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Making a positive difference
for energy consumers

Vulnerable consumers

in the energy market: **2019**

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Executive Summary

Our principal duty is to protect the interests of existing and future consumers. At the heart of our work is a commitment to support and protect consumers in vulnerable situations. This is a landmark year for Ofgem as we look to finalise our Consumer Vulnerability Strategy for the next five to six years (CVS 2025) and set out the outcomes we want to see in the market.[1]

Energy companies have a duty to support consumers in vulnerable situations through their licence obligations and other legal requirements (such as the Equality Act 2010). This report presents our assessment of how the energy market is working for these consumers. We've drawn on the latest domestic suppliers' social obligations data[2], distribution network companies' performance, as well as case studies and research from consumer groups and Ofgem.

We shared individual reports with suppliers to allow them to benchmark themselves and improve. To encourage sharing of best practice across the energy sector, we have incorporated findings from suppliers and distribution network companies and shared examples of good practice with a renewed focus this year on innovation and sustainability, in line with our Strategic Narrative.[3]

How did energy companies support vulnerable consumers in 2018?

Overall, our assessment shows that companies have made some progress since our last report to improve outcomes for vulnerable consumers. However, we are concerned about the performance of the sector, and in particular small and medium suppliers, in some key areas.

Priority services

We are pleased to see that energy companies are identifying more customers eligible for their Priority Service Registers (PSR) and are increasing the range of services they offer to their PSR customers. However, consumer groups have told us there is variance in the quality and breadth of services provided by suppliers. As part of our draft CVS 2025, we

[1] Ofgem (2019) Draft Consumer Vulnerability Strategy 2025
[2] To note due to supplier data resubmissions there have been some changes to the 2017 data points published in last year's report.
[3] Ofgem (2019) Strategic Narrative 2019-23

have been clear that we want to see consumers being effectively identified as eligible for priority services and provided with high quality priority services in a timely way.

Customers in debt

The overall number of customers in debt[4] increased by 4.2% in electricity and 4.8% in gas in 2018. Within this, there was an increase in the number of customers in arrears without a repayment plan[5], which means that more customers are falling behind on their bills who are not being engaged with effectively or where there is a delay in contact, indicating that more can be done to engage with customers in arrears.

We expect suppliers to consider customers' abilitity to pay when setting debt repayment plans. In 2018, while we have seen the average repayment rate going down overall, we still have concerns about weekly repayment rates among small and medium suppliers. These suppliers continue to have on average a higher proportion of customers in the highest repayment bracket compared to larger suppliers. It is not obvious that this reflects small and medium suppliers having more affluent indebted consumers.

We are pleased to see a decrease in the total number of prepayment meters force-fitted under warrant to recover debt after we introduced new protections against this in 2018. [6] The total number of prepayment meters (PPMs) installed under warrant decreased by 15% from 84,424 in 2017 to 70,981 in 2018. However, this decrease was driven by one large supplier, British Gas, and we are still concerned that some suppliers install a significantly higher number of PPMs under warrant per 1,000 customers with a new debt repayment arrangement than the average. We note First Utility (now Shell Energy) and Utility Warehouse are the medium suppliers who installed the highest numbers of PPMs under warrant per 1,000 customers in 2018. We will continue to engage bilaterally with suppliers and we will take robust action if we encounter non-compliance with the new requirements.

Disconnections

In 2018, suppliers in Great Britain disconnected just six electricity disconnections for debt (there were no disconnections in Scotland or Wales) and, for the first time since we started recording data on disconnections, there have been no gas disconnections for debt. This

[4] We started collecting data on the number of customers repaying a debt to their supplier in 2006, and since 2012 we started collecting data on the total number of customers in debt, including those in arrears but not yet repaying a debt.
[5] Customers in 'arrears' are customers who have bills which remain outstanding for longer than 91 days or 13 weeks after they are issued, and who have not yet set up a debt repayment arrangement.
[6] Ofgem (2017) Decision to modify gas and electricity supply licences for installation of prepayment meters under warrant

continues a long-term reduction to the lowest number ever. Disconnection is a last resort, and we are very pleased that disconnections are so infrequent.

However, self-disconnection and self-rationing of energy remains an area of concern and tacking this issue is one of the key priorities we have set out for the first year of the CVS 2025. We have recently published a policy consultation on proposals to improve outcomes for consumers in this area, including improving identification and providing consistent support for consumers across the market.[7]

Areas we will monitor closely

There are also some areas that we will continue to monitor closely. In 2018, we observed more than a threefold rise in the number of smart meters switched remotely by suppliers from credit to prepayment mode to repay a debt (from nearly 21,000 in 2017 to just under 70,000 in 2018). We expect all suppliers to use the remote switching facility fairly and appropriately, in line with their obligations, and we will closely monitor industry performance in this area. We want to ensure customers are protected given the potential risk of disconnection if remote switching isn’t done properly.

In 2018, we also saw more consumers overall contacting supplier energy advice lines staffed by qualified energy efficiency advisers. Energy efficiency advice can be very helpful when customers are trying to reduce their bills and carbon emissions. While we are pleased that more customers in debt are also contacting an energy efficiency helpline, these numbers are significantly smaller than the number of customers in debt or arrears and we encourage suppliers to do more to ensure these customers benefit from appropriate advice.

Next steps

We are committed to evaluating and monitoring progress towards the outcomes we want to see realised during the lifespan of the CVS 2025 and this report will continue to play a significant role in providing transparency across the energy market.

We expect industry to respond to the findings and insights presented in this report. We have identified a number of areas of concern and, as ever, we will engage with companies to hold them to account to encourage improvement.

[7] Ofgem (2019) Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing

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Key Findings

Inclusive services

The proportion of customers on suppliers' PSRs continued to increase in 2018 across all suppliers.

There are now **6,703,753 (24%)** electricity consumers and **5,646,740 (24%)** gas consumers on a PSR. This represents a **12%** increase for electricity and a **19%** increase for gas on previous year.

The total number of PSR services that suppliers provided to customers increased in 2018.

In 2018, the total number of services provided has risen to **873,082** services for electricity consumers and **659,650** services for gas customers. This was mainly driven by large and small suppliers for electricity customers and by small suppliers for gas customers. This represents an **8.5%** increase for electricity and **4.4%** increase for gas.

There is a variation in PSR numbers by nation, with Scotland having the lowest proportion of consumers on the PSR.

The proportion of consumers on the PSR is highest in Wales with **28%** gas and **26%** electricity customers, followed by England with **24%** for both gas and electricity, and Scotland with **22%** gas and **21%** electricity customers on the PSR.

Electricity distribution network companies' PSRs continue to grow

as they continue to work with suppliers and improve upon their consumer vulnerability strategies.

Debt and afforability

The total number of customers in debt has increased. This is 1,309,768 for electricity and 1,048,8344 for gas.

Customers in debt with a repayment plan has increased. For the first time since we started collecting data the overall number of customers repaying a debt to their electricity and/or gas supplier has increased slightly (**661,339** for electricity; **543,520** for gas). This represents a **1%** increase for electricity and **0.4%** increase for gas.

However, there are an increasing number of customers in arrears (without a repayment plan). This has increased from **601,795** in 2017 to **648,429** in 2018 **(an increase of 8%)** for electricity and from **459,450** to **505,314** (an increase of **10%**) for gas. This would imply that more customers are falling behind on their bills and are not being engaged with effectively, or that there might be a delay in contact.

Large suppliers have a higher proportion of customers in debt who have a repayment plan compared to small and medium suppliers.

(**56%** for large suppliers compared to **28%** small and medium (elec) and **58% v 26%** (gas))

Average repayment rates are going down, but smaller and medium suppliers are still setting the highest repayment rates.

36% of customers with large suppliers are on the lowest repayment rate, while **25%** of medium supplier customers and **22%** of small supplier customers are on the lowest repayment rates for electricity. We found that small and medium suppliers have a higher proportion of customers (**22/20%** in electricity and **21/20%** in gas) in the **>£15** repayment bracket compared to **7%** and **6%** for large suppliers.

Fewer PPM customers in debt switching to new suppliers.

There has been a decrease in the number of customers successfully transferring to a new supplier under the Debt Assignment Protocol. This reverses an increasing trend of three years. In 2018, the successful switches decreased from **3,395** electricity to **2,241** and from **2,694** to **1,842** for gas customers.

More consumers are contacting supplier energy advice lines.

More consumers overall are contacting supplier energy advice lines staffed by qualified energy efficiency advisers – this year **230,508** contacts were made compared to **168,707** in 2017. More customers in debt are contacting an energy efficiency helpline (**13,577** in 2017 to **23,404** in 2018) but these numbers are significantly smaller than the number of customers in debt or arrears.

Fuel poverty

So far in RIIO-GD1, Gas Distribution Networks have connected **64,100 households** under the Fuel Poverty Network Extension Scheme.

Staying on supply

The total number of force-fitted PPMs installed under warrant has decreased and is driven by one large supplier,

decreasing overall from **84,424** in 2017 to **70,981** in 2018.

The number of smart meters remotely switched from credit to prepayment to repay debt has increased significantly.

Just under **70,000** smart meters were remotely switched from credit to PPM in order to repay a debt in 2018 compared to the **21,000** in 2017.

Continued decrease in disconnections.

There were only **six electricity disconnections** for debt and, for the first time since we started recording data on disconnections, in 2018 there were **no gas disconnections** for debt. This is again a considerable decrease compared to 2017 when **17 customers** were disconnected for debt. There have been no disconnections for debt for gas and electricity in either Scotland or Wales. All six disconnections for debt occurred in England. We are very pleased to see this reduction in gas disconnections for debt from a peak of **5,727** disconnections in 2007.

Support when supply is interrupted.

In 2018-19 the total value of payments made by Electricity Distribution Network Operators to PSR customers was **£295,985**. Similarly, the Gas Distribution Networks have made payments to the sum of **£6,588**, which is inclusive of some ex gratia payments.

1. Inclusive services

Section summary

We want a market that is accessible, inclusive, and responsive to people's needs. Energy consumers should not be hindered by the circumstances they face – whether their situation is ongoing or temporary, as anyone can find themselves in a vulnerable situation. For this reason, industry should design and deliver products and services with consumers who may need additional assistance in mind to avoid creating or exacerbating vulnerable situations. This chapter explores how suppliers and distribution network companies are delivering inclusive services.

2018 findings at a glance…

- The total number of free services provided to consumers on suppliers' Priority Service Registers (PSR) has increased significantly for electricity and gas consumers, which is good to see. The increase is mainly driven by large and small suppliers. These are the highest figures since we started monitoring service provision in 2006.
- The proportion of consumers on a gas or electricity supplier PSR has continued to increase. This has been a trend across all suppliers.
- Electricity distribution network companies' PSRs continue to grow as they continue to work with suppliers and improve upon their consumer vulnerability strategies.

Understanding the need for inclusive services

1.1. It is predicted that in the future, more and more consumers are likely to be in vulnerable situations for a number of reasons.

- The UK population is getting older. In 2018, 18.3% of the population was aged 65 and over and it is projected that 24.2% will be 65 and over by 2038.[8]

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[8] Office of National Statistics (2019) Overview of the UK population

- In 2017-18, one if five people in the UK (13.3 million) reported living with a limiting mental or physical disability. The most commonly reported impairments by disabled people were: mobility (49%), loss of stamina, breathing, fatigue (37%), dexterity issues (26%), and mental health problems (25%).[9]
- It is also estimated that one million people in the UK will have dementia by 2025 and this will increase to two million by 2050.[10]

1.2. This shows that a large and growing proportion of the UK population might need additional support from their energy companies. Suppliers and distribution network companies need to proactively identify which of their customers might be in a vulnerable situation and offer tailored additional services to help them engage in the energy market.

What we expect of suppliers and distribution companies

Identifying vulnerable consumers

1.3. Under their licence conditions, suppliers and electricity distribution companies are required to maintain a Priority Service Register (PSR) for customers in need. Gas distribution network companies are required to set up and maintain practices and procedures to identify domestic customers who may be eligible for additional services as a result of their customer interactions.[11] As part of their obligations, all companies must ensure data is accurate and up to date.

1.4. Suppliers also need to proactively identify customers who might benefit from additional support services. This obligation is strengthened by the Standards of Conduct (Standard Licence Condition 0)[12] which require suppliers to identify each vulnerable customer in an appropriate way. We encourage suppliers to use the data available to them to identify consumers in vulnerable situations and support them accordingly.

1.5. Additionally, the smart meter rollout is a unique opportunity for suppliers to visit every home in the country and get insight into vulnerability on a national scale. The Smart

[9] Department for Work and Pensions (2019) Family Resources Survey 2017/2018
[10] Dementia Statistics Hub (2018) Prevalence projections in the UK
[11] Gas and Electricity Supply Standard Licence Condition 26 respectively, Electricity Distribution Standard Licence Condition 10, Gas Transporter Standard Condition 17, and Gas Transporter Standard Special Condition D13.
[12] Unless otherwise stated, when referring to a specific 'SLC' this is in reference to both the Gas and Electricity Supply Standard Licence Conditions.

Metering Installation Code of Practice (SMICoP) requires installers to be trained on vulnerability and to be able to identify potential cases of vulnerability.[13] This could lead to more customers registering for the PSR and receiving relevant services.

1.6. To further help identify consumers who might need extra support, we require suppliers to share customer data with distribution network companies in accordance with data protection rules.[14] The energy industry aligned its PSR 'needs codes' (descriptions of vulnerabilities) for electricity in June 2017 and gas in January 2018 to allow for consistent data sharing between suppliers and distribution network companies.[15]

1.7. We are also continuing our participation in the UK Regulators Network (UKRN) project, which looks at ways companies in regulated sectors can make better use of all the available data[16] to better identify consumers who are in vulnerable situations and ensure they receive a positive consumer experience. The sharing of non-financial vulnerability data will help limit the need for consumers to have the same, potentially stressful, conversation regarding their vulnerable circumstance on repeated occasions.

1.8. In November 2018, the UKRN, Ofgem and Ofwat published a follow-up report on 'Making better use of data: identifying customers in vulnerable situations'.[17] It focused on reviewing the progress which water and energy companies have made against the two expectations set out in our initial report: (i) cross-sector non-financial vulnerability data sharing, and (ii) collaboration with third parties to support and identify customers in vulnerable situations. The report also considered the lessons learnt from the pilot project in which water and energy companies in the North West of England gained explicit consent from their mutual customers to share their PSR data.

1.9. The pilot project revealed significant progress towards cross-sector data sharing, but continued progress will be needed for a successful roll-out of this project in 2020. Key challenges identified include the requirement for effective training of frontline staff, technical issues in matching data sets, and data accuracy. Evidence also showed that human interaction is key in gaining customer consent to share data and it will be essential

[13] Smart Meter Installation Code of Practice (SMICoP)
[14] Ofgem (2016) Decision to modify gas and electricity supply, electricity distribution and gas transporter licences for PSR arrangements
[15] The official list of industry PSR needs codes is available here
[16] In line with The Data Protection Act 2018 and the General Data Protection Regulation
[17] UKRN, Ofgem, Ofwat (2018) Making better use of data to identify customers in vulnerable situations

that staff across all companies are given sufficient training to be able to articulate the benefits of data sharing and maintain enthusiasm ahead of national roll out.

1.10. In August 2019, industry approved changes to the PSR needs codes to enable the two-way transfer of PSR data between water and energy companies. The next steps of the project are for industry to make the necessary changes to their systems. This was an important milestone for this project, which is still on course for full implementation by April 2020.

Providing and promoting tailored services

1.11. As part of their obligations, suppliers and distribution network companies must provide information, advice and offer a number of services free of charge to their PSR customers.[18] Priority services, such as accessible communications, regular meter reads by the supplier or emergency notification of interruption to electricity supply provided by the network company, are intended to help with access, safety and communication in relation to a customer's energy supply.

1.12. In addition, suppliers need to promote the PSR in innovative ways to make sure consumers are aware of the support available. We expect companies to collaborate with consumer groups and other third parties to improve awareness of the PSR.

1.13. To ensure suppliers can offer tailored and innovative services to their customers, we have described the outcomes we want them to achieve in the licence. For example, suppliers need to offer additional services to help consumers identify suppliers' representatives (eg through a password scheme) and communicate with their customers in an accessible way (eg communications in large print).[19] Separately from additional support provided under the PSR, suppliers must also provide free gas safety checks (eg for appliances such as a gas boiler) to eligible homeowners once every 12 months if a customer requests it.[20]

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[18] Gas and Electricity Supply Standard Licence Condition 26 respectively, Electricity Distribution Standard Licence Condition 10, Gas Transporter Standard Condition 17, and Gas Transporter Standard Special Condition D13.
[19] Gas and Electricity Supply Standard Licence Condition 26 respectively.
[20] Gas Supply Standard Licence Condition 29.

1.14. Linked to this, in February 2019, we introduced a package of five enforceable principles in the supply licence to enable suppliers to better tailor their communications with their customers, including those in vulnerable situations.[21] The principles include[22]:

- two principles relating to engagement: one around providing information to enable consumers to understand and manage their costs and consumption, the second one around consumers being informed by their suppliers that they can switch tariff or supplier;
- a principle to ensure consumers can quickly and easily understand how to identify and access the help that is available to them;
- a principle to ensure consumers get the information they need to understand how much they have paid, or will need to pay, for their energy; and,
- a principle to ensure that customers are made aware of changes to their contract.

1.15. Subsequently, we have removed a large number of prescriptive rules relating to domestic supplier-customer communications in order to enable suppliers to take different approaches to meet the diverse needs of their customers, including those in vulnerable circumstances, while putting responsibility firmly on suppliers to deliver positive consumer outcomes.

