

Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

Response from Citizens Advice to Ofgem

May 2012

Introduction

Citizens Advice welcomes the opportunity to respond to Ofgem's consultation on how to develop its vulnerable consumers strategy.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- To provide the advice people need for the problems they face.
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2011/12 the Citizens Advice service in England and Wales advised 2.03 million people on 6.9 million problems. Debt and welfare benefits were the two largest topics on which advice was given. In total we received 39,348 fuel related enquiries in 2011/12 including:

- 406 enquiries about selling methods
- 6,538 enquiries about billing or meter reading
- 548 enquiries about cancellation or withdrawal, and
- 2,638 enquiries about complaints and redress

General Comments

Ofgem is right to recognise that energy affordability is of significant concern to consumers at a time when many peoples' incomes are stagnating, or even falling, and energy prices are rising. Although recent figures show a modest reduction in the number of households in fuel poverty¹, these figures do not factor in the most recent round of price rises and Government cuts and the announcement by Centrica that bills are likely to rise again this year². We therefore believe that this is a situation that is likely to deteriorate rather than improve.

In this context it is vital that Ofgem does all that it can to ensure that the market is competitive and accessible for *all* consumers and that consumers are protected from bad practice. This is particularly important in the case of vulnerable consumers who are often unable to engage effectively in the market to secure the best deal and struggle to access support and redress when things go wrong. We recognise the work that Ofgem has undertaken as part of its Social Action Strategy since 2005 but a lot more work remains to

¹ DECC *Annual report on fuel poverty statistics 2012*

² Guardian online edition 11 May 2012 <http://www.guardian.co.uk/business/2012/may/11/british-gas-centrica-higher-gas-costs?newsfeed=true>

be done. We therefore welcome Ofgem's ongoing commitment to improving the experience of vulnerable consumers and this review of the vulnerable consumers' strategy.

Question 1: What should be the key factors or actions that we should consider incorporating into our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?

In our view the four themes contained in the current Social Action Strategy provide a useful framework for identifying and thinking about the ways in which Ofgem can support vulnerable consumers and ensure that the market enables them to participate and access the most appropriate products and services for their needs. We have no real preference as to how Ofgem sets out the vulnerable consumers' strategy at this stage but it is essential that the strategy includes the following key elements:

1. Monitoring and enforcement

Any consumer can experience inconvenience and significant detriment when they fall victim to bad practice or their energy supplier makes a mistake. Vulnerable consumers are often at greater risk of bad practice, such as pressure selling, and can find it more difficult to exercise their rights and get things put right. For example:

A CAB in Yorkshire and the Humber saw a client who only spoke limited English as a second language. She had been visited by a doorstep salesman from one energy supplier on more than one occasion and the client, who had been with her current supplier for several years and was happy with the service, felt pressurised and confused into giving the salesman her details. She did not realise that by doing so she was apparently giving verbal consent to switch supplier. The client felt the Asian speaking seller had used his knowledge of Asian families as a lever to persuade her to switch, was now faced with confusing bills from two companies and was distressed that she did not understand the new bills and arrangements. She also reported feeling violated by the seller, who she felt used her ignorance to make her switch.

A CAB in the East Midlands saw a woman who was deaf and had a number of debts, including energy arrears. Her energy supplier was refusing to negotiate with the client and had passed on the debt to a debt collection agency who the client felt had been harassing her. Once the debt was passed to the debt collector the energy supplier refused to deal with the client at all and stated that all communication would have to be with the debt collector. The client was extremely upset and stressed. She felt that she had been boxed into a corner and felt useless because she could not talk to anyone on the phone due to her deafness and letter sent to the fuel company and the debt collector were being ignored.

Furthermore, as Ofgem's Retail Market Review found, energy companies have demonstrated that they cannot always be relied upon to act in the best interests of their customers and to abide by the spirit as well as the letter of regulation. There are currently

a number of changes on the horizon in the energy sector, each of which present opportunities to improve the products and services available to all consumers, including those who are vulnerable, but also have the potential to contribute to consumer detriment. Ofgem will therefore need to work closely with other stakeholders, including consumer groups and Government, to monitor each of these changes very closely and, crucially, act swiftly and decisively where there is evidence of bad practice and consumer detriment.

The changes and ongoing challenges Ofgem should monitor closely as part of their vulnerable consumers' strategy going forward include:

The Retail Market Review

We recognise that Ofgem's Retail Market Review proposals seek to address some of the common causes of consumer detriment in the energy market, particularly the number and complexity of tariffs in the market and the way in which information is presented to consumers. However, as we outlined in our response to the consultation on these proposals earlier this year, we believe that these proposals fail to sufficiently address the problems caused by the complexity of the current energy market, particularly in relation to vulnerable consumers.

