



Proposals to improve outcomes for pre-payment customers

The Children's Society's response

Introduction

The Children's Society is a leading charity committed to improving the lives of thousands of children and young people every year. We work across the country with the most disadvantaged children through our specialist services and children's centres. Our direct work with vulnerable groups including children in poverty, disabled children, children in or leaving care, refugee, and migrant and trafficked children, means that we can place the voices of children at the centre of our work.

In 2015 The Children's Society launched the '*Show Some Warmth*¹' report that found that in the previous winter two million families – with 3.8 million children – were struggling to pay their energy bills. Our research found that nearly one in five families (1.3 million families, with 2.2 million children) have been in energy debt at some point.

Since the launch of this report, The Children's Society has been working with energy companies to seek to improve their support for families and children living in energy debt. Our response to this consultation draws on our qualitative research with families, our experience of supporting families and children in energy debt and our engagement with energy companies to date.

We have also run a pilot programme on seeking to help families in fuel poverty across our children's centres in Bradford, funded by Northern Gas Network. The findings from this project can be found in our *Warm & Informed*² summary report. The Children's Society has also recently conducted research into the experiences of families living in fuel poverty and the impact of home energy efficiency measures on their lives.

Question 1: Do you agree with the scope of warrant charges?

The Children's Society is concerned about the impact that warrant charges can have on vulnerable customers who fall into energy debt. We know from our research that debts very rarely exist in isolation, and that families are caught in a constant juggling act, where they have to make difficult decisions about whether they provide a hot meal for their children, buy them a new school uniform or heat their bedroom.

¹ *Show Some Warmth*, The Children's Society & ACE, 2014 <http://www.childrenssociety.org.uk/what-we-do/resources-and-publications/show-some-warmth-full-report>

² To be published March 2016



Whilst we agree that energy companies are entitled to collect the money that is owed to them, we believe that adding further costs to the debt that already exists by passing on warrant costs will only serve to exacerbate the financial difficulties these families face, as it will take them longer and cost them more to clear their outstanding debts.

The cost associated with the installation and removal of prepayment meters can have a detrimental impact on the ability and desire of low income families with children to seek out and access the best deal available to them. Previous The Children's Society research has found that some families who have never been in energy debt face additional costs due to moving into a property that had a pre-existing prepayment meter and being asked for a security deposit to move off it, with one parent saying *"even though I had good credit they made me have a pre-payment meter because of the previous tenant."*

In the first round of consultation in June 2015, Ofgem³ highlighted how suppliers can charge up to £180 and £160 for installing and removing PPMs respectively. The regulator also found that for those suppliers who charge a security deposit on switching between prepayment and credit meters, the average cost for consumers is £211. Whilst some energy companies have moved towards removing installation and removal costs for customers who choose to move to a prepayment meter, we are concerned that vulnerable customers may still be charged until this is uniformly adopted, and can still face additional warrant related installation costs.

It is often the case that vulnerable households on low-income are encouraged to switch to prepayment meters in order to help them manage their debt and to budget more effectively. With the associated installation and removal costs we are concerned that this could further exacerbate the financial difficulty experienced by these families, and mean that it takes them longer and costs them more to clear their debt. This is also cause for concern for many families as prepayment meters are a more expensive way to pay for energy in the long term⁴. One concerned service user spoke about their frustration at not being able to switch from a prepayment to a credit meter, saying: *"[I] feel I am being stopped from paying direct debit by the £200 [security deposit]"*.

We are supportive of the suggestion by Ofgem to scrap warrant costs and installation and removal fees for prepayment meters. By doing this for all customers, as opposed to being only for certain vulnerable groups, it ensures fairness for all and makes sure that a two-tier system of charging doesn't exist.

³ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-calls-level-playing-field-prepayment-customers>

⁴ <http://www.uswitch.com/media-centre/2013/04/consumers-in-debt-to-energy-suppliers-by-637-million-159-million-more-than-last-year/>



Question 2: Do you agree with the desired consumer outcomes?

We are supportive of the need for energy companies to provide greater transparency in relation to charges that are passed on to customers, and for the need to better protect vulnerable customers.