1.16. In May 2019, the UKRN published a joint UKRN-Office of the Public Guardian (OPG) guide to Power of Attorney 'Supporting customers who do not make their own decision'. [23] The guide was written by the OPG in partnership with the UKRN, Ofcom, Ofwat, Ofgem and the Financial Conduct Authority. This guide is intended to help policy makers in financial services and utility companies provide straightforward and consistent information for staff, which will make the process easier for customers, especially those in vulnerable circumstances. The document also gives an overview of how the Mental Capacity Act 2005 should shape an approach to dealing with customers who have powers of attorney or deputy court orders. We encourage energy companies to make full use of the guide.

[21] Ofgem (2018) Final decision: Domestic supplier-customer communications rulebook reforms. The changes took effect on 11 February 2019.
[22] Gas and Electricity Supply Standard Licence Conditions 31F, 31G, 31H, and 31I respectively
[23] UKRN (2019) Joint UKRN-OPG Guide to Power of Attorney

Stakeholder engagement incentives

1.17. Through our price control regulation of distribution companies, we also have outputs that the companies need to deliver and incentive schemes that encourage them to do more for vulnerable customers.[24] These are similar but distinct between electricity and gas. This section describes these incentives and later in the chapter, we look at how companies are performing against them.

Electricity distribution network operators

1.18. In the current price control period for RIIO-ED1, we have in place a Stakeholder Engagement and Consumer Vulnerability (SECV) incentive.[25] This encourages distribution network operators (DNOs) to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer-focused, socially responsible and sustainable energy service. With specific regard to the consumer vulnerability element of the incentive, DNOs must be able to demonstrate evidence of the work they are doing to address consumer vulnerability issues.

Gas distribution networks

1.19. Under our current RIIO gas distribution price control (RIIO-GD1), the gas distribution networks (GDNs) are incentivised through the Stakeholder Engagement Incentive (SEI) to become more outward-facing and responsive to the needs of their stakeholders.[26] The key aim of the SEI is to encourage the network companies to identify and engage with their stakeholders and use this to inform how they run and plan their business.

1.20. Unlike the DNOs' SECV incentive, the SEI does not have specific criteria relating to consumer vulnerability. However, we expect the GDNs to pay particular attention to stakeholders that represent the interests of vulnerable customers, and many of the stakeholder engagement activities have benefits to vulnerable consumers.

1.21. Within RIIO-GD1, there is also a gas Discretionary Reward Scheme (DRS) to incentivise the GDNs to undertake activities that help address a range of social, carbon

[24] RIIO-ED1 is the electricity distribution price control which runs from 2015-2023. RIIO-GD1 is the gas distribution price control which runs from 2013-2021.
[25] Ofgem (2019) Stakeholder Engagement Panel 2018-19 for the latest information
[26] *Ibid*.

monoxide safety and environmental issues. In RIIO-GD1, the gas DRS runs every three years, with a maximum reward of £12m available over the price control across the GDNs.

Key findings: Identifying vulnerability

The proportion of customers on suppliers' PSRs continued to increase in 2018 across all suppliers

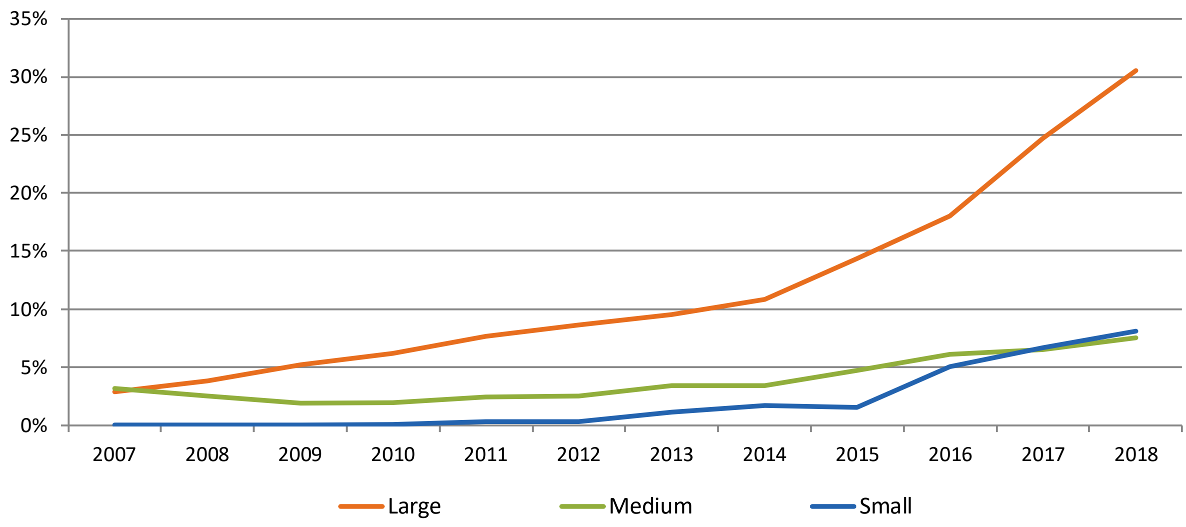
1.22. Having information on a customer's potential vulnerability allows companies to tailor their interactions with that consumer. One specific way to provide support is through the Priority Services Register (PSR). This data point is a useful benchmark in seeing which suppliers are doing well in identifying who needs priority support services, and those suppliers which are not.

1.23. In 2018, the number of consumers on suppliers' PSRs continued to increase. There are now 6,703,753 (24%) electricity consumers and 5,646,740 (24%) gas consumers on a PSR. This represents a 12% increase for electricity and a 19% increase for gas on previous year, although it is important to note that not all customers receive PSR services.

1.24. As shown in Figure 1.1, we are seeing an increase in the proportion of customers on a PSR across all suppliers. It is positive to see that medium and small suppliers are getting better at identifying vulnerability and registering these customers on the PSR, this is an area we said we expected to see an increase. However, the proportion of their customers on the PSR is still relatively low. We encourage these suppliers to continue their efforts in this area.

1.25. We expect some of the PSR numbers to continue to increase and companies to have more up-to-date information following the work the industry has done to develop a uniform set of PSR needs codes to ensure consistent data sharing between suppliers, distribution network operators as well as part of the upcoming cross-data sharing work between the energy and water sectors discussed above.

Figure 1.1: Proportion of electricity customers on a PSR – by supplier type (the trend is similar for PSR gas customers)



1.26. In 2018, we continued to observe that there are still a number of small and medium suppliers that say they do not have many PSR eligible customers due to the demographics of their customer base, in that they don't have a large proportion of customers who are of pensionable age or that they have more affluent customers. We are concerned that some still seem to have a perception that vulnerability is mainly defined by age. Being of pensionable age can of course be an indicator that someone may be eligible for the PSR, but it is not the only reason why a consumer might be vulnerable. There could be many other reasons including living with young children or a disability, struggling financially or temporarily being less able due to an accident.

1.27. We encourage medium and small suppliers to look beyond age and actively engage with their customers as appropriate on potential vulnerabilities. Suppliers could achieve this by training their representatives and having sound quality assurance mechanisms to ensure the training programme has been successful. For example, Co-operative Energy offer vulnerability training to all existing and new colleagues, including around identifying vulnerability and signposting PSR services. They provide regular refreshers on an annual basis and have created a handbook for frontline staff.

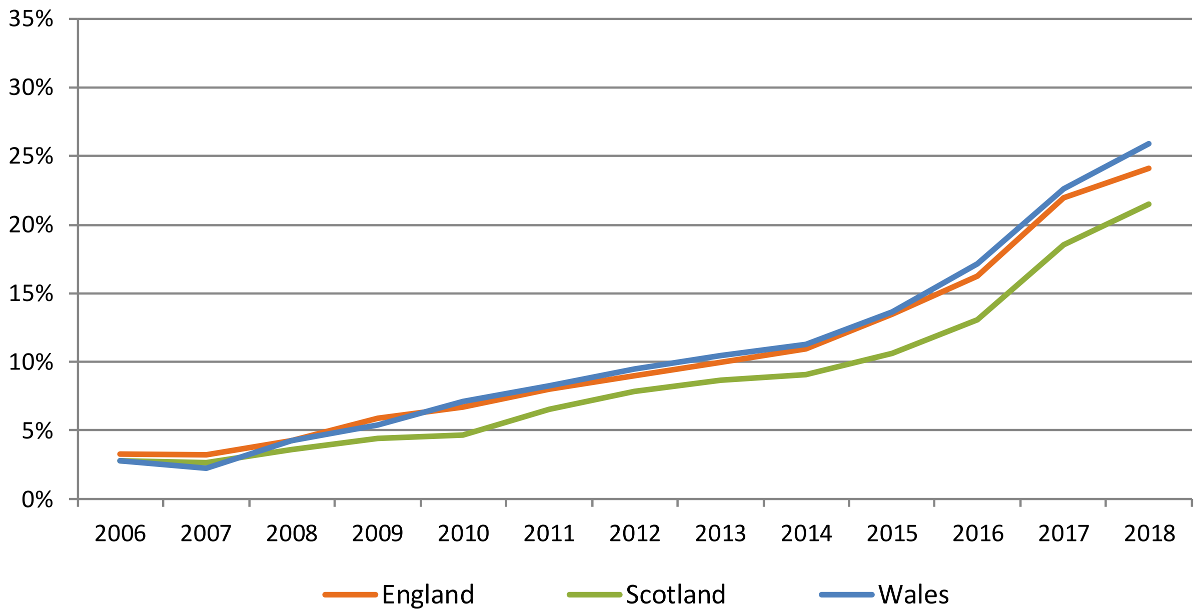
1.28. At the same time, we expect to see the number of customers on each supplier's PSR fluctuate in recognition of the fact that consumer vulnerability is complex and can be transient. We are aware that most network companies validate their PSR data at set intervals, but we have concerns that not all suppliers are doing enough to make sure their PSR data is up to date. We have seen some examples of good practice from our interaction with suppliers this year. For example, British Gas have automated prompts for agents to review the current PSR information held and to promote the PSR to customers that are eligible. The system also has a date stamp for customers with temporary vulnerabilities which will be checked by the agent in conversation with the customer.

There is a variation in PSR numbers by nation, with Scotland having the lowest proportion of consumers on the PSR

1.29. The proportion of consumers on suppliers' PSRs remains lower in Scotland than in other nations, although this did increase in 2018 for both gas and electricity (see Figure 1.2). The proportion of consumers on the PSR is highest in Wales with 28% gas and 26% electricity customers, followed by England with 24% for both gas and electricity, and Scotland with 22% gas and 21% electricity customers on the PSR.

1.30. Consumer research commissioned by Citizens Advice Scotland (CAS) in 2018 found that awareness of priority services registers across essential services was very mixed, with as many participants unaware as aware of them.[27] We encourage all suppliers to do more to increase awareness of the PSR, particularly in Scotland where numbers are lower.

Figure 1.2: Proportion of electricity customers on a PSR – across the nations (trend is similar for PSR gas customers)



[27] Citizens Advice Scotland (2019) [Making it Easy: Simpler Registration for Consumers in Vulnerable Situations]

Assessing DNO performance under the SECV

1.31. The Stakeholder Engagement and Consumer Vulnerability (SECV) incentive is designed to financially reward high quality activities undertaken by DNOs and the outcomes these activities deliver.[28] The allocation of this reward is based on an assessment of the DNOs' stakeholder engagement and consumer vulnerability activities by a panel of independent experts, chaired by Ofgem. Our SECV Guidance sets out further information regarding the assessment process for this scheme.[29]

1.32. The incentive requires that companies build and improve upon their activities from previous years. Now four years into the incentive, DNOs are generally performing well on this criterion, with PSR numbers steadily increasing and dedicated consumer vulnerability strategies in place, though some are performing better than others.[30]

1.33. Overall, our Stakeholder Engagement Panel[31] found that there have been steady improvements in DNOs' consumer vulnerability activities, particularly in the use of data to identify and recruit further customers to the PSR. While all DNOs are active in this area, best performing companies demonstrate a good understanding of how varied vulnerability can be, and have a range of other activities in consumer vulnerability that go beyond the requirements on companies pertaining to the PSR. DNOs have also displayed some innovative ideas and approaches to engaging with their stakeholders.

1.17. However, we consider that further improvements can be made even in the case of the best performers. For example, we expect network companies to demonstrate that they have proactively identified and engaged with a range of stakeholders, not just customers, to understand consumer vulnerability issues. We also expect the initiatives companies put in place to address these issues to be innovative and result in measurable benefits for vulnerable consumers.

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[28] The financial reward is up to 0.5% of each DNO's allowed Base Revenue.
[29] Ofgem (2018) SECV Incentive Guidance
[30] Scores are on a scale of 1 to 10: scores of 4 or less does not receive a financial reward; scores between 4 and 9 are eligible for a percentage of their reward; and scores of 9 or above receive the maximum financial reward.
[31] Ofgem (2019) Stakeholder Engagement Panel 2018-2019

Going beyond PSR data

1.34. With consumers potentially vulnerable in a wide range of ways, suppliers need to be innovative in how they identify these consumers to make sure their experience is positive. We acknowledge that using PSR data alone does not provide the full picture as a person may be in a vulnerable situation, but not require priority services available from the PSR in relation to their access, safety and communication needs.

1.35. Companies will therefore hold more data internally on customers who may need a tailored approach beyond the PSR. A big part of this is making sure suppliers capitalise on every opportunity to engage with their potentially vulnerable customers, either directly or with partners.

1.36. Good practice and innovation does not always need significant expense or resource. To embed consideration of vulnerability within an organisation, commitment from senior management to drive the culture of change is essential. It is also crucial to empower staff to identify and support vulnerable consumers. We are pleased that some suppliers have extra care teams. We consider these to be crucial in helping to provide vulnerable consumers with the support they need and deserve. These teams provide additional support to vulnerable customers and have been specifically trained to recognise vulnerable situations. Some suppliers have also trained their engineers and field agents to recognise vulnerability.

1.37. This year we have observed an improvement from some suppliers in committing extra resources to work closely with vulnerable consumers, however we think more could be done in this space. Just as we would encourage distribution network companies to learn from suppliers' experiences in supporting vulnerable customers, we encourage suppliers to look at what network companies are doing and consider what they can learn from other parts of the energy industry. Case study 1.1 sets out some examples of initiatives the GDNs and DNOs have been rewarded for through the gas SEI and the electricity SECV incentives.[32]

[32] More information about the examples cited are available in the companies' submissions, and decisions to the SEI and SECV: the DNOs entry forms and submissions to SECV and the GDNs entry forms to the SEI.

Case study 1.1: Examples of initiatives rewarded through the SECV and SEI

- A number of companies now have in place partnerships with mental health organisations, and arrangements specifically addressing the needs of customers facing mental health issues. One example from Northern Powergrid would be its proactive communications initiative, which aims to contact this vulnerable group within the first hour of an unplanned power cut to provide reassurance and further information.

- DNOs that have chosen to target fuel poverty were recognised by the Stakeholder Engagement Panel as going above and beyond licence requirements on consumer vulnerability. Western Power Distribution (WPD) in particular has been using its work with partners supporting fuel poor customers to further expand the reach of its PSR, as its data analysis identified that there was a 43% correlation between the two issues.

- Scottish Gas Network (SGN) is delivering extensive training to its frontline engineers on additional services and the identification of vulnerable consumers.

Key findings: Accessible and inclusive services

The total number of PSR services that suppliers provided to customers increased in 2018

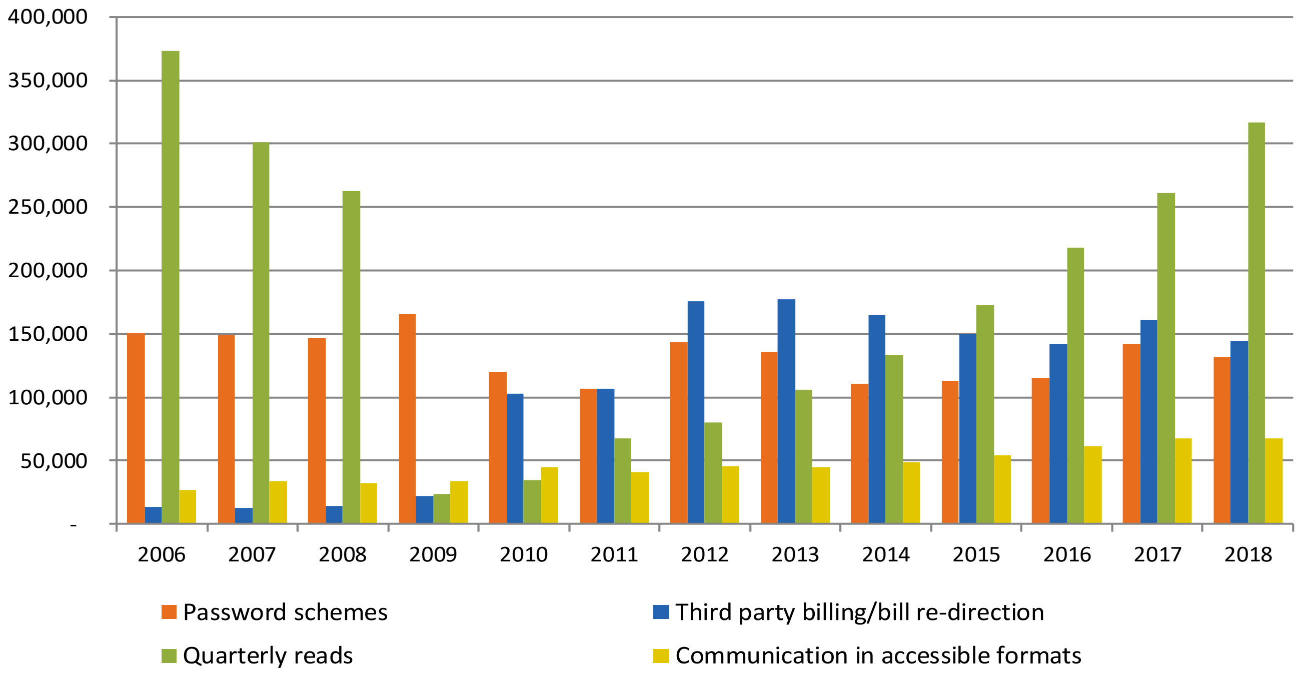
1.38. The number of free services provided to customers on the PSR has been on the increase since 2011. In 2018, the total number of services provided to electricity customers has risen to 873,082. This was mainly driven by large and small suppliers. We also observed an increase in the number of services for gas consumers to 659,650, mainly driven by small suppliers.

