



Citizens Advice's response to Ofgem's review of protection for vulnerable customers from disconnection

November 2009

Introduction

Citizens Advice welcomes Ofgem's focus on the important subject of protecting vulnerable customers from disconnection. The current economic climate makes it imperative that customers, particularly those who may be vulnerable, are treated fairly and receive adequate protection from disconnection.

The Citizens Advice service is a network of over 400 independent advice centres that provide free, impartial advice from more than 3,000 locations in England, Wales and Northern Ireland.

In 2008/2009, the Citizens Advice service in England and Wales helped nearly two million clients with about six million problems. Debt and welfare benefits were the two largest topics on which advice was given. This included almost 83,000 fuel debt problems (representing a 19 per cent increase on the previous year, and an increase of 82 per cent since 2005-6). Of these fuel debt problems, three per cent were concerned with threatened or actual disconnection of supply. The largest categories of problems related to dealing with debt repayments (62 per cent) and liability for debt (18 per cent).

In addition, bureaux dealt with almost 51,000 problems about a range of other (non-debt) fuel matters, which equates to an 89 per cent increase on the figures reported in 2005/2006.

Key comments

We welcome Ofgem's proactive work which seeks to ensure that there are adequate protections in place to prevent vulnerable people from being disconnected from their gas or electricity supply. In our view, it is imperative that Ofgem maintains its close level of scrutiny in this area. Pleasingly, the ongoing monitoring and wider debt and disconnection work currently being conducted by Ofgem suggests that this will be the case.

We are also pleased that Ofgem has conducted the review of this area in collaboration with Consumer Focus, as well as seeking input from other organisations, including Citizens Advice. In our view, this approach of joint working provides a useful template for future Ofgem work.

There is much to welcome in terms of specific improvements to the way in which vulnerable people in debt to their energy supplier are treated. In particular, we are pleased to note that:

- suppliers have agreed to adopt guidance produced by the Money Advice Liaison Group on dealing with customers with mental health problems;
- the ERA Safety Net principles cover all situations where vulnerable customers might be disconnected for debt including in mixed business/residential properties (e.g. flats above a shop), apparently unoccupied premises and cases where the supplier goes to install a prepayment meter (PPM) but finds they cannot;
- the ERA Safety Net now includes a commitment from suppliers to ensure that where vulnerable customers are inadvertently disconnected, the situation is put right as quickly as possible; and
- there is to be a much more rigorous audit process to ensure that suppliers adhere to the Safety Net rules.

However, there are some areas where although improvements have been achieved we think that further progress is required. For example, we think that rather than the Safety Net simply including reference to the fact that suppliers *can* consider disconnection fee write-off for their fuel poor

customers they should be under an obligation to do so. More broadly, we think that suppliers should also be under an obligation to consider more carefully the charges which can be applied to accounts where it is clear the customer in question is facing severe affordability problems. Adding charges to accounts in these circumstances can often merely exacerbate affordability problems, rendering it even more difficult for the customer to pay money that is owed.

A CAB in Greater Manchester reported that their client had arrears of £30 with their gas supplier. Although the supplier agreed that the client could continue to pay £2 per week off his arrears in order to avoid disconnection, they did state that should they have to send out further reminders about payment then he would be charged a £14 administration charge to cover the costs of sending out a letter. The client is single, Polish and currently has no income due to a dispute with Jobcentre Plus. The fuel supplier was fully aware that he did not have any money coming in at the moment but were still threatening to charge £14 per letter. The client has since borrowed £30 from his friend to pay off all his arrears as he was worried about being disconnected and incurring £14 charges.

We also would like to draw attention to a related and, in our view, extremely poor practice. This is the practice of threatening a customer with disconnection from their energy supply which can only be averted through installation of a PPM – but then adding a substantial charge to the customer's debt for the 'privilege' of having a PPM forcefully installed:

A CAB in Cheshire reported a case in which their client, a single mother soon to have her third child, came for assistance about arrears owed to her fuel supplier. The client's husband had left her and was not contributing financially, and the client had been threatened with disconnection by her fuel supplier. Instead of disconnecting the client, the fuel supplier said they could install a gas prepayment meter but that this would cost the client £335. Having little option but to agree to this exorbitant charge the client found her debt to her fuel supplier doubling. In addition, since the debt accrued will have to be paid off via the prepayment meter, the client may well encounter great difficulty in affording to pay to keep her home warm.