The Children's Society welcomes the decision by Ofgem to promote a wider range of tariffs for customers on prepayment meters. We know from qualitative research with our service users that many do not feel being on a prepayment meter is the best option for them. The most frequently cited issues were around standing charges, and the additional stress of knowing that you needed energy at certain points in the day and had to go without at other times. There was also concern at the extent to which energy companies were engaging with the most vulnerable customers and ensuring they were on the best tariffs. For instance, one parent told us: *"They just stick you on a standard tariff and that's it."*

Some vulnerable customers lack the confidence to engage with their energy company, which is an issue that has implications both in terms of their ability access competitive tariffs, and to switch between energy companies if they believe they can get a better deal elsewhere. An example of this is from the evaluation we did of our fuel poverty pilot in Bradford, funded by Northern Gas Networks, which looked at knowledge and take up on energy efficiency measures and benefits by vulnerable families with children. As part of this process, outreach workers conducted home visits to help families negotiate with their energy companies on a range of matters. Many clients struggled with contacting their energy company, saying they found this difficult or intimidating. But one client said the scheme helped her develop the confidence to do this: *"I had never phoned my energy company before. It was too scary. But I would try myself next time. I phone the TV license people now. I feel happier now."*

We would want to ensure that low income families with children, and young people moving into independent living arrangements for the first time, were offered sufficient protection. Whilst we are appreciative of the need to have a more nuanced understanding of the vulnerability of customers in line with the transition towards a more principles based system, we would argue that having a minimum group of customers that need to be considered, whilst allowing for energy companies to offer services above and beyond this, would be preferable.



We are pleased, however, that the onus will be on energy companies to proactively identify such customers and offer them the appropriate services. Customer knowledge of protections and benefits available, such as the ability to switch energy companies even if you have debt on your meter, the PSR and the Warm Home Discount, are very low, and shifting responsibility from vulnerable customers to energy companies is a positive step in developing a stronger and more complete safety net.

We would urge Ofgem to produce detailed information for energy companies outlining the different groups likely to require additional support, and the types of support that they might need, thereby allowing their proactive activities to be well targeted.

Question 3: Which option set (A, B or C) do you think will be most effective in meeting our consumer outcomes?

The Children's Society believes that option B (ending warrant charges for consumers in vulnerable situations, capping charges for all consumers (one level cap), and setting out clear expectations of supplier behaviour) would offer Ofgem the greatest possible opportunity to meet its obligations to consumers. In line with the recent evidence from Ofgem raising concerns that prepayment customers can face particular barriers when trying to access competitively priced deals⁵, The Children's Society have gathered evidence from focus groups with service users that suggest that prepayment meter customers face wide ranging issues, notably fewer tariff choices, charges for installing and removing a prepayment meter, and upfront security deposits.

On many occasions vulnerable households on a low-income are encouraged (and sometimes forced) to switch to prepayment meters in order to help them manage their debt and to budget more effectively. The Children's Society's evidence showed that 30% of families with children have a pre-payment meter in their home⁶. This is a cause for concern for many families as the installation and removal fees that are often associated with prepayment meters come as an additional expense that they can little afford. This is supported by the finding that 49% of families on a pre-payment meter are struggling with their energy bills, compared to 29% of all families overall struggling with their energy payments.

Removing the costs associated with pre-payment meter installation and removal would help families in debt to pay off the money owed more quickly, and mean that they are able to spend more of their money on heating the home and providing hot meals for their children. One family we spoke to reported how being on a PPM made them feel anxious as with children in the house they were always worried about the

⁵ https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf

⁶ http://www.childrengsociety.org.uk/sites/default/files/Show_some_warmth_full_report_1.pdf



heating and if you put it on you couldn't afford anything else, while it was a common theme from our qualitative research that families felt they were not supported to get cheaper tariffs from their energy companies.

Ofgem⁷ has previously found that companies could do more to monitor whether arrangements for pre-payment meter customers are set at the correct level to ensure they continue to be able to heat their home. For example, companies could monitor not only whether a pre-payment meter card has been charged but also whether the level of the charging has diminished. This could indicate a fall in usage which could suggest the customer is struggling to meet debt repayments. Ofgem noted particular concerns about follow-up when a pre-payment meter is installed by warrant.

We are concerned that as a direct consequence of financial pressures, many families already on pre-payment meters are increasingly being forced into self-disconnection. Research produced by Citizens Advice found that one in every six prepayment meter customers has cut off their energy supply because of high costs, difficulty topping up or faulty meters⁸. Self-disconnection has long lasting consequences on the health and wellbeing of households. Findings from Consumer Focus show that stress levels within a household are elevated during periods of self-disconnection⁹; this can have a harmful impact on children living in these households.