1.39. It is encouraging to see more consumers receiving additional services to improve safety, access and communication. This is an area we said we expected to see an increase in last year's report and we are pleased that this is happening. Access to these services is essential to enable vulnerable consumers to effectively engage with their energy company. While these are positive improvements, we are mindful of the concerns raised with us through consumer groups, such as the variance of the quality and breadth of PSR services provided by different suppliers.

1.40. Data on service provision shows that the most commonly provided services in 2018 were quarterly meter reads followed by third party billing/bill redirection. However, we are concerned about the decrease in the number of password schemes and third party billing/re-direction offered to gas customers (see Figure 1.3). These schemes are a useful service where suppliers must offer to agree a way for the customer (or the customer's representative) to identify a supplier's representative.

1.41. We are aware that variance of PSR services provided by different suppliers (in eligibility criteria, quality of service provided, and breadth of services provided) and the lack of promotion of PSR services can cause confusion for customers and deters them from switching for fear of losing the support they receive.[33] As part of our draft Consumer Vulnerability Strategy 2025, we set out that one of the key outcomes we want to see in the market is for consumers to be effectively identified as eligible for priority services, and for them to receive consistent and high quality priority services in a timely way.

Figure 1.3: The number of PSR services provided to gas customers on PSRs (number of services provided to electricity customers on PSRs is slightly higher)



[33] Ofgem (2019) [Draft Consumer Vulnerability Strategy 2025]

1.42. The British Standard for 'Inclusive Service Provision - Requirements for identifying and responding to consumer vulnerability' (BS 18477) can be used as a benchmark for organisations in developing fair and flexible access to services.[34] The standard sets out procedures to ensure inclusive services are accessible to all consumers equally, regardless of their circumstances. In July 2018, BSI introduded a verification scheme based on the standard BS 18477 which requires organisations to undertake an independent assessment covering all requirements of the standard. We have seen a number of suppliers and network companies signing up to these standards in the past and obtaining the service verification from BSI.[35]

Improving digital inclusion

1.43. The Standards of Conduct require suppliers to treat all domestic energy consumers in a fair, honest, transparent and professional manner. In addition, it is energy companies' responsibility to comply with their obligations as contained in the Equality Act 2010.[36] Energy companies should make reasonable adjustments for disabled consumers and ensure that all new services and products are accessible to their consumers. Making accessibility a core element at the design stage ensures that no consumers are unnecessarily excluded and allows changes to be made earlier, normally at a reduced cost to the company, if the service is not accessible to all consumers.

1.44. We want all consumers, including those with special communications needs and without internet access, to be able to engage with the energy market and effectively communicate with companies. Digital inclusion is particularly important as it is estimated that in 2018, 20% of disabled adults have never used the internet, compared to 8.4% of non-disabled adults.[37] Furthermore, of the 4.5 million adults who had never used the internet in 2018, more than half (2.6 million) were aged 75 years and over.[38]

[34] BSI (2010) British Standrd for Inclusive Service Provision Consumer Brochure
[35] BSI (2018) BSI Verification Scheme
[36] Equality Act 2010
[37] Office for National Statistics (2018) Internet users in the UK
[38] Ibid.

Case study 1.2: ScottishPower - Digital access

To ensure the service provided to customers in vulnerable situations is quicker and more accessible, ScottishPower implemented a number of improvements to their social media communications in 2018. This was to ensure customers in a vulnerable situation who have an urgent query receive a quick response.

To achieve this, ScottishPower used a work distribution tool, which automatically allocates social media posts to the correct Customer Service team, based on key words contained within the post. Additionally, the tool prioritises posts for each team based on words that indicate the customer's circumstances ie when customer is off supply or vulnerable – the tool automatically prioritises these as the first enquiries. Since the changes have been implemented in 2018, around 2000 customers have benefited from the changes to date.

At the beginning of 2019, ScottishPower also redesigned its mobile app to improve user experience and increase customers' ability to self-serve and control their energy account. The app includes features for smart prepayment meter customers. Through an in-app chat functionality customers, especially those in vulnerable circumstances, can also directly talk to a customer service agent.

1.45. With the ongoing smart meter rollout, suppliers will need to make sure that the in-home displays are accessible to a wide range of people, including those with visual, learning, dexterity and memory impairments. Suppliers need to have plans in place to identify which customers require them as they progress with their rollouts, but also for retrospective provision to those customers that have already had installations before these devices were available. We see the accessible IHD[39] as an important area of focus and consider it important that it is available on a timescale that allows suppliers to provide a good customer experience within the 2020 rollout period.[40]

1.46. Specifically to support blind and partially sighted consumers Energy UK, geo (a smart meter display manufacturer), and the Royal National Institute of Blind People (RNIB) have been working with energy suppliers to develop an Accessible In-Home Display.[41] We note that some suppliers have begun rolling out fully accessible IHDs in the first half of

[39] Ofgem (2016) Smart Meter Installation Code of Practice
[40] Standard Licence Condition or SLC 39 of electricity supply licence and SLC 33 of gas supply licence
[41] Energy UK (2018) Bringing the benefits of smart meters to blind and partially sighted people

2019 to their customers in small numbers. We would like to see improved progress in this area.

Key findings: Keeping customers safe

1.47. Moving the location of a prepayment meter at the customer's request ensures prepayment meters remain safe and reasonably practicable in line with SLC 28. In 2018, 772 prepayment meters (either electricity meters or gas meters) were repositioned free of charge compared to 1,154 in 2017 and 2,374 in 2016. This is a large decrease compared to 2016, but similar to 2014.

1.48. The decrease observed has been largely driven by British Gas. British Gas did not refuse any requests to have a meter repositioned in 2018 and have informed us that this decrease has been due to a number of process improvements including installing smart meters and working closely with distribution companies to move the Emergency Control Valve rather than the full meter, where appropriate.

1.49. Suppliers also have a responsibility to provide free gas safety to eligible customers. In 2018, 12,385 of eligible customers received a free gas safety check, an increase on the previous year when 9,951 customers received this service. We are also seeing other steps suppliers are taking to keep their customers safe, as highlighted below in a case study from British Gas on protecting their customers from potential fraud.

Case study 1.3: British Gas - Friends against Scams

British Gas is working with Trading Standards and its' Friends against Scams initiaitve (FAS) which started in 2018 with the aim of becoming a scam-friendly organisation by 2020. All employees were offered the opportunity to become a 'friend' and receive training to have a good understanding of the implications of a variety of scams. The main objectives include:

- To be able to describe what a scam is and understand the variety of scams
- To be able to understand the victim impact of a scam
- To understand a typical perpetrator profile
- To be able to identify the signs of a scam
- To know how to advise scam victims and how to report a scam

British Gas have embedded FAS across other areas of the business such as within established Wellbeing and Carers Networks within Centrica and when in communities and volunteering. There are now over 500 Scam Friends in British Gas and over 700 scam friends have been made by the Scam Champions to external parties such as Age Concern, NEA, Charis Grant Breathe Easy and Equiniti.

Key findings: Gas Discretionary Reward Scheme

1.50. In October 2018, we published our latest decision for the Gas Discretionary Reward Scheme (DRS) in which we rewarded the work the GDNs did on social, carbon monoxide (CO) safety and environmental activities between 2015 and 2018.[42] In total, the GDNs were rewarded £2.55 million out of a possible £4m. Our assessment was carried out by an expert panel, chaired by Ofgem. The next gas DRS will take place in 2021, when we will assess the GDNs' activities undertaken between April 2018 and March 2021. Case study 1.4 highlights some best practice example as identified by the expert panel.

[42] Ofgem (2018) Decision on RIIO-GD1 Gas Discretionary Reward Scheme 2015-18

Case study 1.4: Gas Discretionary Reward Scheme (DRS) - best practice

- Cadent's Safety Seymour initiative, which uses a teddy bear to talk to primary school children in areas with high numbers of reported CO incidents about the dangers of CO and how to spot it. Cadent has shared the campaign with the other GDNs and it has now been rolled out across all four networks.
- Wales and West Utilities' (WWU) work in the area of GP referrals for vulnerable customers, which the panel would like the rest of the industry to move in line with.
- WWU's Energy Pathfinder model, which identifies potential energy solutions while taking into account several different variables including the cost and feasibility. The panel was happy that WWU has now made this model available to the other GDNs.
- Cadent's work with WPD to reduce the impact on customers who experience power outages. The Expert Panel would like to see more cross sector work to combat joint issues.
- SGN's use of TV to spread CO safety measures by providing guidance and advice to TV shows including Coronation Street and Loose Women.
- Northern Gas Networks' (NGN) Warm Hubs were seen as a good example of fixed term GDN investment to build capacity in local communities that results in sustainable benefits for those who are fuel poor or vulnerable.

Key findings: Working in partnership

1.51. We are also seeing suppliers working closely in partnership with specialist organisations who support certain vulnerable groups. These organisations can offer insight to help suppliers approach their engagement in the most appropriate way. In some instances, we have seen suppliers refer customers to these partners, where the customers are then able to find a solution by working together with an organisation. It's positive to see more and more suppliers use external expertise to support their vulnerable customers.

1.52. For example, Alzheimer's Society has been working with some suppliers and distribution network companies to roll out its Dementia Friends programme. Dementia Friends raises awareness around dementia, and helps staff better understand how to support employees and customers affected by the condition.

1.53. Following a Utilities Roundtable in May 2019, marking the year anniversary of the Utilities Guide[43], organisations affiliated with Alzheimer's Society are working through the guide's 11 dementia-friendly recommendations. In October and November this year, organisations will be asked to provide an update on their progress since May. Using this data, Alzheimer's Society will be producing a mid-year report on dementia-friendly progress for utilities. We look forward to seeing the progress made by energy companies in this area.

[43] Alzhiemer's Society (2018) Dementia-friendly utilities guide

2. Affordability and debt

Section summary

Customers struggling to pay their energy bills or in debt to their energy supplier are a key focus for us. We require suppliers to offer certain services for customers who are in payment difficulties, and to take all reasonable steps to ascertain the customer's ability to pay. Suppliers must also provide energy efficiency information to customers in payment difficulty. This chapter shows how suppliers are meeting their obligations to help customers in financial difficulty. It also highlights gas distribution networks' progress in connecting fuel poor households to the gas grid through the Fuel Poverty Network Extension Scheme.

2018 findings at a glance…

- The total number of customers in debt with their energy supplier has increased. This implies more customers are falling behind on their bills.
- The average credit repayment amounts for small and medium suppliers has decreased, but is still higher than that of the large suppliers. Small and medium suppliers still have a higher proportion of customers in the >£15 repayment bracket. Higher repayment amounts may not be affordable for some customers.
- There has been a decrease in the number of customers successfully transferring to a new supplier under DAP. This reverses an increasing trend of three years.
- More customers in debt are contacting an energy efficiency helpline (13,577 in 2017 to 23,404 in 2018) but these numbers are significantly smaller than the number of customers in debt or arrears.
- So far in RIIO-GD1, Gas Distribution Networks have connected 64,100 households under the Fuel Poverty Network Extension Scheme.

Understanding affordability and debt

2.1. People fall into debt for a variety of reasons. It could be because someone develops a medical condition, has an accident, or finds themselves in an unexpected period of unemployment. For some, debt may have always been a part of their lives and coming out of debt can be a long journey. Debt is a very complex issue, and appropriate debt management is crucial to ensure that someone is able to get back on top of their finances, and equally that the cost of bad debt does not increase bills for all consumers.

2.2. The National Audit Office (NAO) reports that Money Advice Service has estimated that in 2018, 8.3 million UK adults were in debt and that 22% of UK adults have less than £100 in savings, making them highly vulnerable to a financial shock.[44]

2.3. Fuel poverty is one vulnerable situation that energy consumers may face. Fuel poverty is a devolved issue, with the precise definitions varying across England, Scotland and Wales. In England, currently a household is fuel poor if: it has higher than typical energy costs, and if it would be left with a disposable income below the poverty line if it spent the required money to meet those costs.[45] Proposals to change the fuel poverty strategy for England, including the definition are being consulted on until September 2019.[46]

2.4. In Scotland, the definition has recently changed following the introduction of The Fuel Poverty Act 2019. A household is in fuel poverty if, the fuel costs necessary for the home[47] are more than 10% of the households net income and after deducting fuel costs, benefits received (if any), the households remaining net income is insufficient to maintain an acceptable standard of living.[48] In Wales, a household is in fuel poverty if they spend 10% or more of their income on energy costs, including Housing Benefit, Income Support or Mortgage Interest or council tax benefits on energy costs.[49]

2.5. An estimated 2.5 million English households are in fuel poverty (10.9%).[50] [51] 12% of Welsh households (155,000) and 24.9% of Scottish households (613,000) are in fuel poverty.[52] [53]

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[44] National Audit Office (NAO) report (2018) Tackling Problem Debt
[45] BEIS (2018) Annual Fuel Poverty Statistics Report (2016 data) disposable income of less than 60% of the national median.
[46] BEIS (2019) Fuel Poverty Strategy for England
[47] (a)the requisite temperatures are met for the requisite number of hours, and (b)the household's other reasonable fuel needs within the home are met.
[48] Legislation (2019) Fuel poverty (Targets Definitions and Strategy) (Scotland) Act 2019
[49] Welsh Government (2010) Fuel Poverty Strategy
[50] BEIS (2018) Annual Fuel Poverty Statistics Report (2016 data)
[51] Definitions of Fuel Poverty are different across the nations, meaning the percentages are not directly comparable.
[52] Welsh Government (2018) Poverty estimates in Wales
[53] Scottish Government (published 2018) Scottish House Condition Survey: 2017 key findings

2.6. For a vast number of households, fuel poverty or financial hardship is not the only vulnerable circumstance affecting how they manage their energy bills. For example, a recent survey by Christians Against Poverty (CAP) shows that 87% of CAP clients have one or more additional difficulties on top of financial crisis, with 18% of clients more than five additional difficulties.[54] The most common combination of additional difficulties CAP debt help clients face are unemployment and mental ill-health (20%+), the most common trio being unemployment, mental ill-health and a physical disability (10%).

2.7. Where poor mental health reduces someone's ability to carry out daily activities, Citizens Advice 2019 'Mental Health Premium' report shows they can incur costs of £1,100-£1,550 each year as a result of difficulties choosing services, paying for services and dealing with problems. [55] Citizens Advice reported that 72% of people with mental health problems say they find it more difficult to manage or complete paperwork. Symptoms of mental health conditions can have significant impact on people's ability to carry out day-to-day activities like staying on top of household bills.[56]

2.8. Being in debt is stressful and can exacerbate someone's illness. This is confirmed by evidence we collected before introducing new protections for consumers against catch-up bills, and supporting case studies provided by the Extra Help Unit.[57] It follows that those who are most likely to find themselves paying more for an energy deal are usually those who are least able to engage, and although this is common for those with mental health issues, it also includes people with previous financial difficulties, and those who are experiencing digital exclusion.

2.9. In addition, around half of the 14 million people in poverty in the UK are living in families with a disabled person.[58] On average, disabled adults face extra costs of £583 a month related to their condition according to Scope's updated report 'Disability Price Tag'.[59] As such, these approximate extra costs, which can sometimes reach over £1000 a month, even after receipt of welfare payments, mean that personal finances may not stretch as far as they do for someone without the burden of similar health-related payments. A consumer may need to prioritise these costs over keeping warm during winter. These are hard decisions to make and even harder to make alone.

[54] Christians Against Poverty (2019) Stacked Against
[55] Citizens Advice (2019) The Mental Health Premium
[56] Ibid.
[57] Ofgem (2017) Protecting consumers who receive backbills statutory consultation
[58] *Ibid*
[59] Scope (2019) Disability Price Tag

Financial support for customers in vulnerable situations

2.10. The Government has a particular focus on addressing fuel poverty and there are a number of schemes that provide financial support to certain groups of vulnerable consumers. Some vulnerable groups receive Cold Weather Payments during long periods of cold weather. There have been an estimated 1.1 million Cold Weather Payments made in Great Britain between 1 November 2018 and 31 March 2019 with an estimated value of £27.1 million.[60] The number of Cold Weather Payments can fluctuate largely from year to year. For example, higher payment figures of 4.7 million in 2017-18 were due to particularly cold weather early in 2018 (also known as 'the Beast from the East'). This period of cold weather led to payments across the country even in densely populated areas such as the South East, which often go through the whole winter without a payment.