In particular, we are concerned that limiting the number of standard tariffs to one per energy supplier while continuing to allow suppliers to offer an unlimited number of non-standard tariffs may result in the standard tariff deals becoming increasingly poor value compared to fixed term deals as suppliers compete for the more active consumers who are more likely to switch. This would put those vulnerable consumers who may struggle to engage in the market at a disadvantage. Therefore, if the decision is made to go ahead with the core RMR proposal in its current form, Ofgem should make it a priority to monitor the situation closely and ensure that vulnerable 'sticky' consumers are not disadvantaged.

Smart meters

The universal roll-out of smart meters, due to be completed in 2019, presents the opportunity to help consumers to manage their energy consumption and will allow energy providers to take meter readings remotely. This will hopefully herald the end of inaccurate estimated bills, allowing consumers to budget more effectively and reduce the risk of unwittingly building up large fuel debts. However, we welcome Ofgem's recognition in the consultation document that they will have a significant role to play in protecting consumers, and particularly those who are vulnerable, from any risks that present themselves as a result of the roll-out.

We would therefore urge Ofgem to monitor the roll-out and subsequent ongoing use of smart meters very closely. A key part of this should involve working with stakeholders to identify problems early and act swiftly and decisively to ensure that the problem does not continue and that the consumers affected receive the appropriate help and redress. We set out our concerns in relation to the risks posed by the introduction of smart meters in our response to Ofgem's consultations on the smart meters consumer protections package and the relevant DECC consultations last year. We also welcome Ofgem's recognition of its role in ensuring that vulnerable consumers are given the information and support they need to help them realise the benefits of smart metering.

Universal credit

Ongoing reform of the welfare system and the replacement of all working age benefits with the universal credit, while bringing some benefit to claimants, will present some significant challenges to vulnerable consumers and their energy suppliers. In particular, the movement away from weekly and fortnightly benefits to one monthly payment, combined with an overall drop in income for many claimants, will present significant budgeting challenges for many vulnerable consumers. This will have an impact on how much they will be able to afford to pay their energy company each month and the number of customers struggling to manage their budget between payments and falling into arrears is likely to increase. In addition, under the universal credit system the entire benefit income for each household will be paid into one person's account, this may further contribute to budgeting difficulties for vulnerable consumers.

Throughout the transition period and thereafter it is essential that energy suppliers are aware of the new challenges facing their customers and change their processes and retrain their staff accordingly. This is particularly important due to the fact that universal credit will be phased in over a number of years, with the result that energy companies will have to accommodate the needs of those still receiving benefits under the old rules and those receiving the new universal credit at the same time, presenting considerable challenges.

In addition, the introduction of universal credit will also mean that the current system whereby vulnerable consumers are passported on to additional help, such as the Warm Home Discount, will no longer be appropriate as the benefits used for this function will cease to exist.

In our view, Ofgem has an important role to play in helping energy companies to begin to think about these issues and plan ahead and perhaps help develop a sector-wide, consistent approach that ensures that nobody falls through the net. It will also be very important for Ofgem to monitor the transition to universal credit and the ongoing situation to ensure that companies are behaving responsibly, helping customers adapt and treating those customers who do struggle to manage their budgets and fall into arrears fairly. Swift, decisive enforcement action should be taken in cases where companies fall below the standards expected by Ofgem.

Compliance with social obligations

As Ofgem notes in the consultation document, the current financial climate and the pressure that high energy bills place on already stretched household budgets means that consumers in vulnerable positions may find themselves unable to meet their commitments and in arrears. We also welcome Ofgem's recognition that effective monitoring and reporting are essential in enabling them to track suppliers' progress on debt and disconnection issues, inform compliance activity and identify possible areas for future action. Effective, fair debt collection practices will be even more important given the additional difficulty some vulnerable consumers with a benefit income may experience managing their budget following the introduction of universal credit (as outlined above). While we agree that some progress has undoubtedly been made in these areas, the debt collection practices of suppliers still leave a great deal to be desired and swift and effective enforcement is essential when energy suppliers fail to meet their obligations. Ensuring

compliance with social obligations must therefore remain a priority in the vulnerable consumers' strategy.

