as unwieldy. We

would also support the rule applying to smaller suppliers and for micro-businesses to be able to make use of the new general condition.

8. The failure of suppliers to communicate clearly with their customers on the issue of direct debit payments is just the latest high-profile example of shortcomings in the way they communicate with their customers. Other notable instances where their communications can fail to offer clear explanations include (i) where debt has accrued due to suppliers' inability to recalibrate prepayment meters in a timely manner; and (ii) where debt is being paid off via a prepayment meter and there is a need to make regular payments even where the customer is not using their gas supply. In light of these failings, it would seem sensible for Ofgem to consider drawing the licence condition proposed in relation to direct debits as widely as possible in order to enable action to be taken in other areas where there are significant communications failures and industry is unable or unwilling to address these shortcomings.

Specific Comments

9. Below we detail some of the cases reported by bureaux over recent months about problems related to direct debits. Specifically, we consider cases which highlight:

- Where direct debits do not keep pace with usage, debt can ensue;
- Clients unable to afford large increases in monthly direct debit amounts;
- Poor communication from fuel suppliers about increases in direct debit payment demands;
- Direct debits increasing and decreasing with no apparent rationale, including cases where suppliers drop the level of monthly direct debit payments when contacted by the customer or their adviser – further fuelling the feeling that previous rise was unwarranted;
- Difficulties experienced by customers when contacting fuel companies to discuss issues about their direct debit payments; and
- The impact of massive unexplained increases in customers' direct debit payments.

Where direct debits do not keep pace with usage, debt ensues.

10. We acknowledge that setting direct debit payments at the correct level for fuel usage is not always a straightforward task. While payments for items such as insurance can be set at a flat-rate for an annual period, direct debit payments for fuel may fluctuate due to changes in usage or prices. As such, it is clearly essential that fuel suppliers review their customers' accounts regularly so that their payments keep track with their usage. This helps to ensure that customers do not build up large debts, or indeed large credit balances.

11. The cases below show that where regular reviews are not undertaken customers can end up owing large amounts of money and being asked to increase their monthly direct debits to unsustainably high levels:

> A CAB in Wales reported that their client had been paying her fuel supplier £59 per month since November 2006. She was notified in July 2008 that her direct debit was to rise to £120 per month so she contacted her fuel supplier as she was unable to

afford this amount. They replied that she was in arrears of £1,700 so they could not reduce the monthly payments. The client paid one amount of £120 and was then told payments would have to increase further to £250 per month. She was unable to afford this and the direct debit of £120 was cancelled. She has not been able to get the direct debit for £120 reinstated and payment cheques she has sent to her fuel supplier have not been cashed. She was told by her fuel supplier that she had to pay £250 a month or be disconnected. The client was very anxious at the thought of being cut off and she was also confused as to why she owed the amount claimed. She considered that she should have been notified sooner to increase her direct debit if £59 per month was not covering her bills.

A CAB in Surrey reported a case in which their client received letters from her fuel supplier saying that her direct debits needed to increase from £75 per month to £560 a month as she owed £2,500. The client could not afford this amount and was confused as to why she had not been alerted to the shortfall in her monthly payments earlier. This excessive demand added to the problems faced by the client who had recently been made unemployed, and is also suffering from depression after her divorce and the suicide of her new partner.

12. Failure to monitor payments against actual usage can also result in customers building up large credit balances. For customers living on low incomes or struggling to pay off debts such excess payments could make a significant difference to their everyday life, as the following case demonstrates:

A CAB in Northumberland reported that their client was paying off numerous debts via a monthly payment plan. However, since his overtime at work stopped last year his salary has been reduced by approximately £150-£200 per month and he has been unable to keep up with his monthly payments. The client is overdrawn with his bank and has incurred £600 in charges since April 2008. In January 2009 the client received a letter from his electricity supplier informing him that his account was in credit by £330. The client was angry because he was paying £107 per month to his electricity supplier and the £330 may have been the difference between him becoming overdrawn and incurring bank charges and being able to stay in credit.

Clients unable to afford large increases in monthly direct debit amounts

13. Ofgem’s report notes that a wide range of consumers use direct debit to pay for their fuel usage, and that direct debit payment is skewed only slightly towards AB socio-economic groups.