2.11. Another source to help with fuel bills during the colder months is Winter Fuel Payments.[61] Between 2017 and 2018, 11.8 million people received these payments of £100-£300 based on eligibility criteria.[62] [63]

2.12. The Warm Home Discount (WHD)[64] is another government scheme aimed at tackling fuel poverty in Great Britain.[65] Under the scheme, medium and larger energy suppliers support people who are in fuel poverty or are at risk of it. Those who receive relevant benefits could get £140 off their electricity bill. Under scheme year 9 (2019-2020) Robin Hood Energy is a compulsory smaller supplier and Bristol Energy is a voluntarily supplier in part of the scheme.[66] The seventh WHD annual report, covering the period from June 2017 to March 2018 showed that scheme year 7 participating suppliers provided over £327 million of support to vulnerable consumers including the £140 rebates to nearly 2.2 million consumers.[67]

[60] Department for Work and Pensions (2019) Cold Weather Payment Statistics: 1 November 2018 – 31 March 2019
[61] Customers who were born on or before 5 August 1954, those who receive State Pension and some other social security benefits may be eligible. Full criteria available here.
[62] Department for Work and Pensions (2018) Winter Fuel Payment Statistics: Winter 2017-2018
[63] Department for Work and Pensions Eligibility for Winter Fuel Payments
[64] Further details about the Warm Home Discount Scheme
[65] The Department for Business, Energy and Industrial Strategy (BEIS) is responsible for WHD policy and legislation. The Government administers the 'Core Group' and Ofgem administer the 'Broader Group' and 'Industry Initiatives'.
[66] See list of all participating suppliers at Warm Home Discount – Energy suppliers
[67] Ofgem (2018) Warm Home Discount Annual Report 2017-18

2.13. Despite the support available to certain groups in vulnerable situations, the energy retail market continues to work less effectively for consumers who remain on their supplier's default deal. The Energy Market Investigation carried out by the Competition and Markets Authority (CMA) in 2016 showed that there is a lack of competition in the retail energy market which is leading to a two-tier market.[68] This means consumers who do not engage receive a poor deal.[69] We are particularly concerned about vulnerable consumers, who are more likely to be on a default deal, and due to their individual circumstances can often feel the negative effects more acutely.

2.14. In addition to a temporary cap on prepayment meter prices which has been in place since April 2017[70], on 1 January 2019 we introduced a cap on standard variable and default tariffs, protecting the 11 million consumers on these tariffs by ensuring that the price they pay for their energy more closely reflects the underlying costs of energy. [71] We expect this to deliver consumers a direct benefit of £1,233m.[72] In August 2019, we announced that the default tariff cap will decrease by £75 to £1,179 per year, from 1 October 2019 for the six-month "winter" price cap period.[73]

What we expect of suppliers and distribution companies

Proactive engagement and offering a range of payment options

2.15. Suppliers are required to offer domestic customers a range of payment options when they become aware, or have reason to believe, that a customer is struggling, or will struggle, to pay their electricity and gas bills. These payment options are:

- Payment by regular instalments through means other than a prepayment meter (for example, direct debit);
- Payment by direct deductions from social security benefits received by the customer (sometimes known as Fuel Direct); and
- Payment through a prepayment meter, where it is safe and reasonably practical in all circumstances.

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[68] Competition and Markets Authority (2016) Energy Market Investigation final report
[69] Ofgem (2017) State of the Energy Market, 2017 Report
[70] Consumers and Markets Authority (2016) The Energy Market Investigation (Prepayment Charge Restriction) order 2016
[71] Ofgem (2018) Default tariff cap: decision - overview
[72] Ofgem (2019) Consumer Impact report 2018-19
[73] Ofgem (2019) Default tariff cap level: 1 October 2019 to 31 March 2020

2.16. A failed direct debit or an unpaid energy bill could be a sign that a customer is struggling financially. We expect suppliers to monitor these signs and proactively engage with their customers to find the best way to repay the debt. We expect suppliers to explore all appropriate options and only install prepayment meters (PPMs) as a last resort.

Agreeing repayment plans based on ability to pay

2.17. In our draft Consumer Vulnerability Strategy 2025, we have outlined that we want consumers in payment difficulty to be proactively supported, including by being put on an affordable payment plan, to see more consumers become debt-free for their energy debt as a consequence, and the levels of debt to come down overall.[74]

2.18. When agreeing the duration and value of a repayment plan, whether through direct debit or PPM, suppliers must take into account each individual customer's ability to pay.[75] We expect suppliers to adhere to the 'Ability to Pay' principles we introduced in 2010 by applying the following:[76]

- Having appropriate credit management policies and guidelines;
- Making proactive contact with customers to identify whether they are having payment difficulty;
- Understanding individual customers' ability to pay;
- Setting repayment rates based on ability to pay;
- Ensuring the customer understands the arrangement; and
- Monitoring arrangements after they have been set up.

2.19. Setting debt repayment rates too high can leave customers struggling to repay their debts. This can result in self-rationing, or for customers repaying a debt via PPM, self-disconnection. In August 2019, we launched a consultation setting out proposals to improve outcomes for these consumers, with a proposal to update and incorporate into the supply licence the existing Ability to Pay principles to put further emphasis on current protections, as further mentioned below.[77]

[74] Ofgem (2018) Draft Consumer Vulnerability Strategy 2025
[75] Gas and Electricity Standard Licence Condition 27.8 respectively
[76] Ofgem (2010) Review of suppliers' approaches to debt management and prevention
[77] Ofgem (2019) Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing

2.20. Our work with suppliers this year indicates an increasing trend of challenges contacting some customers in arrears or debt. We are seeing differences across many suppliers in how repayment plans are managed in these situations. Most suppliers have processes in place to set up default repayment plans and amounts, some of which are based on Department of Work and Pensions (DWP) Fuel Direct (third party deductions) minimum rates[78], and others on their own assessments of customer spending and consumption.

2.21. On the other hand, we have concerns that some suppliers do not set up default arrangements when they are unable to contact a customer, which can lead to higher energy arrears and turn into problem debt, if not addressed. The challenge in these circumstances is customers not getting out of debt, or continuing to build debt and appropriately assessing ability to pay.

2.22. In addition, we are also concerned that a number of suppliers have indicated that they calculate a customer's repayment amount by dividing the debt owed by specified lengths of time such as 12 or 24 months. This approach indicates that ability to pay is not being considered appropriately in some cases, even with contact with the customer.

2.23. Where suppliers use debt collection agencies, we expect the agencies to demonstrate the same high standards that we expect from suppliers when dealing with customers. We hold suppliers accountable for the action of any third parties they work with and we will take action against the supplier if necessary.[79] We are aware of cases where this relationship has broken down in the past. Suppliers should provide clear guidance on their policies and monitor agencies' practices regularly.

Preventing debt build up

2.24. Suppliers need to focus on preventing debt as much as they do on managing and recovering debt. Providing accurate, clear and regular bills and making early contact with customers can prevent customers accumulating debt. Suppliers have an obligation at this stage to provide energy efficiency information to customers in financial difficulties (see section on energy efficiency in this chapter for further details).[80]

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[78] Departement for Work and Pensions Help paying bills using your benefits
[79] Gas and Electricity Supply Standard Licence Condition 13 respectively. Suppliers must also ensure that their representatives adhere to the Standards of Conduct (SLC 0.2).
[80] Gas and Electricity Supply Standard Licence Condition 27.6(b) respectively

2.25. Suppliers should be flexible in the payment methods they offer customers to proactively support customers and prevent debt build up. Good practice examples we have seen in this area include EDF Energy's 'Cash Cheque Monthly billing project' and Utilita's 'Flexi-Pay'. EDF Energy's project focuses on cash or cheque customers who are struggling with quarterly bills, such as those currently in debt or who regularly fail to pay their energy bill. It offers more frequent bills that are more manageable which can mitigate the impact of larger quarterly bills. Utilita's Flexi-Pay allows eligible[81] customers to switch the method they use to pay for their energy such as prepayment and direct debit. We have observed a number of suppliers that have successfully implemented similar flexible payment offers.

Supporting customers who are in financial difficulty

2.26. Many suppliers work with third parties such as National Debt Helpline, StepChange, Christians Against Poverty, Money Advice Trust, local Citizens Advice offices and grassroots charities to provide direct, impartial financial advice and support. Often, the support provided goes beyond money advice. Money Advice Service's Debt Advice Locator[82] is an online tool that customers can use to find the best advice service for them, whether that be online, over the phone or even face to face. All of the services offered are free, confidential and hold a standard or membership code accredited by the Money Advice Service.

2.27. Suppliers should clearly signpost available support services and information on debt relief, beyond their own direct contact literature or website. Last year we saw examples of good practice in this area. For example, ScottishPower's advisors continued signposting customers in debt to the National Debt Helpline. In addition this has been strengthened throughout 2018 with the ongoing availability of a Hardship Fund, and support from the specialist 'Extra Help' and 'Hyper Care' teams. The teams are dedicated to supporting customers in vulnerable circumstances, or those that have indicators they may be at risk of being in vulnerable circumstances.

2.28. Other ways of signposting vulnerable consumers would be to proactively communicate support service information in collaboration with safeguarding organisations, local authorities, GP practices, local mental health services, outreach services, and job centres. Signposting at locations or services typically accessed by vulnerable, or potentially vulnerable people is more likely to reach those in need. The Warmer Homes, Advice and

[81] Dependent on smart meter viability and other criteria – Utilita Flexi-Pay
[82] Money Advice Service Debt Advice Locator

Money project in Bristol and North Somerset provides a good example of sustainable and innovative advice provision (see Case study).

Case study 2.1: Centre for Sustainable Energy - Warmer Homes, Advice & Money (WHAM) project

The WHAM project is an innovative model for supporting Bristol and North Somerset's most vulnerable residents – giving advice on energy, money, and carrying out home repairs.[83] WHAM focuses on helping those on a low income, single parents and unemployed people living in the private rented sector.

This four year project - which began in July 2017 - now employs six caseworkers. The six work to provide a comprehensive service to people living in fuel poverty and financial hardship, by acting as a single point of contact for clients. The caseworkers rotate between all of the partner organisations – Centre for Sustainable Energy (CSE), Talking Money, We Care Home Improvements, Citizens Advice, Bristol Energy Network, North Somerset Council & Bristol City Council, which enables them to co-ordinate activity.

One of the caseworkers rotates between the three main hospitals in the area, identifying and supporting people who may be prevented from being discharged because they have a cold, damp home. The aim is to also prevent readmissions to hospital, following intervention, as the home is a healthier place to live.

The support offered includes advice on how to monitor, check and pay for energy bills, help with housing, benefits, budgeting and debt advice, as well as advice on how to access grants for heating repairs and upgrades. The project will also use its partners' strong local connections to refer clients to other local organisations such as The Matthew Tree Project and Bristol Aging Better for further in-depth help.

WHAM is funded by Bristol City Council through the Bristol Impact Fund. In 2019, the project expanded with additional funding from the Bristol Energy Fuel Good Fund and the Warm Home Fund from Affordable Warmth Solutions CIC.

[83] Centre for Sustainable Energy (2019) WHAM - Warmer Homes, Advice & Money

We have reviewed how well suppliers are treating customers in (potential) payment difficulty

2.29. As part of our ongoing compliance work we have, over the past two years, taken a detailed look at how a number of suppliers treat customers in actual or potential payment difficulty, and assessed whether those suppliers have been delivering good outcomes for those consumers.

2.30. We examined not only whether these suppliers have been complying with the supply licence, but also whether and to what extent they have followed guidance we have published that relates to those licence conditions (for example, whether suppliers abide by the Ability to Pay Principles and the additional guidance we have provided on whether it is safe or reasonably practicable to install a PPM). [84] As part of the work, we - and subsequently independent auditors - reviewed certain suppliers' policies, procedures and their actual communications with customers in a representative sample of cases where the customer was in payment difficulty.

2.31. In general, suppliers' policies were reasonable but were not necessarily applied consistently in every case. In particular, there were occasional weaknesses in assessing customer circumstances and this created a risk of poor outcomes for those consumers. We considered the auditors' recommendations and most of the suppliers who we have been in discussion with have implemented measures to reduce any potential risk and improve their capacity to deliver good outcomes for all their customers in payment difficulty.

2.32. These outcomes include properly assessing a customer's ability to pay, increasing support provided to customers who are in vulnerable circumstances, improvements in assessing safe and reasonably practical measures and recording and offering all payment methods.

2.33. With overall findings suggesting an inappropriate attitude to risk, we closely followed the plans suppliers are putting in place to minimise risk, improve consumer outcomes, and ensure consumers are treated fairly. Following our review, we opened an enforcement investigation against Utility Warehouse (which is currently still ongoing).[85]

[84] Ofgem (2010) Review of suppliers' approaches to debt management and prevention
[85] Ofgem (2018) Ofgem investigates how Utility Warehouse manages customers in debt

2.34. As part of our review on self-disconnection and self-rationing, we are proposing to place a greater emphasis on existing Ability to Pay principles by incorporating them into the supply licence. We believe that this will give the principles further prominence and emphasise consumer protection for customers who are in potential and actual financial difficulty by ensuring that all suppliers sufficiently consider customers' ability to pay and uniformly apply these principles. We believe that suppliers being proactive and supportive of consumers in payment difficulty is a win-win for the customer and supplier.[86] For further discussion on self-disconnection and self-rationing, please refer to Chapter 3 'Staying on Supply'.

Helping off-grid household connect to the gas network

2.35. Access to gas is a good way to ensure fuel poor households can access affordable energy supplies. We created the Fuel Poor Network Extension Scheme (FPNES) as part of our gas distribution price controls (GDPCR1 and RIIO-GD1) to help off-grid households connect to the gas network by providing funding towards the cost of the connection.[87] Our key findings section highlights distribution companies' perfromance under the FPNES.

2.36. To get a gas connection under the FPNES, households need to meet the eligibility criteria set by us. In order to maximise the benefits of the FPNES, the criteria reflect commonly used proxies of fuel poverty or criteria employed by related measures and schemes. In December 2017, we changed the FPNES eligibility criteria to ensure that the scheme more effectively targets fuel poor households.[88] This helps to ensure that the households that benefit from the FPNES are more likely to also benefit from related assistance, which in turn helps to provide a comprehensive solution for those households.

Energy efficiency

2.37. Energy efficiency advice can be very helpful when customers are trying to reduce their bills and carbon emissions. All suppliers must keep and maintain information about

[86] Ofgem (2019) Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing
[87] GDPCR1 was the Gas Distribution Price Control Review (2008-2013). RIIO-GD1 is the current price control for the GDNs (2013-2021).
[88] We decided to remove the eligibility criterion for households which "reside within the 25% most deprived areas, as measured by the government's Index of Multiple Deprivation (IMD)" because we didn't think this was an effective proxy for fuel poverty. The other FPNES eligibility criteria remain in place and the above change took effect from 1 July 2018. For more information please see our decision document

energy efficiency and be able to direct customers to sources where they may obtain further information or practical guidance. This information should include details about financial help available from the government towards the cost of improvements to the home or information available through bodies for those in receipt of financial assistance.[89]

2.38. Such information must be provided in a form and at a frequency that is sufficient to enable that customer to quickly and easily understand. Suppliers must provide energy efficiency information to customers in payment difficulty and when a smart meter is installed.[90]

2.39. In addition, Ofgem administers the Energy Company Obligation (ECO) scheme on behalf of Department for Energy, Business and Industrial Strategy. ECO is a government energy efficiency scheme in Great Britain to help reduce carbon emissions and tackle fuel poverty. The scheme began in April 2013, and over time it has been amended. The latest policy, ECO3, commenced on 3 December 2018, and applies to measures completed from 1 October 2018.[91] In the key findings section below, we set out some of the results of the second phase, ECO2, which ran from April 2015 to September 2018.

Key findings: Building up debt

The total number of customers in debt has increased, with more customers in arrears

2.40. The total number of customers in debt[92] has continued to increase. This is now 1,309,768 for electricity and 1,048,834 for gas, compared to 1,248,042 for electricity and 994,787 for gas in 2017 (see Figure 2.1). This represents increase of 4.2% in electricity and 4.8% in gas. The number of customers repaying debt[93] to their electricity and/or gas supplier has increased slightly (661,339 for electricity; 543,520 for gas).

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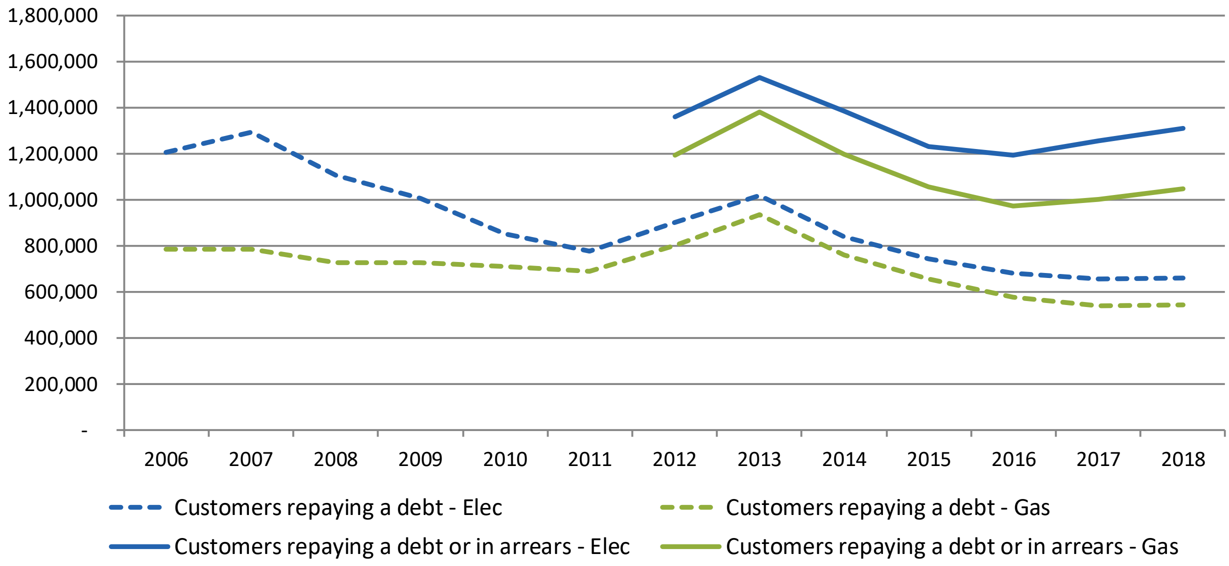
[89] Gas and Electricity Supply Standard Licence Condition 31G.2 respectively
[90] Gas and Electricity Supply Standard Licence Condition 27.6(b) respectively, SMICoP Section A 3.7 (2017) Smart Meter Installation Code of Practice
[91] Ofgem Energy Company Obligation (ECO)
[92] We started collecting data on the number of customers repaying a debt to their supplier in 2006, and since 2012 we started collecting data on the total number of customers in debt, including those in arrears but not yet repaying a debt.
[93] A debt repayment arrangement is a specific formal arrangement between a supplier and a customer to repay outstanding arrears (refers only to debt repayment arrangements extending beyond 91 days or 13 weeks).