We also consider that further progress is desirable in how suppliers define a 'child' under the safety net. While Ofgem's review document states that a clearer commitment has been obtained from suppliers to consider a household with children to be potentially vulnerable regardless of the age of the children, there remain significant discrepancies between suppliers in the application of the definition of 'child' under the Safety Net. We would strongly urge Ofgem and the ERA to continue to seek agreement on this matter. From a CAB adviser's perspective the variance in suppliers' interpretations can cause a number of practical headaches which can necessitate further potentially time-consuming investigation just to confirm how a supplier interprets the safety-net. A consistent approach or, failing that, certain minimum standards would, in our view, enable much clearer messages to be disseminated about the safety-net and be of immense help in promoting it to the advice community.

We also have two substantive issues to raise in connection with Ofgem's review which relate to:

- self-disconnections; and
- Setting repayment rates at an affordable level.

Details of our concerns about each issue are provided below.

Specific concerns

Self-disconnections

In Ofgem's review document much is made – and rightly so - of the falling number of disconnections, with disconnections now at historically low levels, down from around 30,000 in 1998 to less than 6,000 in 2008 (around 0.01% of customers).

This is without doubt a good thing, and we are delighted that disconnection from energy supplies is usually very much a last resort rather than a first or preferred option. However, we think that the reporting of the number of disconnections may mask the more hidden spectre of self-disconnection. Certainly, to a large extent the fall in the number of actual physical disconnections can be attributed to the installation of PPMs to recover debt, actions which have the added benefit to suppliers of ensuring that customers cannot build up further debt. Yet Ofgem's report does not adequately address the very real risk that the push to install PPMs in preference to disconnecting supply has simply displaced the activity to people self-disconnecting.

While gaining accurate data about the prevalence and extent to which people self-disconnect from their PPMs is fiendishly difficult we do think that it is incumbent on Ofgem to devote resources to this area in an attempt to gain a fuller picture before deciding if any action is necessary.

Cases reported by bureaux reveal how self-disconnection can occur and the impact that it can have on those affected:

A CAB in the West Midlands reported a case in which their clients, a couple with young children, suffered redundancy and consequently ran up large debts to their utility suppliers. Their fuel supplier forced them to have a prepayment meter installed but the recovery rate for the arrears owed was set at such a high level that the clients were unable to put sufficient funds on the meter to pay for their ongoing energy usage.

An Oxfordshire CAB reported that their client, a recovering heroin addict on a long-term treatment program with his GP, had a PPM installed because of the arrears he had built up. The client is now being charged a higher unit price for his fuel, and this, combined with the fact that the outstanding debt is being reclaimed via the PPM as well, means that the client cannot afford the cost of heating or lighting his home. This has made it extremely difficult for the client to share the care of his four year old son.

A CAB in Buckinghamshire reported a case involving a 29 year old single mother of an 11 year old child who lives in privately rented accommodation. The client was expecting a second child but as she had various debts including arrears on her gas bill, she agreed to have a PPM installed. She came to the bureau because she had been finding it more and more difficult to meet the sums required due to the level of payments demanded. The situation had reached the stage that the client had been forced to move back to her mother's home with her child where she has to share a bed with her mother.

A CAB in Staffordshire's client owed her fuel supplier £160 because the supplier failed to re-set her PPM following price rises. The client is a single unemployed female in receipt of income support, for whom English is not her first language. To repay the debt that has accumulated the client's PPM was set to collect £9.40 per week, which the client was unable

to afford. After contacting the fuel supplier they agreed to lower the repayment to £3.50 per week but in order to re-set the meter to the new rate the client had to make three payments of £5 for three consecutive days. Since she was unable to afford to pay this amount until she received her next benefit payment, the client had to do without electricity for about one week.