14. As the cases below demonstrate, unexpected changes to the level of direct debits can have severe repercussions on some customers’ ability to afford their fuel, particularly those people who are living on low fixed incomes:

A CAB in County Durham reported that their client, a seventy year old woman, attempted to take control of the amount she spent on energy by opting for a fixed price deal and by paying by direct debit. When she switched her payment method to direct debit it was agreed that her payments would remain at £35 per month for gas and the same for electricity. Direct Debit payments were taken out of the client’s bank account in August and September but in October the client received a letter from her fuel supplier stating that they had reviewed her account and her direct debit payment for gas was to increase from £35 per month to £81 per month. The bureau contacted the supplier who informed them that they had assessed the client's account and estimated what she will use this winter, which is why they have increased payments by £46 per month. The CAB adviser pointed out that the client is unable to increase her payments to this level.

A CAB in Kent reported that they helped a pensioner aged 69 who lives in a small flat on her own. The client's direct debit was increased to £45 per month in July 2008 and then further increased to £108 per month. The client cannot afford to pay so much and feels there is no way she can be using that amount of gas and electricity living as a single person in a small flat.

A CAB in Devon reported that their client's wife was admitted to a care home and as a consequence the client expected the heating bill for his property to reduce. Despite this change in circumstance the client's direct debit was increased from £39 per month to £76 per month. The client came to the bureau because he was concerned that he will not be able to keep up with payments set at this level. He also requested advice on steps to take in order to reduce his bill.

Poor communication about the increase in direct debit payments

15. Since many customers may struggle to afford greatly inflated fuel costs, it is incumbent on fuel suppliers to explain in a clear, consistent manner relating to the individual's personal circumstances the reasons behind the large increases in monthly direct debit payments. Unfortunately, evidence reported by bureaux reveals that this is often not the case; many fuel suppliers simply provide their customers with notice that their direct debit will increase.

A CAB in the West Midlands reported that their client, who is deaf and finds it difficult to communicate by telephone, came to the bureau because he had received a letter from his fuel supplier informing him that they were going to increase his direct debit from £129 to £219 per month. The client could not understand the reason for this as he was already in credit. The client was not prepared to pay this higher amount without a full explanation as to how the higher figure had been arrived at. When the client contacted his supplier about this matter and indicated that this matter had prompted him to consider switching supplier, the company agreed to reduce the monthly direct debit to £130.00, an increase of just £1 per month.

A CAB in Nottinghamshire reported a case in which their client, a male aged 55, in receipt of incapacity benefit of £85 per week had come to seek advice following contact from his fuel supplier about the level of his direct debit payments. The client had just received his latest gas bill which was £353 in debit. He was paying £53 per month by direct debit, and his previous quarterly bill had been £38 in credit, although this was based on estimated readings. The client contacted his fuel supplier who said that his direct debit would be increased to £133 per month. Since the client could not afford to pay this amount he cancelled his direct debit and replaced it with a standing order for £75 per month. The client was confused as to how his gas bills had been calculated and felt that they should be easier to understand i.e. to show the number of units at a set cost so that customers can calculate their usage themselves.

Direct debits increasing and decreasing with no apparent rationale, including cases where suppliers drop the level of monthly direct debit payments when contacted by the customer or their adviser – further fuelling the feeling that previous rise was unwarranted

16. To make matters worse, it appears as though customers' direct debits for their fuel can fluctuate considerable over short periods of time, leaving the customer confused as to what is going on and suspicious of the motives behind sudden increases:

> A Gloucestershire CAB reported that their client, a 69 year old widow living alone in a retirement bungalow and suffering from dementia, had been paying for her electricity by monthly direct debit of £75. In June her fuel supplier reduced her direct debit to £57, and then in November increased it to £250 per month. The client's son, who has Power of Attorney, contacted the fuel supplier but they refused to negotiate a lower monthly amount merely demanding the son pays the amount owed which had now been assessed as £902 (the meter having been read by the son).

> A Surrey CAB reported a case in which their client, a woman with four children under 8 years, was attempting to sort out various debts that she owed. The client contacted her fuel supplier to advise them of a change in her bank account details and this triggered them to inform her that her accounts were in arrears, with £573.22 outstanding on electricity and £176.00 on gas. The fuel supplier then insisted that all her arrears were paid off immediately and that her monthly direct debits were increased. The client has been unable to renegotiate back to the level of her original direct debit and has now been asked to pay £228 per month for her gas (when her original direct debit was for £175) and £150 per month for electricity (when her previous direct debit was for £65). The client had only received a letter on 10 December from the supplier confirming they would accept payments of £165 per month so the client is totally perplexed as to how this could have changed so substantially in just 13 days.