Figure 2.1 Number of customers repaying a debt to their supplier, and (since 2012) total number of customers in debt, including those in arrears but not yet repaying a debt



2.41. It is encouraging to see a slight increase in the number of customers with repayment arragnegents. However, we note that the proportion of customers who have a repayment arrangement set up remains stable, indicating that although there has been an increase in the number of customers repaying a debt, more can be done to engage with customers in arrears.

2.42. Our data shows that the number of people in arrears has continued to increase.[94] This has increased from 601,795 in 2017 to 648,429 for electricity (an 8% increase) and from 459,450 to 505,314 for gas (a 10% increase). This would imply that more customers are falling behind on their bills and are not being engaged with effectively, or that there might be a delay in contact.

2.43. StepChange estimate that over 3 million people fell behind on their essential household bills in the last 12 months. [95] Over half (57%) of clients with a vulnerability were behind on a household bills compared to 40% for all clients and an increasing number of people are turning to credit to keep up with household bills (9.3 million in 2017 compared to 8.8 million in 2016). We urge all suppliers to actively engage with consumers who are in arrears. It is both in suppliers' and their customers' interest to make sure arrears are

[94] Customers in 'arrears' are customers who have bills which remain outstanding for longer than 91 days or 13 weeks after they are issued, and who have not yet set up a debt repayment arrangement.
[95] Stepchange (2018) Behind on the basics

addressed as soon as possible. Evidence shows that good debt collection practices both benefits individuals and boosts collections rates.[96]

Some suppliers need to do more to engage customers in payment difficulty

2.44. We encourage suppliers to proactively approach customers when there are signs that the customer may be in payment difficulty, in line with their regulatory obligations. Suppliers, as an overall approach, should be proactive in setting up and negotiating debt repayment arrangements based on the customer's ability to pay. As mentioned previously, initiating contact with a customer who is falling into arrears is a good example of this.

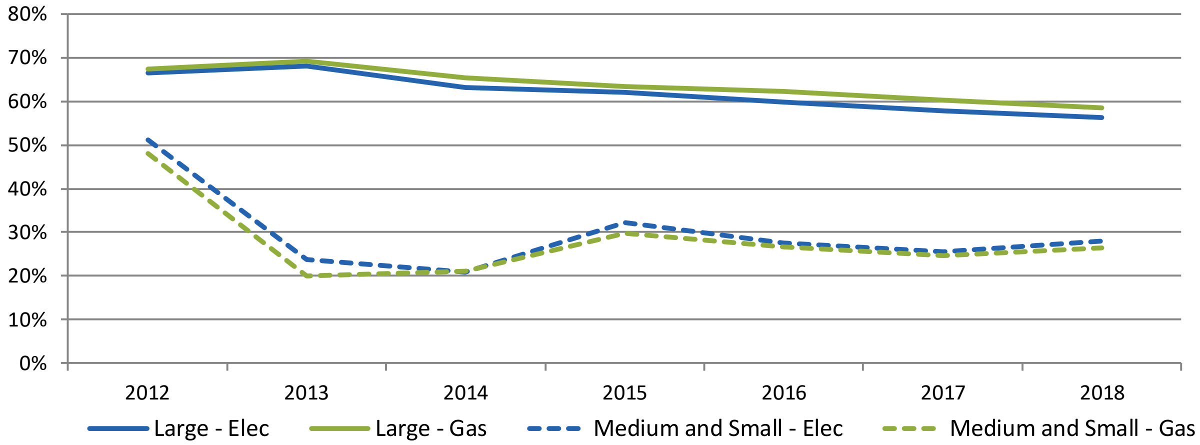
2.45. Some small and medium suppliers in particular should be doing more to communicate with customers early in the debt path. Our data shows that large suppliers have a higher proportion of customers in debt who have a repayment arrangement compared to small and medium suppliers. 56% of electricity customers with large suppliers have a debt repayment arrangement set up compared with compared to 28% of electricity customers with small and medium suppliers (see Figure 2.2). The trend for gas is similar.

2.46. We want suppliers to be as flexible as possible in their attempts to communicate with customers in debt. From our ongoing discussions with suppliers, we are seeing various engagement routes and tools being used to attempt to communicate with customers such as calls, emails, texts, and home visits.

2.47. Some suppliers have recently reviewed their communications to prompt a better response from customers such as utilising more channels for communication and increasing digital engagement eg two-way SMS). Others suppliers are focusing on increased resourcing to reach out to customers more effectively and working with third parties to improve communication content and prompts. We expect suppliers to include debt communications as part of their regular review of their own policies and practices.

[96] NAO (2018) Tackling Problem Debt

Figure 2.2 Proportion of customers who are in debt who have a repayment arrangement set up – by supplier type (this gives an indication of how proactive suppliers are getting customers onto repayment plans)



The proportion of consumers repaying a debt across the nations has remained stable

2.48. The proportion of consumers repaying a debt remains similar across the nations for gas - England: 2.3%, Scotland: 2.5%, Wales: 2.2% and electricity England: 2.4%, Scotland: 2.4%, Wales: 2.3%. Wales has generally had the lowest proportion of customers in debt since 2008.

Take-on debt has decreased, further indicating a potential downward trend

2.49. After a fall in take-on debt (the average level of debt owed at the point customers start repaying it) last year, following four years of reported increase in take-on debt, it is good to see it further decrease in real terms this year (Figure 2.3). Since our last report, take-on debt has decreased for both electricity and gas customers (electricity from £663/£657 in 2016/17 to £658 in 2018; for gas, from £655/£637 in 2016/17 to £609 in 2018).[97]

2.50. Average take-on debt as an indicator over short periods of time has some limitations, as higher debts typically take longer to clear than lower debts. The average can be pushed up as lower debt customers clear their debts and come out of the average calculation. However, with proper debt management practices the longer-term trend should

[97] Definition of 'take-on debt' here is the average debt when debt repayment arrangement is set up.

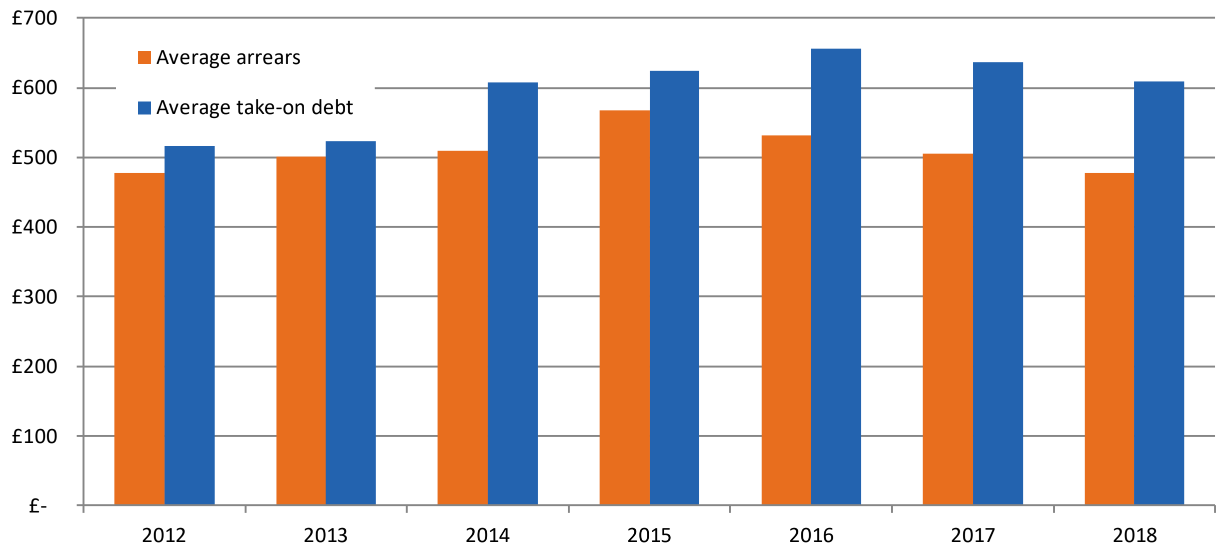
continue to be downwards as take-on debt levels decrease and historic higher debt customers fall out of the average.

2.51. In the short-term, a customer's outstanding debt levels (Figure 2.3) give a good indicator of suppliers' efforts to tackle customer debt. Some suppliers with higher take-on debt have noted a higher proportion of historic debt and we are concerned that suppliers are not doing enough to tackle this.

2.52. The data shows that some suppliers must do more to identify customers in payment difficulty earlier and prevent debt from building up. We are aware that suppliers of all sizes are making changes to their collections processes to engage customers earlier on and more proactively to help avoid debt from building up, for example by sending SMS messages prompting customers to engage or creating specialist teams making outbound calls.

2.53. Our work this year shows that although suppliers continue to make positive changes to debt engagement and collections processes, there are some key factors causing rising debt levels that lie outside of the energy market, such as changes to the welfare system, the rise of zero hour contracts, rising cost of living and low wages. We will continue to monitor take-on debt, but this is not a priority concern.

Figure 2.3: Average arrears and average debt at the point they started repaying a debt for gas customers in real terms (2018). For electricity customers the debt owed for customers in arrears is slightly higher.



2.54. However, within the positive downward trend, some suppliers still have higher levels of take-on debt than the average. As last year, we have used a threshold figure of £800 to identify those suppliers who are have high take-on debt figures. Of the large and medium suppliers, only npower has increased their electricity take-on debt from last year (£979 to £1,030). Utility Warehouse was recognised in last year's report as having high take on debt of £985. Since last year's report Utility Warehouse re-submitted their 2017 figures, indicating £775 take on debt for 2017 and £704 for 2018 which shows a year on year decrease.

2.55. Our engagement with npower indicates that due to historic billing issues, they have higher than average number of customers repaying debts >£600, resulting in higher debt repayment and longer repayment arrangements, meaning that customers will remain in this threshold for longer. We will continue to monitor individual supplier trends and engage with them bilaterally.

2.56. We remain concerned about the take-on debt levels of some of the smaller suppliers, but it is difficult to say whether or not this is due to supplier performance because they have very few customers in debt. We will continue to engage with these suppliers to make sure they have appropriate mechanisms in place to engage with customers in debt. For example, iSupplyEnergy have the highest average take on debt for electricity of all suppliers. This has increased slightly from £1248 in 2017 to £1253 in 2018. Our engagement with iSupplyEnergy indicates that much of this is historic debts, but that they have made improvements to processes so we expect to see this decrease.

Key findings: Repaying debt

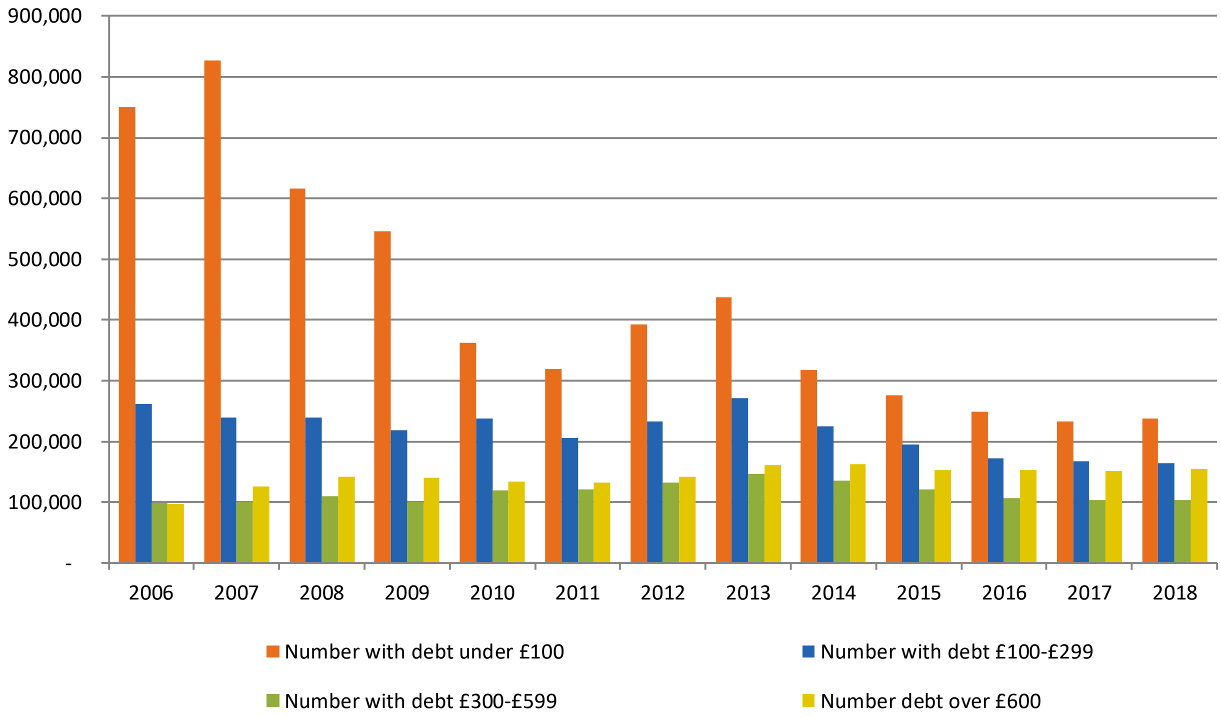
Suppliers need to improve how they deal with large levels of debts

2.57. Overall, suppliers continue to fare better at dealing with customers with low levels of debt. We have seen a decrease in the number of customers who are repaying debts between £100-£299 (166,883 in 2017 to 164,275) (Figure 2.4).

2.58. However, for the first time in a few years, we are seeing the number of electricity customers with debts over £600 increase (151,102 in 2017 to 154,990 in 2018).[98] More suppliers are feeding back that some customers with large debts can be hard to reach, and if left the debt can increase quickly, showing the importance of engaging early and proactively with consumers in payment difficulty.

[98] Electricity figures – data is similar for gas customers

Figure 2.4: Number of electricity customers with outstanding debt below £100, £100-£299, £300-£599 and over £600 (data is similar for gas)



2.59. Some suppliers have trust funds and hardship funds established specifically to help customers who are struggling with their bills. Sometimes these are used to clear a debt completely. These can be open to all customers (British Gas Energy Trust, E.ON Energy Fund) or the supplier's own customers (npower Energy Fund, ScottishPower Hardship Fund and SSE Priority Assistance Fund). EDF Energy's support fund provides help to customers to lift them out of debt in a sustainable way.

Average repayment rates are going down, but small and medium suppliers are still setting the highest repayment rates

2.60. It is encouraging to see that, on average, overall repayment rates for PPM and credit meter customers are decreasing or remaining stable (see Figure 2.5 and 2.6). We are seeing a significant decrease in the average repayment amounts for credit customers with small and medium suppliers in 2018, although this is still higher than the average for larger suppliers. We also note that the 2017 data, which showed particularly high average repayment amounts for small and medium suppliers was driven by two suppliers who have since ceased trading (Extra Energy and Solarplicity).