Our research¹⁰ found that 56% of families who faced debt were addressing this by cutting back on heating and other energy use, with 10% disconnecting themselves from the energy supply. This can have serious impacts on the health of parents and children. Other recent research has found that companies vary in how they monitor pre-payment meter top-ups and how and when they get in touch with customers who are not topping up. Companies need to ensure they meet best practice in contacting families who are at risk of cutting themselves off. **We recommend that Ofgem also work with energy companies to improve the monitoring of prepayment meter top-ups, and to contact customers early if they do not top up.**

Question 6: Do you have any views on our approach or better alternatives to achieve the outcomes we have identified?

We have three main suggestions that we believe would help to further ensure that vulnerable customers are not adversely affected by using prepayment meters to pay for their energy.

⁷ Ofgem. Review of companies' approaches to debt management and prevention. www.ofgem.gov.uk/ofgem-publications/57397/debt-reviewreport.pdf

⁸ <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/prepay-energy-customers-paying-226-a-year-more/>

⁹ <http://www.consumerfocus.org.uk/wales/files/2010/12/Prepayment-meters-and-self-disconnection-case-studies-inWales.pdf>

¹⁰ http://www.childrensociety.org.uk/sites/default/files/Show_some_warmth_full_report_1.pdf



We know from our practice base and previous research that one particular group of young people who are particularly vulnerable is care leavers, as they are moving into circumstances where they will have to manage their life and their household finances independently for the first time, often with little support. We believe that care leavers and 16 & 17 year olds living independently would benefit from prompts to engage with the market. **The introduction of a safeguarding tariff for disengaged domestic customers, as was proposed in the CMA energy market investigation¹¹ in 2015, is welcomed and we believe should be automatically applied to care leavers moving into independent living arrangements for the first time to ensure they are not disadvantaged by a lack of knowledge of the energy market.**

Our research has shown that this cohort of young people are often lacking in experience when it comes to managing their own budgets, and sufficient financial education to make informed choices on products such as energy bills. This means a more proactive approach from energy companies would be of particular benefit.

We believe that care leavers until the age of 25 would also benefit from prompts if they are on a default tariff to ensure they are supported to receive better deals on their energy and to encourage them to engage proactively with the energy market when they first move into independent living. They should receive these prompts when they first move into independent living and every subsequent year after until the age of 25 when they are on a default tariff.

Finally, energy suppliers can deliver the roll out of smart meters in whatever way suits their customers and business best, as long as they meet the Government's overall timescale and targets. However, there are ways that this can be improved to ensure that the most vulnerable customers benefit from this as soon as possible. Therefore, **we would recommend that early stages of the Smart Meter rollout be targeted at fuel poor and indebted households, who often have pre-payment meters, to help to alleviate the impact of living in fuel poverty and energy debt.**

Recommendations

1. We are supportive of the suggestion by Ofgem to scrap warrant costs and installation and removal fees for prepayment meters. By doing this unilaterally, as opposed to being only for certain vulnerable groups, it ensures fairness for all and makes sure that a two-tier system of charging doesn't exist.
2. We would urge Ofgem to produce detailed information for energy companies outlining the different groups likely to require additional support, and the types of support that they might need, thereby allowing their proactive activities to be well targeted

¹¹ <https://www.gov.uk/cma-cases/energy-market-investigation>

3. The Children's Society believes that option B (ending warrant charges for consumers in vulnerable situations, capping charges for all consumers (one level cap), and setting out clear expectations of supplier behaviour) would offer Ofgem the greatest possible opportunity to meet its obligations to consumers
4. We recommend that Ofgem also work with energy companies to improve the monitoring of prepayment meter top-ups, and contact customers early if they do not top up (or have low levels of top ups)
5. We believe a safeguarding tariff should be automatically applied to care leavers moving into independent living arrangements for the first time to ensure they are not disadvantaged by a lack of knowledge of the energy market.
6. We believe that care leavers until the age of 25 would also benefit from prompts if they are on a default tariff to ensure they are supported to receive better deals on their energy.
7. We recommend that the early roll out of Smart Meters be targeted at fuel poor and indebted households, who often have pre-payment meters, to help to alleviate the impact of living in fuel poverty and energy debt.

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