17. In addition, when customers or their advisers contact their fuel supplier to discuss substantially increases in the level of their direct debit payments it seems as though suppliers will, on occasion, reduce direct debits - often to their original level. Such actions serve to prompt suspicion that the original request for increased payments were unjustified and that the supplier was simply imposing blanket increases across their customer base in order to boost their cashflow. In such circumstances there may also be the concern that the suppliers' actions are simply postponing necessary increases due to rising prices, potentially putting the customer at risk of falling into debt.

> A CAB in Surrey reported that their client had been paying £15 per month by direct debit for electricity. The latest debit balance was £115 so the client's electricity supplier increased her monthly direct debit to £52. The client checked her bills and believed that this was a massive overestimate. She struggled to get through to her electricity supplier by phone to discuss this matter but when she eventually did her electricity supplier agreed that the new amount would be re-set to £25 per month. The CAB adviser opined that "the suspicion is that the fuel suppliers greatly inflate monthly direct debits as a matter of course knowing that many clients will not complain. In this case, the client lives on a low benefit income so could not have afforded the original increase."

A CAB in Surrey reported a case in which their client came to the bureau as his fuel supplier had increased his direct debit payments from £11.50 to £72 per month. The CAB adviser called the fuel supplier on the client's behalf and they agreed that in future the client's direct debit would revert to £11.50 per month.

A CAB in Wales reported a case in which their client, who pays his fuel supplier by direct debit, had his monthly payments increased from £70 per month to £140 per month. The client entered into negotiations with his fuel supplier to reduce this as it did not reflect his metered expenditure. On the basis of these discussions the supplier dropped the client's monthly direct debit to £90 per month but he hopes to negotiate it back down to £70 based upon his meter readings. The client has had infective endocarditis and required a heart valve operation, so he has been off work. While he is getting contractual sick pay, he no longer gets his overtime bonus and this is causing the family severe financial problems. The unexpected and, in the client's view unjustified, increase in his fuel payments is therefore causing real financial hardship for the client's family at a time when they are attempting to deal with a life-threatening illness.

Difficulties experienced by customers when contacting fuel companies to discuss issues about their direct debit payments

18. When confronted with a communication from a fuel supplier informing them that their direct debits will have to increase significantly, many customers will understandably want to discuss the matter. Unfortunately this is not always easy or straightforward:

A CAB in Cumbria reported that their client received a letter from their fuel supplier stating that they would be increasing their direct debit payments from £120 per month to £250 per month. The client felt that an increase of more than 100% was unreasonable and not affordable. She had previous experience trying to renegotiate payments to her supplier which was caused by the supplier making mistakes over meter readings. Since this had taken over one week of repeated phone calls to sort out the problem it had made the client reluctant to contact the supplier on this occasion. The latest increase in the client's direct debit payments had caused the client considerable anxiety. She had increased her monthly payments to £180 per month but this had meant that she had to cut back on food and other essentials. What was particularly unfortunate was the manner in which the fuel supplier made a seemingly arbitrary decision to increase the client's direct debit by 100% and then automatically sent out threatening letters when the increase was not paid. As the CAB adviser noted, "all fuel companies should be required to negotiate direct debit increases above 10% directly with the customer, not just leave it to the customer to try and get in touch with them."

The impact of massive unexplained increases in customers' direct debit payments – customers switch payment methods.

19. Previous sections of this response have highlighted the poor levels of communication from fuel suppliers about direct debit increases and the seemingly arbitrary decisions that they can make to revert to lower monthly amounts. The impact of such difficulties can be seen most starkly in the action that consumers then take, as in the following cases:

A CAB in Bedfordshire's client had been on a monthly payment plan with his fuel supplier, paying £63 a month but had been asked for £100 a month. The client felt this amount was excessive as he was already £124 in credit. He rang the fuel supplier to try and negotiate lower monthly payments but was told there was nothing they could do. As a result, the client has converted to quarterly bills instead of monthly direct debit payments and lost the savings associated with paying by this method. The client now needs to put money aside each month in readiness for the quarterly bill. As he has a limited income this may prove challenging. The client's real frustration was being asked to pay increased monthly direct debit amounts without being provided with any supporting calculations to justify new payments. Added to this was the inflexibility on the part his fuel supplier and their unwillingness to look at his individual situation even when he demonstrated his payments would far exceed his normal usage pattern at current prices.

