

# Consultation Response



## StepChange Debt Charity response to the Ofgem consultation: *Proposals to improve outcomes for prepayment customers*

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StepChange Debt Charity London Office  
6<sup>th</sup> Floor, Lynton House, 7-12 Tavistock Square, London WC1H 9LT  
Policy Contact: Peter Tutton  
Tel: 0207 391 4596  
Email: [peter.tutton@stepchange.org](mailto:peter.tutton@stepchange.org)

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds LS2 8NG. Company No 2757055. Charity No 1016630. [www.stepchange.org](http://www.stepchange.org)

## Introduction

StepChange Debt Charity welcomes the opportunity to respond to this Ofgem consultation on *Proposals to improve outcomes for prepayment customers*.

StepChange Debt Charity is the largest specialist debt charity working across the UK. In 2015 over half a million people contacted our free telephone helpline or on-line debt remedy tool for advice and support on problem debt. As a result we have considerable experience in dealing with people who are vulnerable through financial difficulty.

Our response to this consultation will set out some general analysis of our clients' experience of fuel debt. We will follow this with brief responses to the consultation questions.

### StepChange clients with fuel debt

The number and proportion of people StepChange Debt Charity has seen with gas and electricity debts has grown in recent years.

- In 2011 we saw 12,657 people with electricity arrears, around 8% of our clients who were responsible for an electricity bill. By 2014 this had increased to 36,853 people, or around 14% of our clients with an electricity bill.
- In 2011 we saw 9,461 people with gas arrears, around 8% of all clients with responsibility for a bill. By 2014 this had risen to 25,355 people, around 13.5% of all clients with responsibility for a gas bill.

The rate of increase will have steadied off over 2015, but the numbers of people we are seeing with fuel debts will still be considerably higher than four years ago.

Further analysis of StepChange Debt Charity clients with fuel debts (gas and electricity) shows how people with fuel debts are more likely to show signs of broader vulnerability than our clients who do not have fuel debts.

Looking at a sample of just over 160,000 people who contacted StepChange Debt Charity in 2015 by telephone found the following:

- People with fuel debts were less likely to be able to make ends meet: 41% of those with fuel debts had a negative budget (expenditure in excess of income) even after budgeting counselling. This compares to 28% of StepChange Debt Charity clients without fuel debts
- People with fuel debts were more likely to have council tax or rent arrears as well: 58% of StepChange clients with fuel debts also had rent or council tax arrears. This compares to 27% of those without fuel debts.
- People with fuel debts were more likely to be on lower incomes and in receipt of means tested, incapacity and unemployment benefits: 64% of those with fuel debts compared to 46% of those without fuel debts.
- StepChange clients with fuel debts were more likely to have children: 52% of those with fuel debts compared to 39% of those without
- Our clients with fuel debts were more likely to be in receipt of (or a household member was in receipt of) disability and incapacity benefits: 24% compared to 17% of those without fuel debts.

This suggests that people with fuel debts are more likely to show other indicators of vulnerability, even compared to other people in serious financial difficulty.

As a result StepChange Debt Charity strongly supports these proposals by Ofgem to increase the protection for financially vulnerable consumers from PPM installation and removal charges.

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

StepChange Debt Charity agrees with Ofgem's position set out in paragraph 2.8 that the charges that should be considered in scope of 'warrant charges' covers all aspects of debt recovery, including debt collection visits as well as the costs of exercising a warrant.

Given that our clients with fuel debts will have around six creditors on average, additional charges for collection and enforcement activity can quickly cause problem debts to mount up. Previous research by StepChange Debt Charity estimated that in just six months a typical StepChange client could see an extra £2,300 added to their debts if creditors added default charges to their accounts.

Our research also shows how debt problems can get worse where creditors do not offer the right help at the right time. Around 80% of StepChange clients we polled said that they had contacted one or more of their creditors before they sought debt advice. But a third of these (33%) said that none of their utilities suppliers had helped with forbearance such as freezing further charges or collections and enforcement action. A similar proportion of respondents said they had not been helped by other unsecured creditors.

Six in ten of the people that did not get the need they needed from their creditors went on to take out more credit to try to cope with their debt problems. More than one in four said that actions by a creditor had prompted them to pay that bill by falling behind with other bills.

As a result StepChange Debt Charity urges Ofgem to consider both how to control the level of default charges financially vulnerable people might face and how to ensure that firms encourage consumers in financial difficulty to engage in a way that helps people regain control of their finances and does not make problem debts become more difficult to deal with.

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

StepChange Debt Charity broadly supports the consumer outcomes listed in the consultation.

We agree that warrant charges should be applied fairly and warrant practices should be transparent and fair. We know that unresolved debt problems can have a detrimental effect on people in financial difficulty – 47% of StepChange clients polled said they had visited their GP as a result of mental or physical health problems caused by their debts.

So we would urge Ofgem to consider how to ensure that processes and practices relating to the collection and enforcement of fuel debts are designed with the objective of minimising harm to vulnerable consumers.

We support the intention to reduce the impact on the most vulnerable consumers. We would also highlight again the finding above that financial vulnerability and other indicators of vulnerability may be experienced together and become self-reinforcing if

the right help is not available for consumers when they need it. Indeed we would argue that it is the lack of the right help and the right time that is a major driver of vulnerability for people in financial difficulty.

We agree that Ofgem should be rightly concerned not to take action that might encourage a greater number of disconnections.

But this means taking a holistic approach to the control of debt collection and enforcement practices through sufficient consumer protection along with an emphasis on helping people to financial recovery through sustainable and affordable repayments of fuel debts where possible.

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

StepChange Debt Charity would suggest option set B (end warrant charges for consumers in vulnerable situations; cap charges for all consumers; and set out clear expectations of supplier behaviour) as being most likely to achieve the consumer outcomes Ofgem describes. This should be implemented as part of a holistic strategy for fair and sustainable debt management.

**Question 4: Should cases of energy theft or wilful damage to meters be exempt from our proposals?**

We understand the concern that Ofgem raises here, and as a general principle we would agree that the costs of criminal activity of wilful damage should not be passed on to other consumers. However there may be cases where energy theft or wilful damage way relate to or result from an aspect of consumer vulnerability. In which case we would urge Ofcom to require energy suppliers to consider the relevance of any aspect of consumer vulnerability and whether any further charges or debt enforcement activity might make a vulnerable situation more severe.

So any exemption in these cases should be capable of being overturned on a case by case basis with an obligation on suppliers to consider this where there is evidence of a vulnerable situation.

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

StepChange Debt Charity does not have any additional comments in response to this question at this time.