Figure 2.5: Average repayment amounts for customers in debt repaying via credit and via PPM in real terms (2018) - Large suppliers

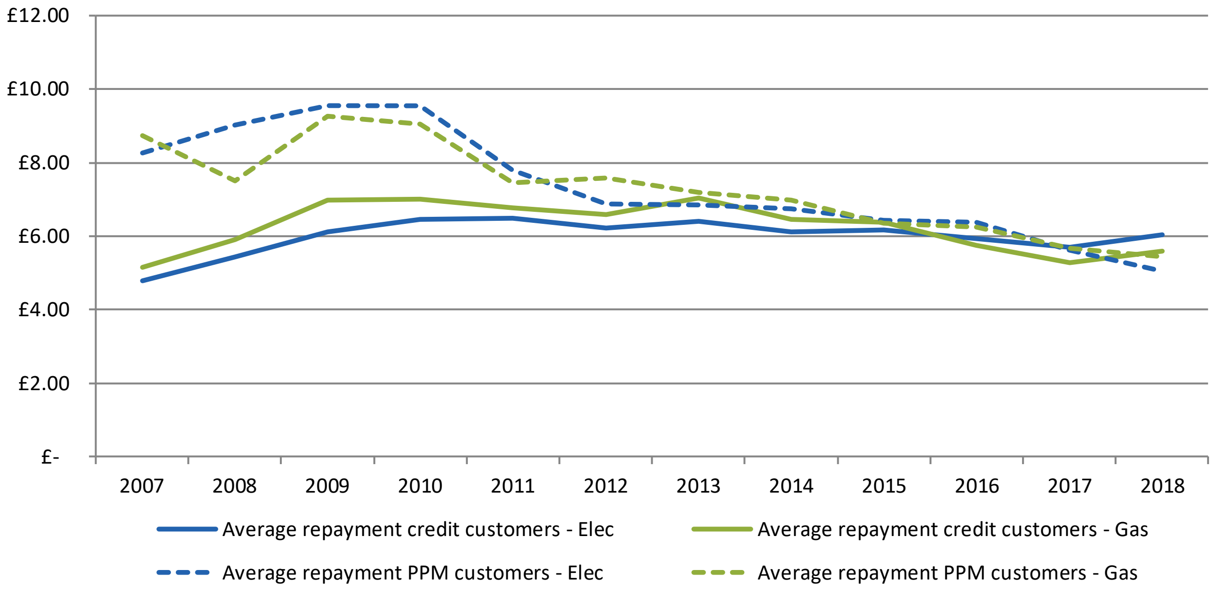
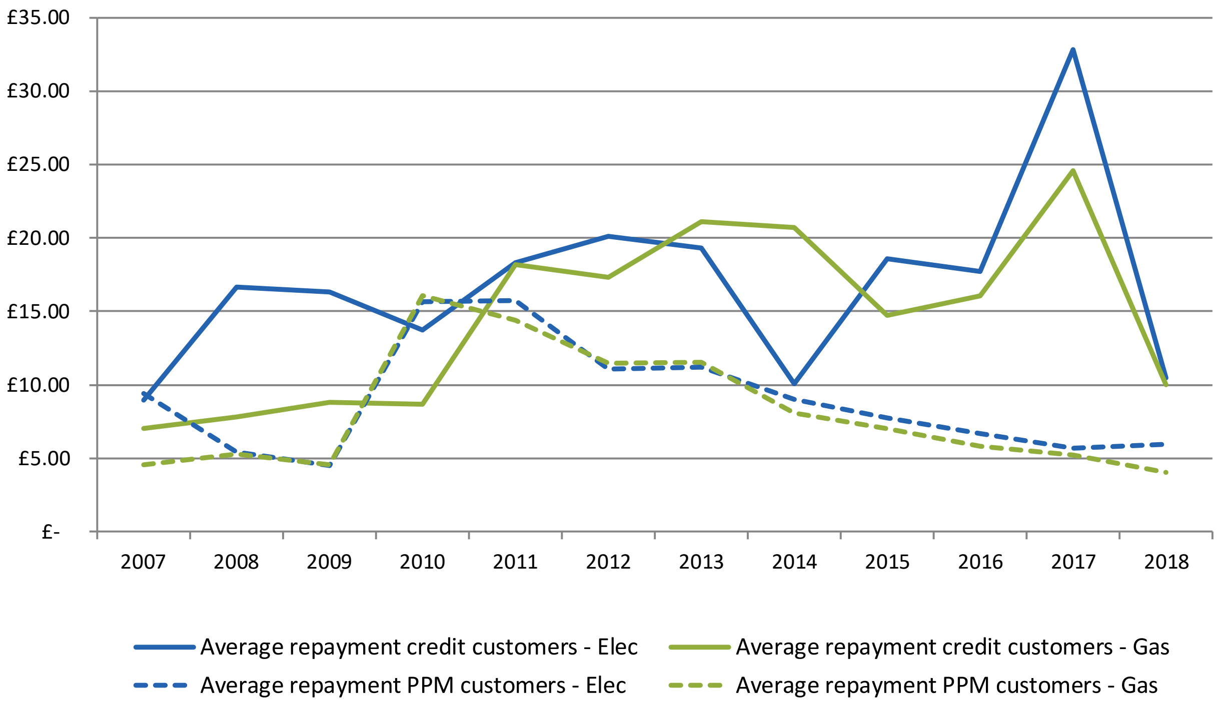


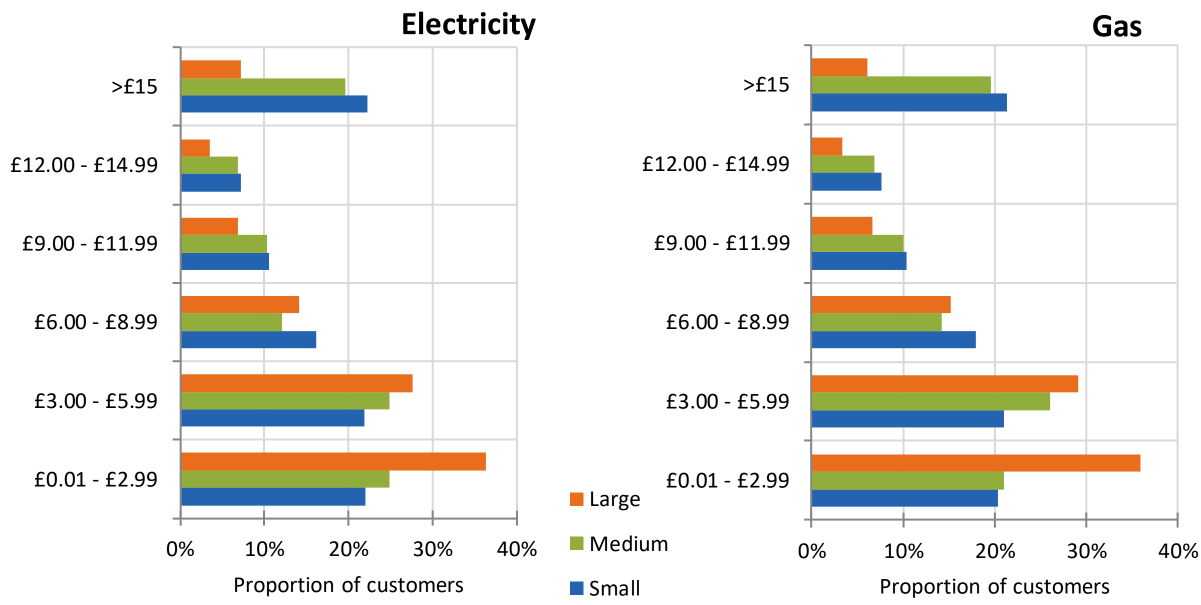
Figure 2.6: Average repayment amounts for customers in debt repaying via credit and via PPM in real terms (2018) - Medium and small suppliers



2.61. However, we are still concerned that small and medium supplier are setting high weekly repayment rates. On average, customers with large suppliers are more likely to have a repayment rate of less than £2.99 per week compared to smaller and medium suppliers. 36% of customers with large suppliers are on the lowest repayment rate, while

25% of medium supplier customers and 22% of small supplier customers are on the lowest repayment amount for electricity (see Figure 2.7).

Figure 2.7: Weekly repayment amounts for customers in debt at large, medium, and small suppliers (2018)



2.62. The data also shows that small and medium suppliers have a higher proportion of customers (22/20% in electricity and 21/20% in gas) in the >£15 weekly repayment bracket compared to 7% and 6% for large suppliers.[99] Although we have received consistent feedback about setting sustainable repayment plans for customers from a range of suppliers, it has been disappointing to see that many small and medium suppliers still have a high proportion of customers in the highest weekly repayment rate bracket. These suppliers need to be mindful of how affordable these high repayments are.

2.63. Some customers may be able to afford the higher rate and will prefer to pay off their debt quicker. However, this will not be the case for all of their customers as it is not obvious that small and medium suppliers have more affluent indebted consumers. We would argue that while it can be beneficial, for customers who can afford it, to pay off debt quickly, we encourage suppliers to review their standard repayment rates ensuring that ability to pay is taken into account.

[99] Referring to Ofgem data collection of annual supplier electricity figures for 2018.

Case study 2.2: Extra Help Unit (EHU) - Repayment Rates

The consumer had experienced some difficult personal issues and had to give up her job due to anxiety and depression. A balance of £800 had accrued with her supplier as she was struggling financially.

She had taken on new employment but on a much lower income and was trying to get back on her feet and start making payment towards the arrears. She received Working Tax Credits and Child Tax Credits and had 2 children.

She had tried to arrange an affordable payment plan and was offered one over 12 months but was unable to afford the monthly payments. She had requested a Prepayment Meter but was advised this would not be possible. It appears the reason given was because the debt had been passed to a third party agency. She had been paying a weekly amount to the supplier to try and prevent further arrears in the meantime.

The supplier placed a hold on further action and did agree to offer a prepayment meter after the case was escalated by the EHU.

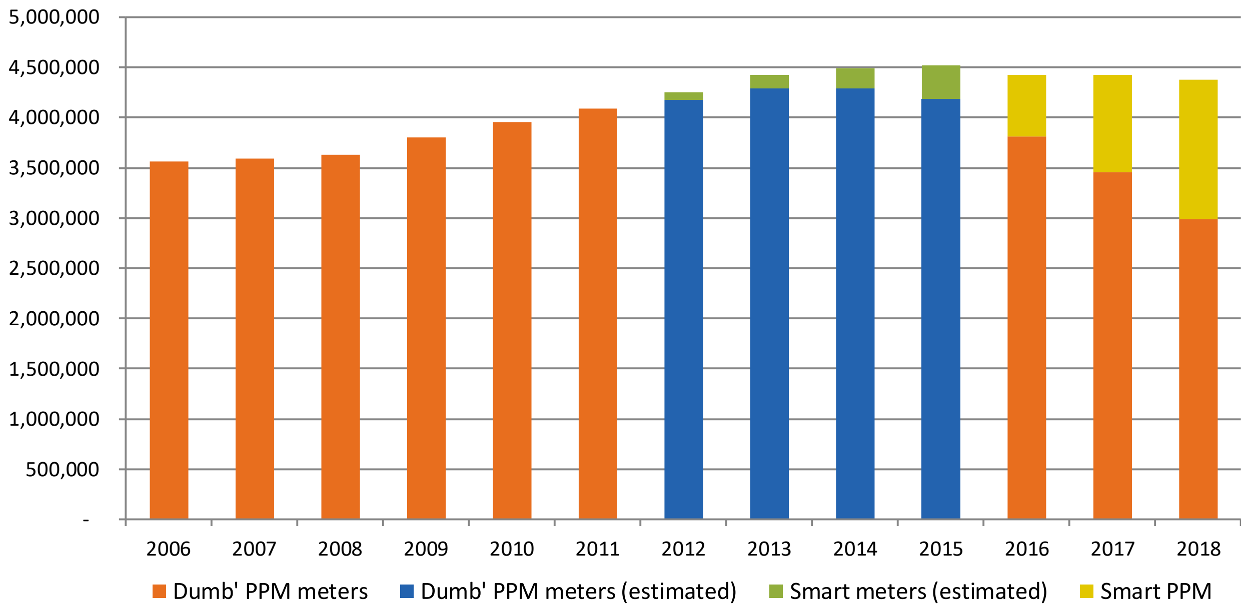
Key findings: Prepayment meters

The total amount of customers using PPMs decreased slightly in 2018

2.64. There were around 4.4 million electricity and 3.4 million gas customers on a PPM in 2018. This number, as well as the proportion of customers paying via PPM, has decreased slightly since 2017.

2.65. The proportion of consumers using PPMs for electricity has decreased in Scotland from 21% to 20% and in Wales from 19% to 18%, there has been no change in England (15%). The proportion of customers using PPMs for gas has decreased in England from 15% to 14% and in Wales from 19% to 18%, there has been no change in Scotland (17%).

Figure 2.8: Number of PPM customers



Prepayment meter customers are limited when trying to access better deals

2.66. Prepayment meter customers can be limited in the deals they are able to access in comparison to customers on credit meters. The cheapest prepayment tariffs can be significantly more expensive than those available on credit.

2.67. In 2017, the CMA introduced a prepayment price cap following their investigation to protect prepayment customers that benefit least from competition and typically do not have access to the cheapest tariffs on the market. In July 2019, the CMA decided to bring the methodology for calculating the prepayment cap in line with the default cap. The prepayment meter cap now fully reflects the higher cost of providing energy to these customers (incurred by operating pre-pay keys and cards used to top up prepayment meters).

2.68. From 1 October 2019, the prepayment price cap will fall from £1,242 to £1,217 per year for the winter period (October-March).[100] However, prepayment customers are still unable to access the cheapest fixed-term deals. A prepayment customer could save around £300 were they able to change to the cheapest direct debit tariff in the market.[101] It is

[100] Ofgem (2019) Prepayment meter price cap 1 October 2019 to 31 March 2020
[101] Figures calculated based on Ofgem data published on our website. Based on data on 28 June 2019. Based on the difference between the level of the prepayment price cap and the cheapest tariff in the market.

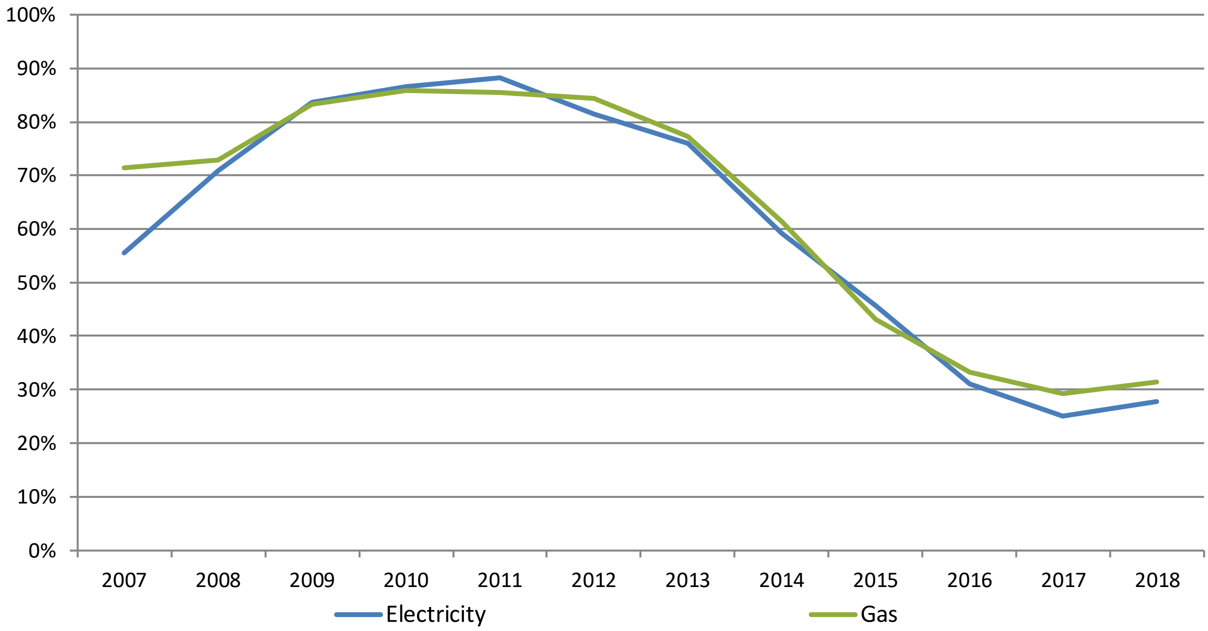
important that prepayment customers can switch to a better deal, whether this is switching to another supplier to save money or switching payment method.

The proportion of PPMs installed for debt has increased, but the proportion collecting a debt has remained the same

2.69. The proportion of PPMs installed for debt overall has increased slightly compared to 2017. The proportion has increased from 25% to 28% for electricity and from 29% to 31% for gas (see Figure 2.9).

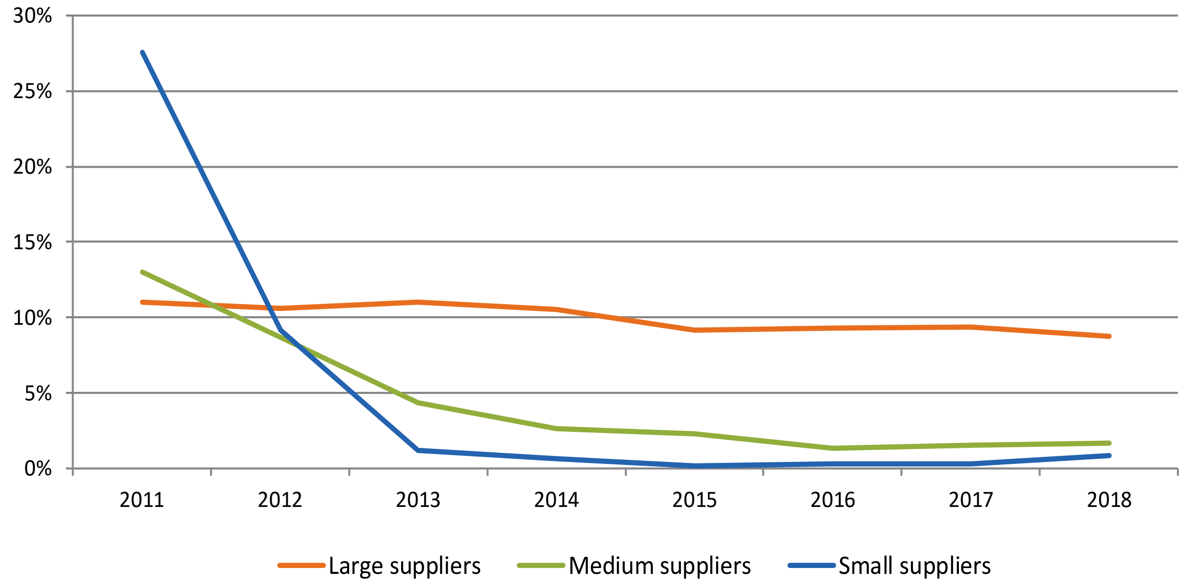
2.70. Although the proportion has increased, the total number of electricity PPMs installed for debt has decreased from 114,559 in 2017 to 106,667 in 2018. In addition to the total gas and electricity PPMs installed for debt, the total gas and electricity smart meters remotely switched by suppliers from credit to prepayment mode for debt has increased since 2017. This is discussed further in Chapter 3 Staying on supply.