A CAB in Yorkshire and the Humber reported the case of a client with severe mental health problems who had a number of debts, including one to their energy supplier, and went bankrupt. Despite the bankruptcy her energy supplier had been pursuing the client for the debt owed to them. The client and her support worker had informed the supplier of the bankruptcy on a number of occasions and submitted the appropriate evidence more than once but they still continue to pursue her.

A CAB in the West Midlands reported the case of a man who lived alone, had long-standing depression and had been unable to even deal with his post for over a year. He had withdrawn himself from society for a year as he felt unable to cope and so had been unable to contact anyone to ask for help. He had recently received a warrant of disconnection from his energy supplier who refused to regard him as vulnerable, and therefore protected from disconnection, on the grounds that he could go out shopping and hence was not vulnerable. They continued to refuse to help even after the client had produced certification that he had been sectioned under the Mental Health Act because he had not been sectioned in the past year. The client was struggling with an increasing pile of debts, and the threat of disconnection was contributing to his already significant mental health problems.

Off-grid

A significant proportion of those living in off-grid households are vulnerable and suffer significant detriment as a result of bad practice and the high cost associated with off-grid energy. For example:

A CAB in the South-West of England reported the case of an elderly man who lived with his wife and had been diagnosed with a terminal brain tumour.. Their home was not connected to the gas grid and their only source of heating was via off-grid LPG gas. The client's wife had given up work to care for him and they were finding this option very expensive, particularly as the home had to be kept at a constant temperature due to his severe illness and ongoing intensive chemotherapy. They were now in mortgage arrears and the high fuel costs were adding to their already spiraling debt situation. The client's wife was already under a great deal of stress looking after him and felt unable to cope with the additional stress of the high cost of fuel.

Another CAB in the South-West of England reported the case of a woman who was a single parent with a severely disabled child. She lived in private rented accommodation in a rural area where there was no gas supply and was reliant on heating oil to heat her home. She could not afford heating oil during the winter and her child's condition was being adversely affected. In the previous summer she had bought oil at a price of 50p per litre but by the start of the winter the price had increased to 70p per litre. During the Christmas period, at which time the client's home was at a temperature of zero degrees, the client enquired about the cost of oil with her usual company and was told the price was £1 per litre but the company was unable to deliver. The following day she found oil available for collection

approximately 20 miles away at £1.50 per litre. She was unable to afford this and visited the bureau asking whether there was any help for vulnerable people for purchasing oil, unfortunately there were not any grants or social tariffs available and the client was forced to continue to go without sufficient heat. This was having a significant impact on her daughter's condition and she was unable to return to school after the christmas holidays as a result.

We therefore welcome Ofgem's commitment to continue to encourage the extension of the gas network to fuel poor communities wherever possible and believe that this should form a core element of the vulnerable consumers' strategy in the future.

2. Research and best practice

Research is a key part of effective policy making and allows us to gain greater understanding of the needs of consumers, where the market is currently failing to work in the way it should and which remedies are likely to be most appropriate. We therefore support the retention of research as part of the vulnerable consumers' strategy.

Citizens Advice is also a strong advocate of sharing and encouraging the development of best practice as a tool for improving the policies and practices of firms. We believe that it is important to move away from the perception that vulnerable consumers are a burden and an inconvenience and, instead, for companies to see them as paying customers that, given the right support, can become valuable, profitable and loyal customers.

In 2010 Citizens Advice set up the 'Addressing Financial Difficulties' good practice working party (AFD) which brings together local and national government agencies, creditors, debt collectors, bailiffs and advisers to share best practice and try to make a business case for treating customers fairly. In October last year the AFD published a report entitled *How to do the right thing* which brought together examples of good practice from different sectors and set out a five part approach to addressing financial difficulties. Two of the large energy suppliers contributed to this group and provided examples of good practices for the report which was well received by both the credit and advice sectors. The AFD also recently won the Credit Today award for the best money advice initiative. We would support any initiative led by Ofgem or any other organisation which would seek to replicate either this approach or took a different approach to sharing best practice more widely across the energy sector. Citizens Advice would be happy to facilitate this process if other stakeholders felt this would be appropriate and productive.

3. Knowledge and influence

We agree that Ofgem, given their position and knowledge as a regulator and their access to a wide range of data and research resources are in an excellent position to drive the debate, identify areas which are and are not working and raise these issues with Government, energy companies and other stakeholders. We also welcome their close engagement and significant influence throughout the development phases of the Green Deal and the smart meter roll-out and would support their ongoing involvement with these, and future, projects.