Setting repayment rates at an affordable level

The issue about setting repayment rates at an affordable rate is a major issue for many CAB clients. We are aware that Ofgem has previously flagged suppliers' compliance with this licence requirement as an issue for concern, made clear that suppliers should be proactive in this area, set out best practice examples. In the review document Ofgem states at paragraph 3.8 that

"suppliers must be flexible in the payment arrangements they set up and if the customer is on benefits or in severe financial hardship, we would normally expect that repayment rates should be set at no more than the Fuel Direct level, currently £3.25 per week".

Yet Citizens Advice Bureaux continue to report many cases where suppliers ignore these directions and attempt to set repayment rates at wholly unaffordable levels, often causing great financial and emotional stress to their customers.

A CAB on Merseyside reported that their client and her husband who is disabled have a prepayment key meter which is set to take £15 per week for their arrears. As the clients only income is from benefits this level of prepayment is causing them severe hardship.

A CAB in the West Midlands reported that their client, who is in receipt of benefits and tax credits, incurred a large gas bill of over £1,800 and received a notice threatening disconnection. Whilst the client did not dispute that she used this amount of gas and defaulted on previous payment arrangements, her supplier is insisting on her clearing the debts through a prepayment meter in a period of 26 weeks, which means deductions will be set on the meter at £70 per week plus ongoing gas usage. The only other option offered to the client is to pay the outstanding bill in full. The fuel supplier was also unwilling to wait for the outcome of the client's application to the energy trust before taking action.

A CAB in Surrey reported a case involving their client who suffers from manic depression and has obsessive compulsive tenancies. The client has been living alone for seven years since her husband, who is in the final stages of Huntington's Disease, moved to a specialist facility in Kent. The client is reliant on benefit income and has multiple debt problems that have arisen over the period her husband has been ill. Contact with her fuel supplier resulted in her being placed on their social tariff but payment of her arrears means that she is still paying £39 per fortnight for her gas and a similar amount for her electricity. The client is in fuel poverty but has been given no choice by her fuel supplier to pay back her arrears over a very short period, meaning that she is having to pay a very significant amount of her income to her fuel supplier.

A CAB in Essex reported a case in which their client, an elderly widow who lives with her disabled 48 year old son, received a bill from her fuel supplier for over £900 due to her night and day meter readings having been confused. The client complained to the energy supplier who reduced the bill by £200. However, the client was then contacted and threatened with disconnection if she did not pay the outstanding amount. When the CAB adviser called the energy supplier they were informed that the client would have to pay the entire outstanding amount of £682.86 within three months. The adviser explained the client's situation and her willingness to repay the amount owed over a longer term, suggesting £30 pcm but this offer

was rejected. The client was merely told that she could either repay the amount in full within here months or she could opt for a PPM. The CAB adviser therefore contacted Consumer Direct who referred the case on to Consumer Focus' Extra Help Unit.

A CAB in Wales reported that their client, a 21 year old single parent with two children under 5, one of whom has heart condition and feeding tube, came for help in negotiating repayments to her fuel supplier. The client had approximately £500 each of gas and electricity arrears with her fuel supplier and has had several repayment plans which she has not been able to maintain, the latest of which was to pay £31 per week towards electricity and £32 per week towards gas. The CAB adviser contacted the fuel supplier to arrange a repayment plan and was told that without a third party deduction or prepayment meter the minimum they would accept in a repayment plan was £27per week for gas and £26 per week for electricity, which included £14 per week towards gas arrears and £12 per week towards electricity arrears. The client was unable to afford this and cannot have third party deduction as already has deductions from Income Support so her only option was to have a prepayment meter which she was reluctant to do as her daughter needs constant heat and electricity due to her medical condition.

These cases represent only a small sample of those which bureaux report about suppliers' failure to comply with their licence requirement to offer affordable debt repayment plans. We would be very happy to share further cases with Ofgem if it would prove useful.

The continued failure of suppliers to adhere to what is required of them in setting affordable repayment rates is a cause of great concern to us and we urge Ofgem to investigate this matter thoroughly as part of their wider debt and disconnection review and take robust enforcement actions against those suppliers that flout this requirement.