A CAB in West Yorkshire reported that their client's fuel supplier wanted to increase her direct debit payments from £25 per month to £159 per month. The client was having financial difficulties due to a cut in hours at work and she also considered that the substantial increase demanded was excessive for a single person living in a flat. The client subsequently cancelled the direct debit and decided to pay for her fuel by quarterly cheque payments.

20. Such actions can clearly have a negative impact on customers' ability to choose a payment method that is most appropriate for them and to gain from the discounts that are generally offered for payment via direct debit. Yet fuel suppliers also stand to lose as their efforts to increase the number of customers paying by direct debit – the most cost-efficient payment method – may stagnate.

Comments on Ofgem's proposals to address problems with direct debits

21. Ofgem's consultation document details the numerous reasons why suppliers prefer customers to pay for their fuel by direct debit, noting that it is a more regular, reliable form of income and because they consider they can control the payment amounts, with related lower administration costs (such as fewer contacts with customers and lower costs in processing payments) and much lower bad debt costs.

22. The energy industry would therefore seem to have a strong self-interest in making direct debits work and in promoting their usage. Given this, it is deeply disappointing that it has failed to take adequate steps to address fully the concerns detailed in Ofgem's analysis of the problems associated with direct debits.

23. We therefore support Ofgem's proposal to deal with this area through the introduction of a licence condition which would seek to improve communication to customers on an individual basis. **We would support Option B** as we consider that this would better endow Ofgem with sufficient flexibility to address the current direct debit issue as well as future changes in payment methods. In our view Option A risks being too narrowly defined, while Option C strikes us as unwieldy.

24. In terms of coverage, we agree with Ofgem that **the new licence condition should apply to the 'Big Six' suppliers and also to smaller suppliers**. A consistent approach to the communication of direct debit payments would be helpful to all consumers, and there does not seem to be a convincing argument for why customers of smaller suppliers should receive lower levels of protection or be subject to poorer standards of communications. We anticipate that many smaller suppliers may already be providing their customers with transparent communications so we would not anticipate that this licence condition should add unduly to their regulatory burden.

A CAB in Devon reported a case in which they helped a client running a small business. The client had been making direct debit payments of £100 per month for over a year to his fuel supplier, a small energy company, with no adjustment being made for his low level of usage despite the fact that the client had supplied meter readings each quarter. The client uses electricity only for lighting two strip lights in a small workshop so he considered that he was paying far in excess of what he should be.

25. **It would seem sensible to us that the proposed licence condition should also apply to micro-businesses** and that the definition of 'consumer' in the Consumers, Estate Agents and Redress Act 2007 would be the most appropriate definition. Citizens Advice Bureaux report a small number of cases involving small businesses that have experienced difficulties with their direct debits and the communication of this:

A CAB in Essex reported a case in which their client , who runs a restaurant, had been paying for his fuel based on estimated meter readings for almost three years. This has led to the client building up arrears of approximately £6,000. The client had an agreement with his fuel supplier to pay £650 per month, which accounted for consumption of about £350-400 per month and £250 for arrears. However his fuel supplier then decided to increase his monthly payments to £1000. The client was unable to sustain this level of payment and feels that his business will suffer and be put at risk because of the high level of payment suddenly demanded, even though he has kept to his previous payment arrangement to pay off the debt that has accumulated.

26. The failure of fuel suppliers to communicate clearly with their customers on the issue of direct debit payments is just the latest high-profile example of shortcomings in the way they communicate with their customers. Other notable instances where their communications often fail to explain clearly their actions include (i) where debt has accrued due to suppliers' inability to recalibrate prepayment meters in a timely manner; and (ii) where debt is being paid off via a prepayment meter and there is a need to make regular payments even where the customer is not using their gas supply.

27. In light of these failings, we would suggest that it would be sensible for Ofgem to draw the licence condition proposed in relation to direct debits as widely as possible in order to enable action to be taken in other areas where significant communication failures emerge and industry is unable or unwilling to address these shortcomings.