Figure 2.9: Proportion of PPMs installed which were installed for debt



2.71. The proportion of PPMs collecting a debt has remained fairly stable, 9%, 2% and 1% for large medium and small suppliers respectively (see Figure 2.10).

Figure 2.10: Proportion of gas PPMs which are currently collecting debt – large, medium, small suppliers (similar trend for electricity)



Fewer PPM customers have switched to credit

2.72. Fewer prepayment meter customers have switched from PPM to credit. Customers with larger suppliers are driving this trend. Between 2012 and 2016 there was a steady overall increase in the numbers of customers changing from PPM to credit. However, from 2016 the number of PPM customers switching to credit has decreased (297,132 in 2016, 240,128 in 2017 and 212,880 in 2018)

2.73. At the same time, the number of requests refused by suppliers has also decreased from 56,881 to 43,895 overall for gas and electricity, which is good to see. The vast majority of suppliers have policies in place not to refuse requests from any debt-free customers who wish to switch to credit.

2.74. We have discussed with suppliers how they assess whether or not a debt-free customer can switch to credit. Some suppliers use in-depth pre-checks (such as no more than £50 debt in the last 12 months, currently debt free) and credit checks (Payment history, Experian credit history, address and electoral roll data). Some suppliers regularly update their processes and policies. For example, ScottishPower has recently lowered its credit check criteria for when a debt-free customer can switch.

2.75. We have seen evidence from suppliers to help us understand to what extent debt-free customers who do switch to credit from prepayment, go into debt again. Most suppliers told us that they do not expect customers to go back into debt.

Fewer customers are switching to a better prepayment tariff using the Debt Assignment Protocol

2.76. The Debt Assignment Protocol (DAP) only applies to prepayment customers. Prepayment customers with debts of up to £500 per fuel are entitled to switch supplier through the DAP. The DAP removes barriers to switching supplier by allowing the transfer of a customers' debt to the new supplier so they can access a better deal to help them repay their debt in less time.

2.77. After changing the electricity and gas supply licences which increased the amount of debt a PPM customer could have and still be able to switch supplier, from £200 to £500, we had seen an impressive increase in the number of successful transfers via DAP since it came into force in July 2015.[102] However, for the first time since 2015, we have seen the number of applicants and the number of successful transfers decrease with less than 5% gas and electricity completing the transfer using DAP.[103]

2.78. In 2018, the successful switches decreased from 3,395 electricity to 2,241 and from 2,694 to 1,842 for gas customers. British Gas and EDF Energy lead the large suppliers on the proportion of customers who begin the DAP process and succeed in switching to a new supplier.

2.79. Many applications do not progress far, as fewer than 17% electricity and 10% gas reach the stage where debt information is passed on by the old supplier to the new supplier. Our work with suppliers this year indicate that the most common reasons for rejected transfers via DAP are erroneous information contained in the data flows such as: name inconsistency, debts over £500, customers on credit meters, and MPAN issues. ScottishPower have noted around 73% of DAP transfers rejected are for the top four reason codes.

2.80. Industry changes to DAP processes, implemented in June 2019, aim to address these issues and improve the transfer of information between suppliers, which should result in more successful transfers via DAP. We expect to see data improvements in the 2019 data and we will monitor this closely.

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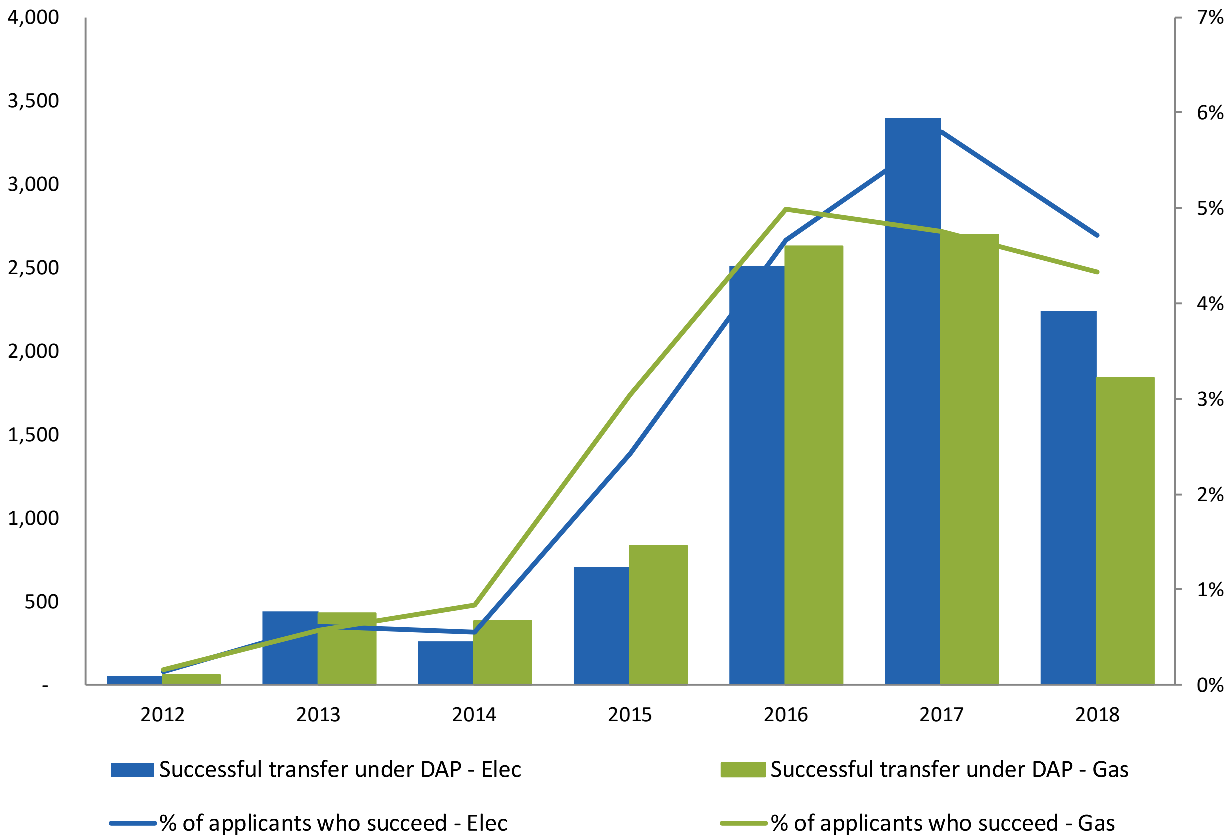
[102] Standard licence condition 14.6 of the electricity and gas supply licence.
[103] This is the proportion of all customers who apply for DAP (the issuing of a supply point objection) who successfully complete their transfer through the DAP process (a G/D0309 record).

Figure 2.11: The number of customers who successfully transferred to a new supplier under DAP and the proportion of applicants who succeed



Key findings: Energy efficiency

More consumers are contacting supplier energy advice lines

2.81. More consumers overall are contacting supplier energy advice lines staffed by qualified energy efficiency advisers – this year 230,508 contacts were made compared to 168,707 in 2017. Similarly, the number of website hits on a dedicated energy efficiency web page has increased from 7,8841,146 in 2017 to 8,526,001 in 2018. Increased access to these energy efficiency resources should suggest that fewer customers will find themselves in financially vulnerable situations if they can effectively make use of them.

2.82. However, as seen above the data suggests that many customers continue to find themselves in payment difficulties. More customers in debt are contacting an energy efficiency helpline (13,577 in 2017 to 23,404 in 2018), which is good to see but these numbers are significantly smaller than the number of customers in debt or arrears. Suppliers must do more for vulnerable customers in payment difficulty, using all reasonable means available, and provide them with timely, equitable access to information and services that will secure the fairest outcome.

Energy Redress Scheme

2.83. In 2017 we appointed The Energy Savings Trust to distribute funds from the Energy Industry Voluntary Redress Scheme.[104] The majority of Energy Redress projects funded to date take a holistic approach to addressing vulnerability among energy customers. They frequently include advice on understanding energy bills and fuel debt, alongside energy efficiency advice, support with income maximisation and signposting to other services related to health or welfare.

2.84. Consumer advice and measures related to energy efficiency are often fully integrated into wider projects. There have now been four rounds of funding delivered via the Energy Redress Scheme, with a total of £3,147,810 allocated in grants. Data provided by the Energy Advice Trust on the percentage of spend and number of projects that include energy efficiency, estimates that 81% (£2,549,726) of the total grant allocations for Energy Redress to date has been for projects that include energy efficiency.

Energy Company Obligation

2.85. The second phase of the Energy Company Obligation, ECO2, ran from April 2015 to September 2018. One of the obligations placed on energy companies was the Home Heating Cost Reduction Obligation, focused on reducing heating costs for low income and vulnerable households living in private housing and who receive specific benefits.[105]

2.86. Through measures aimed at repairing and replacing boilers and electric storage heaters, vulnerable consumers will save over £6.2bn on their energy bills over the lifetime of the appliance.

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[104] Energy Savings Trust (2018) Energy Redress Scheme
[105] Ofgem (2019) Energy Company Obligation, ECO2 Final Determination Report, 1 April 2015 – 30 September 2018

Key Findings: Fuel poverty

More customers are connected via the Fuel Poor Network Extension Scheme

2.87. Since 2008, the GDNs have connected over 105,000 fuel poor households to the gas grid through the FPNES. Under RIIO-GD1, each GDN has a set target for the number of connections it should make under the FPNES by the end of the price control in 2021. The GDNs are broadly on track to meet these targets, which, if successful, will mean over 91,000 households will be connected to the gas grid through FPNES within the price control. So far in RIIO-GD1, GDNs have connected 64,193 households under the FPNES. See table 2.1 for further details.

Table 2.1 Number of fuel poor connections under the FPNES in RIIO-GD1

Number of fuel poor connections	Five-year cumulative			RIIO-GD1 eight year		
	Commitment	**Actual**	**% variance**	**Revised commitment [1]**	**Forecast**	**% variance**
EoE	7,113	7,888	10.9%	12,046	12,046	0.0%
Lon	1,760	1,646	- 6.5%	2,880	2,880	0.0%
NW	8,400	8,593	2.3%	13,330	13,330	0.0%
WM	5,250	5,335	1.6%	8,360	8,360	0.0%
NGN	8,750	10,066	15.0%	14,500	14,500	0.0%
Sc	10,265	16,776	63.4%	17,130	22,000	28.4%
So	6,069	5,390	-11.2%	10,367	10,367	0.0%
WWU	8,095	8,499	5.0%	12,590	12,590	0.0%
Industry	**55,702**	**64,193**	**15.2%**	**91,203**	**96,073**	**5.3%**

[1] *The original price control volumes for fuel poor were increased as part of a review of the Fuel Poor Network Extension Scheme published in September 2015, with the exception of Lon, NW and WM*

3. Staying on supply

Section summary

Having continuous access to heat and light is vital to consumers' health and wellbeing, especially when it affects someone's health. People who are financially vulnerable or in debt are at higher risk of going off supply when they use a prepayment meter due to the inherent risk of self-disconnection or technical issues with topping up. Disconnecting a customer's energy supply should be a last resort and avoided wherever possible. This chapter explores how suppliers and distribution network companies are helping vulnerable consumers to stay on supply.

2018 findings at a glance…

- The number of disconnections for debt fell again to only six disconnections in total. Only two suppliers disconnected customers for debt compared to five in the previous year. For the first time since we started recording this data, there have been no disconnections for debt of a customer's gas supply.
- The number of prepayment meters installed for debt under warrant has decreased since last year and is driven by one large supplier.
- The number of smart meters remotely switched from credit to prepayment meter for debt has risen from nearly 21,000 to just under 70,000.
- In 2018/19 the total value of payments made by DNOs to PSR customers for interruption of supply was £295,985. Similarly, the GDNs have made payments to the sum of £6,588, which is inclusive of some ex gratia payments.

What we expect of suppliers and distribution companies

Ensuring it is safe and practicable to use PPMs

3.1. Suppliers can only use PPMs for debt recovery where it is safe and reasonably practicable and when they become aware this is no longer the case must offer the customer ways to remedy the issue.[106] For example, suppliers must consider whether the customer

[106] Gas and Electricity Supply Standard Licence Condition 27.6(a)(iii), 28.1A and 28.1B respectively

requires a continuous supply for health reasons, such as dependency on medical equipment requiring an electricity supply. Other relevant factors are likely to include whether the customer has a physical or mental disability that prevents them from being able to appropriately use a PPM.

3.2. The sort of proactive steps that we would generally expect suppliers to consider in order to identify whether it is safe and reasonably practicable in all the circumstances of the case to offer a PPM to a customer include making multiple attempts to contact the customer by various means and at various times of day to discuss the option of paying through a PPM. We updated our guidance on the interpretation of "safe and reasonably practicable" in March 2016 to ensure consumers are protected in a smart prepayment market.[107]

3.3. SLC 28.1 also requires suppliers to provide information to consumers prior to or upon installation of a PPM so they understand how to operate their meter, how to top-up and stay on supply, as well as the advantages and disadvantages of a PPM.

3.4. The Gas Act 1986 and the Electricity Act 1989 require suppliers to give a customer seven days' notice of their intention to install a prepayment meter.[108] As part of the Smart Metering Spring Package[109], we indicated that this requirement also includes scenarios where suppliers intend to remotely switch a smart meter to prepayment mode.

3.5. Once a PPM is installed, whether for debt recovery or other purposes, we want suppliers to proactively monitor that a PPM continues to be safe and reasonably practicable, for example through monitoring whether or not a consumer is topping up the meter. With more and more smart meters being installed, we expect suppliers to have a better insight into whether or not consumers are effectively using their prepayment meter. And if not, we expect them to adequately support their customers when they suspect a PPM may not be safe or reasonably practicable in line with their obligations (SLC 28.1A).

[107] Ofgem (2016) Smart prepayment for a smarter market: our decisions
[108] Electricity Act 1989, schedule 6, section 2. Gas Act 1986 schedule 2b, section 7.
[109] Ofgem (2011), Spring Package (statutory consultation).

3.6. Supporting these obligations are Energy UK's[110] ten principles to provide improved safeguards for prepayment customers.[111] These principles mirror some of the licence requirements on suppliers and provide some additional elements to ensure positive consumer outcomes. We are pleased to see the number of suppliers signed up to follow these principles has risen from 13 at the time of publishing last year's report to 20 this year.[112] Energy UK have committed to developing a new "Vulnerability Charter" to build on these existing voluntary commitments and go further to support those customers most in need building on the work of the Commission for Customers in Vulnerable Circumstances.[113]

3.7. We consider these existing protections reduce the risk of self-disconnection and would like to remind suppliers of these obligations and their links to preventing self-disconnection. We are currently consulting on strengthening protections around self-disconnection and self-rationing with an aim to reduce the scale and detriment caused by self-disconnection and self-rationing.[114]

Only use warrants to install PPMs after exhausting all other options and to prevent disconnection

3.8. As discussed in the chapter on Affordability and Debt, when a customer falls into financial difficulty, suppliers must offer them a range of debt repayment options – including the option to repay via a PPM. Suppliers may obtain a warrant to install a PPM to secure payment for ongoing energy use and debt repayments when all appropriate and proportionate steps have been taken to engage with that customer. This must be used as a last resort to avoid disconnecting the customer. Force-fitting a PPM under warrant can be an upsetting experience and customers are often required to pay for the warrant process, further exacerbating their debt.[115]

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[110] Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. E.UK membership covers over 90% of both UK power generation and the energy supply market for UK homes.
[111] Energy UK PPM principles
[112] The updated principles has 20 suppliers as signatories as of April 2019: Bristol Energy, British Gas, Cooperative Energy, Ecotricity, EDF Energy, E.ON, First Utility (now Shell Energy), Good Energy, npower, ScottishPower, SSE, Utility Warehouse, Utilita, Tonik Energy, Bulb, Toto Energy, Together Energy, Octopus, E and Pure Planet.
[113] Energy UK Commission Press Release
[114] Ofgem (2019), Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing
[115] Ofgem (2017) Decision to modify gas and electricity supply licences for installation of prepayment

3.9. In January 2018, we introduced specific protections against the use of warrants or the force-fitting of PPMs in order to prevent energy consumers facing disproportionate or inappropriate actions or charges through the debt recovery process. These protections include a ban on using warrants for consumers who would find the experience traumatic, a prohibition on warrant-related charges for the most vulnerable consumers and a cap of £150 in all other cases.

3.10. Suppliers must ensure that all actions they take up to, and including, applying for a warrant are proportionate. Furthermore, the new protections in SLC 28B include a proportionality principle for debt recovery activities.[116] Suppliers should only apply for a warrant where such an action would be proportionate to the outstanding amount. More broadly, this prohibition should encourage suppliers to ensure that any debt recovery activities they undertake are proportionate.

Disconnecting customers should always be a last resort

3.11. Disconnecting a customer's energy supply should always be a last resort and avoided wherever possible. SLC 27 prohibits suppliers from disconnecting premises solely occupied by pensioners (including if they live with children under age 18) during the winter, and requires suppliers to take all reasonable steps to avoid disconnecting premises that include any pensioners, disabled or chronically sick customers in winter.[117] Suppliers must not disconnect anyone whose debt they have not taken all reasonable steps to recover first by using a PPM. Our Standards of Conduct require suppliers to treat each customer fairly.[118] We expect suppliers to consider on a case-by-case basis whether it is fair to disconnect customers.