4. Information for consumers

It is vital that all consumers are able to understand their energy supply, what tariff they are on, their rights and responsibilities and what to do when things go wrong. Furthermore, the potential benefits to consumers in relation to smart meters, the retail market review proposals aimed at simplifying the market and other projects cannot be realised unless consumers are given the information and tools to take advantage of the improvements and avoid the potential pitfalls. While this is true to a lesser or greater extent for all consumers, clear information and signposting to sources of extra support are even more critical for many vulnerable consumers, particularly for those with mental health problems and those whose first language is not English.

Ofgem should make it a priority to ensure that information is as easy to understand as possible, with extra support available for those who need it. Energy Best Deal, a project run by Citizens Advice and Ofgem provides extra information and support to vulnerable people to help give them the confidence and skills to engage in the energy market and switch to the best deal for them. This has been a very successful project so far and we believe that projects like Energy Best Deal should form a core part of Ofgem's new vulnerable consumers' strategy.

As well as the content of information provided, Ofgem should ensure that information is provided in a range of formats, for example Plain English and Braille.

Question 2: What can Ofgem do differently to help address affordability concerns?

We recognise that there is little that Ofgem can do about external factors such as wholesale energy prices and squeezed incomes. Ofgem can, however, help to address affordability concerns through ensuring that the energy market is both as competitive as possible for *all* consumers and as simple as is practicable to allow vulnerable consumers to access the best deals. As noted above, while the Retail Market Review does attempt to go some way towards addressing complexity and competition, in our view the proposals do not go far enough, particularly in the case of vulnerable consumers.

Ofgem can also help those consumers who are struggling to afford their energy bills by taking robust enforcement action when companies fail to treat their customers fairly in order to prevent widespread consumer detriment and deter other suppliers from adopting similar damaging policies and procedures. We would also like to see Ofgem given the power to be able to require companies to give redress to consumers who have been the victim of unfair practices. We believe that, as well as ensuring that consumers are not disadvantaged by the bad practice of energy companies, this will deter firms from adopting bad practices in the first place. We therefore welcome the DECC consultation on granting these powers to Ofgem and will feed our views into this consultation. Until such a time as these powers are granted, however, we would welcome more innovative initiatives along the lines of the recent decision to oblige a supplier found to have been behaving unfairly to make a donation to Citizens Advice.

In a landscape where the overall amount of support available from Government schemes for affordable warmth is set to reduce it is essential that the support that is available, for example through ECO and the Warm Home Discount, is efficiently run and targeted at the most vulnerable fuel poor households. It is also important that those who need help and

are eligible are given clear information about the help available and how to access these schemes. Ofgem should take an active role in ensuring that these schemes are well run and allow the most vulnerable consumers to access the help they need and are entitled to. We have some evidence, for example, that in some cases communication from energy suppliers in the first year of the Warm Home Discount could have been clearer. We would like to see Ofgem working with suppliers to help them to communicate this more effectively in the second year.

A CAB in the South East of England reported the case of a 76 year old woman who was in receipt of guaranteed and savings pension credit. She thought that she was automatically entitled to the Warm Home Discount of £120 from her energy supplier because she received guarantee credit (not realising that it was only automatic for those receiving guarantee credit only). When it was not credited to her account she contacted her fuel supplier in late February and was told that she had to apply online by the 28th of February. She was not told that the scheme was closing on that date. The client had no access to the internet but the details were not taken from her over the telephone instead. The bureau adviser telephoned the energy supplier and was told by a call centre supervisor that it would not be possible to take these details over the telephone and it was now too late for this years discount. He agreed that their website had not been clear about the eligibility for the scheme and the 'broader group'. He offered £20 as a good will gesture which was refused and the adviser made a formal complaint on the clients' behalf. As a result the client received the full £120 discount. The client stated that without bureau help she would have felt unable to pursue a complaint.

Also, given the fact that only those on the guaranteed element of pension credit only are automatically entitled to the warm home discount and that other fuel poor households must apply to a limited pot for support it is important to be mindful that not all fuel poor vulnerable households will be getting the additional support they need. This makes ensuring that all consumers, and particularly those who are vulnerable, are treated fairly and appropriately when they are struggling to afford their energy bills particularly important.

Question 3: We welcome views on how Ofgem can help stakeholders with their contribution.

Citizens Advice values our strong collaborative relationship with Ofgem and would like to see this continue. This is particularly important due to the Government plans to transfer the functions of Consumer Focus and the planned Regulated Industries Unit to Citizens Advice by 2014. We have also worked closely and effectively with Ofgem on the Energy Best Deal and hope to continue to do so into the future.