3.12. Under the supplier Guaranteed Standards of Performance, if a supplier disconnects a customer's meter for non-payment of charges, and does not reconnect the meter within 24 hours of the customer paying the charges or setting up a repayment plan, the supplier must pay the customer £30 compensation.[119]

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meters under warrant
[116] Gas and Electricity Supply Standard Licence Condition 28B.4, 28B.5 and 28B.6 respectively
[117] Gas and Electricity Supply Standard Licence Condition 27.10 and 27.11 respectively
[118] The Standards of Conduct are set out in Gas and Electricity Supply Standard Licence Condition 0
[119] The supplier Guaranteed Standards of Performance place service level requirements on suppliers when they have certain interactions with their customers. Suppliers must pay compensation to customers where they breach an individual standard. The Guaranteed Standards can be found here. The standards for reconnection are contained within Section 6.

3.13. The six largest suppliers have formally signed up to Energy UK's 'Safety Net' which includes a commitment to never knowingly disconnect customers in vulnerable situations at any time of the year, and to reconnect those subsequently identified as vulnerable as a priority and usually within 24 hours.[120] Signatories undergo an audit each year to measure how they deliver against the Safety Net objectives. In 2018 we saw the highest ever results with all six suppliers receiving the highest 'Gold' award.[121] As mentioned previously, Energy UK have committed to developing a new "Vulnerability Charter" to build on the 'PPM Principles' and 'Safety Net'.

Support when supply is interrupted

3.14. The distribution companies also have to comply with Guaranteed Standards of Performance (GSoP) which are statutory regulations that set out the minimum levels of service that distribution network companies must provide to their customers.[122] Under the GSoP, distribution companies must provide additional support to PSR customers. For the gas distribution network companies (GDNs), this means providing alternative heating and cooking facilities in the event of a gas supply interruption which is not restored within a prescribed amount of time. For the electricity distribution network operators (DNOs), it means that PSR customers automatically receive compensation when their supply is interrupted and is not restored within a prescribed period.

3.15. In 2018/19 the total value of payments made by DNOs to PSR customers was £295,985. Similarly, the GDNs have made payments to the sum of £6,588, which is inclusive of some ex gratia payments.

Key findings: Prepayment meters, including installations under warrant

The total use of warrants has decreased and is driven by one large supplier

3.16. The total number of PPMs installed for debt under warrant decreased by 15% from 84,424 in 2017 to 70,981 in 2018, reversing the trend we saw in last year's report. The number of PPMs installed for debt and the proportion of these installed under warrant has

[120] Energy UK Safety Net for Vulnerable Customers
[121] Energy UK (2018) Safety Net Audit results
[122] The Electricity (Standards of Performance) Regulations 2015, The Gas (Standards of Performance) (Amendment) Regulations 2008

stayed level for gas and decreased for electricity. We are pleased to see the use of warrants decrease after we introduced new protections against PPMs installed under warrant in 2018.

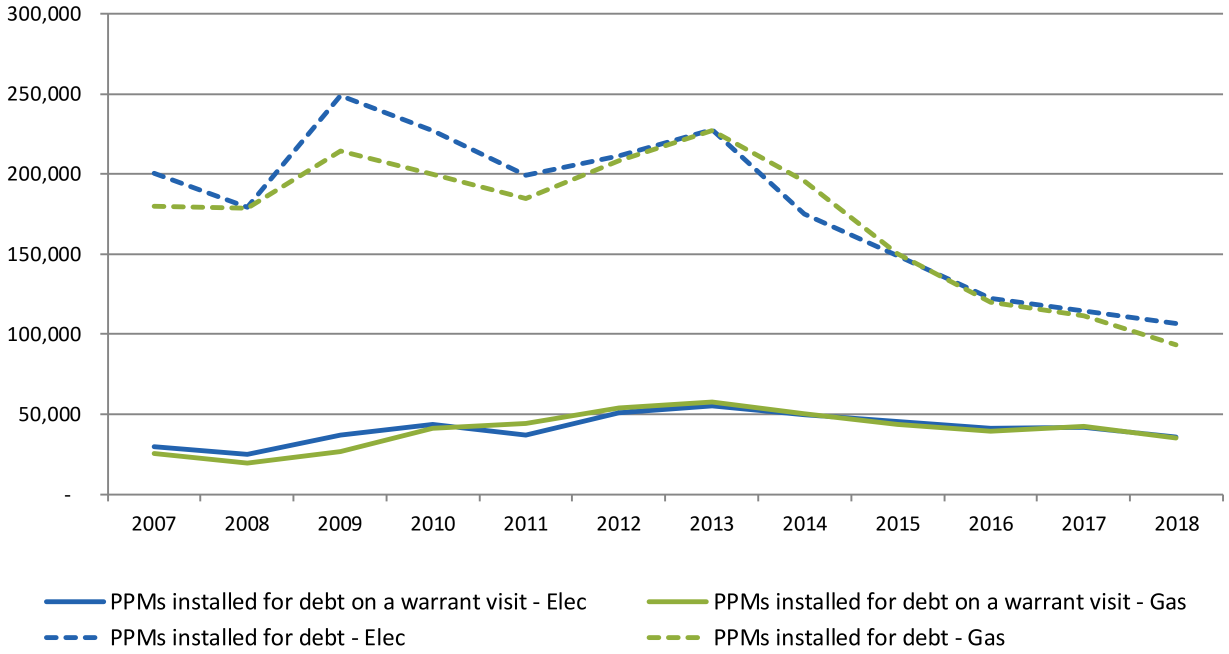
3.17. This decrease has mainly been driven by British Gas who have reduced their proportion of PPMs installed under warrant significantly. British Gas informed us that the new obligations introduced prompted them to review of their processes for installing PPMs under warrant in order to provide a better outcome for their customers.

3.18. However, we are still concerned that some medium and small suppliers install a significantly higher number of PPMs under warrant per 1,000 customers with a new debt repayment arrangement than the average. The average was 44 for electricity and 52 for gas in 2018. First Utility (now Shell Energy) and Utility Warehouse were the medium suppliers who installed the highest numbers of PPMs under warrant per 1,000 customers with a new debt repayment arrangement.

3.19. Shell Energy installed 89 and 104 PPMs under warrant per 1,000 customers for electricity and gas respectively and Utility Warehouse installed 85 and 99. Utility Warehouse has reduced these values from 2017 but it still remains one of the highest of suppliers. Shell Energy did not install any PPMs under warrant in Q4 and will be looking to do this again in December 2019 – January 2020 in order to reduce the impact on customers during the winter period. We will continue to engage bilaterally with suppliers.

3.20. Zog Energy and Ecotricity installed the highest numbers of PPMs under warrant per 1,000 customers of the small suppliers. We note that due to their smaller customer base these suppliers have a significantly smaller sample size of customers with new debt repayment arrangements.

Figure 3.1: Number of PPMs installed for debt under warrant and PPMs installed for debt



The number of smart meters remotely switched from credit to prepayment to repay debt has increased significantly

3.21. Just under 70,000 smart meters were remotely switched from credit to prepayment mode in order to repay a debt in 2018 compared to nearly 21,000 in 2017. This increase was largely driven by British Gas and by Spark Energy, before they ceased to be a supplier. This upward trend may in part be due to the increased number of smart meters now installed and capable of being remotely switched. Remote switches to PPM for debt may have replaced some of the traditional PPMs that would have previously been installed for debt. We note that the combined total for electricity PPMs installed for debt and electricity smart meters remotely switched to prepayment mode for debt has increased since 2017.

3.22. As mentioned in paragraph 3.1 suppliers are required to ensure that it is safe and reasonably practicable to use a PPM to recover debt. This applies for remote switches. There is a risk that when smart meters are remotely switched to PPM the opportunity afforded by a site visit to identify vulnerability or reasons why prepayment may not be safe and reasonably practicable could be missed. We are also concerned that remote switching without the customer being notified or aware of PPM functionalities can leave that customer off supply and lead to cases of disconnection (see Case study 3.1).

3.23. Some suppliers have told us that before remotely switching a customer to PPM, they conduct the necessary checks, including a site visit where appropriate, but we are concerned this may not be the case for all suppliers. We remind suppliers of their obligations in this area and we will continue to monitor this increase and suppliers' compliance with their obligations.

Case study 3.1: Extra Help Unit - remote switching

The consumer is of pensionable age and lives alone following the recent passing of his wife. He was not able to communicate with the Extra Help Unit (EHU) verbally following two strokes and was being supported by his daughter.

The consumer's daughter was referred to the EHU after her father's supply was disconnected despite being a credit customer who paid on receipt of bills. The daughter was unaware of any outstanding debt and explained that the responsibility for the account had transferred to her father after the passing of her mother.

When contacted to ask why the property was off supply, the supplier confirmed that both meters had been remotely switched from credit to prepayment mode. The supplier had misunderstood that there was someone still living at the property and had switched the meter into prepayment mode without warning.

The supplier remotely switched both meters back to credit mode to restore the supply. A new account was set up in the consumer's name and £50 was offered as a goodwill gesture.

Key findings: Disconnections

Continued decrease in disconnections

3.24. There were only six electricity disconnections for debt and for the first time since we started recording data on disconnections there have been no gas disconnections for debt in 2018. This is again a considerable decrease compared to 2017 when 17 customers were disconnected for debt. There have been no disconnections for debt in either Scotland or Wales. All six disconnections for debt occurred in England. We are very pleased to see this reduction in disconnections for debt from a peak of 5,727 disconnections in 2007.

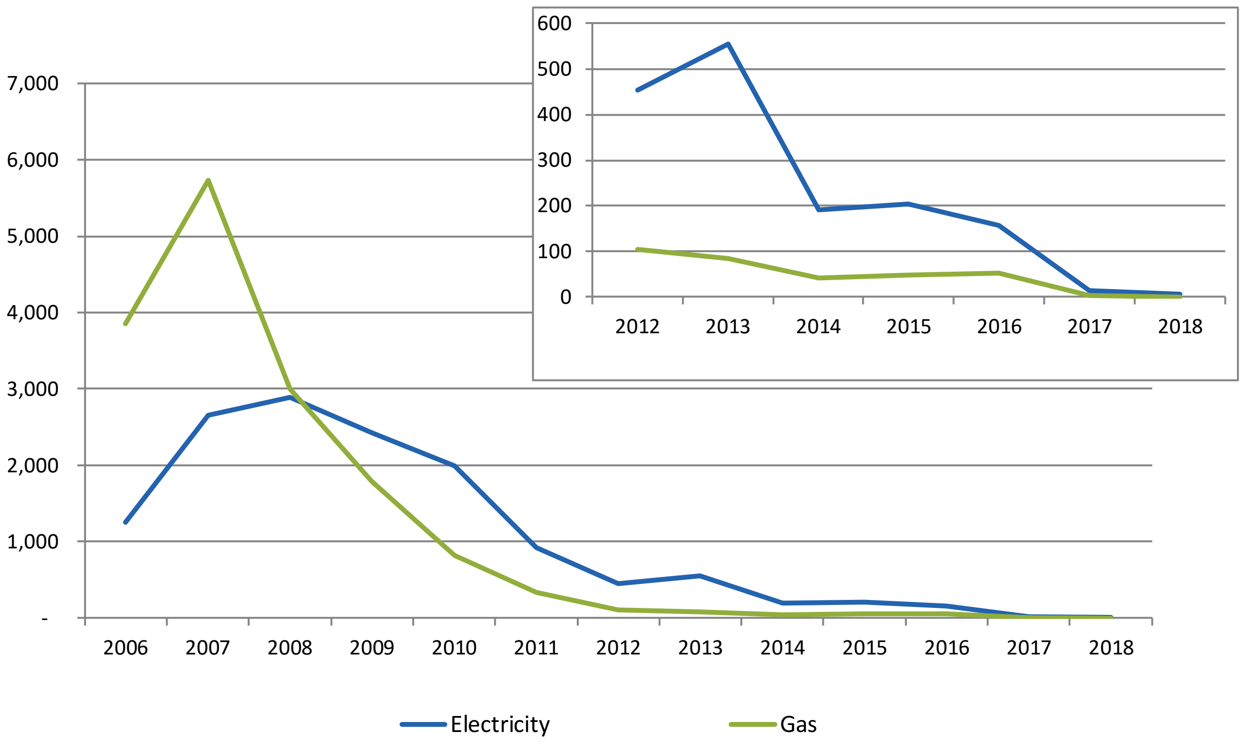
3.25. We have seen some positive changes of supplier practices regarding disconnections during 2018. While SSE had the most disconnections for debt in 2017, they have not disconnected any consumers in 2018. Another supplier who disconnected consumers for debt in 2017, Ecotricity, has not disconnected anyone in 2018 either.

3.26. E.ON and Green Energy have, as in 2017, disconnected consumers in 2018. E.ON disconnected one customer for debt and Green Energy disconnected five. Green Energy are the only supplier to have disconnected more customers for debt in 2018 compared to 2017.

3.27. There have been no smart disconnections for debt reported in all years. Smart meter customers can be subject to load limiting and credit limiting, where the supplier limits the flow of electricity supplied to a customer. Both of these practices can be equivalent to disconnecting a customer. We are pleased that suppliers have not reported subjecting any customers to load limiting or credit limiting in 2018.

3.28. In 2018 one electricity consumer and two gas consumers were disconnected in error by British Gas. British Gas has informed us that the electricity customer was disconnected due to the neighbour's meter details being incorrectly registered at the property and the gas disconnections were due to a meter serial number mismatch and incorrectly suspected meter tampering. The electricity consumer was off supply for one hour and the two gas consumers for an average of 3 days. Both gas customers disconnected received compensation. No smart meter customers were disconnected in error in 2018.

Figure 3.2: Annual disconnections for gas and electricity customers



Key findings: Self-disconnection and self-rationing

3.29. Self-disconnection happens when a consumer with a prepayment meter does not have enough money to top-up their meter and their meter cuts out, or when they do not realise that credit on the meter is running out. Closely associated with self-disconnection is self-rationing. This is when a customer deliberately limits their energy use to spend money in other essential areas. Self-rationing can also refer to restricting spending in other essential areas in order to pay for energy.

3.30. We have ongoing concerns about the health and wellbeing impact of self-disconnection and self-rationing upon the individual or family, and how it may lead to, or cause, further harm. Citizens Advice research found that those who self-disconnected cited negative physical impacts of feeling cold, having a dark home and being unable to wash and emotional impacts of financial stress, stress from the practicalities of topping up as well as feelings of shame and embarrassment.[123] The National Institute for Health Care Excellence found a strong relationship between a higher number of deaths and people who fell ill due to cold homes and factors such as age, disability and deprivation.[124]

3.31. Our 2018 Consumer Engagement Survey found that one in ten of those with a prepayment meter temporarily disconnected from their energy supply in the previous year.[125] As part of our recently published consultation on self-disconnection evidence gathered from six suppliers found that 12% of their gas PPM consumers and 8% of their electricity PPM consumers with a traditional meter self-disconnected in 2018.[126]

3.32. As noted above, in 2016, Energy UK and Citizens Advice published principles to address concerns about customers who are, or may be, at risk of self-disconnection.[127] These encompass our existing licence obligations relating to prepayment and set out further expectations for example regarding the monitoring of customer top-ups, the provision of friendly credit and removing a PPM free of charge in certain cases.

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[123] Citizens Advice (2018) Switched On – Improving support for prepayment consumers who've self-disconnected
[124] National Institute for Health and Care Excellence (2016) Preventing excess winter deaths and illness associated with cold homes
[125] Ofgem (2018) Consumer Engagement Survey
[126] Ofgem (2019), Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing
[127] Energy UK (2016) Prepayment meter principles. To date, there are 20 signatories to the principles.

3.33. We have recently published a consultation on strengthening protections around self-disconnection and self-rationing with an aim to reduce the scale and detriment of self-disconnection and self-rationing.[128] We will also publish our consumer engagement survey in the next few months which will include further insights into self-disconnection.

Case study 3.1: Extra Help Unit – self-disconnection

The consumer was referred to the EHU from the Citizens Advice consumer service as she was off supply for gas and electricity. She receives Income Support, Child Benefit and Child Tax Credits and wouldn't have more money until she received a Child Benefit payment 3 days later. The consumer has a 2 year old daughter. As the consumer had discretionary credit in the past few months she didn't contact the supplier directly. On the call the consumer said she was concerned that her consumption was high.

The EHU contacted the supplier and it agreed to provide £15 on the gas meter and £15 on the electricity meter to be recovered at 75p a day. In addition, the supplier offered energy efficiency advice and also information on how to test that her appliances are working correctly.

Reducing the risk of self-disconnection using smart prepayment

3.34. Of all PPMs currently installed, around 32% are smart. Smart meters can lead to better outcomes for PPM customers by making it easier for customers to top-up and switch between prepayment and credit modes and pay in a variety of ways which mean the customer does not have to leave the house; there are obvious benefits here for some vulnerable customers. Smart meters also allow suppliers to monitor consumption to assess the risk of self-disconnection.

3.35. We have seen examples of good practice from suppliers utilising the data made available from smart meters. As part of its 'Artemis' project, E.ON has begun making use of this data to more accurately identify customers struggling to afford their gas and electricity supply that could benefit from a conversation with E.ON. This enables them to highlight customers most in need of help based on how long the customer has been off supply, the level of gas and electricity dependency and if there are any known vulnerabilities. These

[128] Ofgem (2019), Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing

customers are then proactively contacted by E.ON's Extra Support Team who are able to offer assistance.

3.36. As with traditional PPMs, where there is a risk of self-disconnection, suppliers can offer short-term support to get on supply, including emergency, discretionary and friendly credit (see below). Smart PPMs can also help consumers budget using tools such as low credit alerts and high consumption alerts. Suppliers need to ensure they consider the needs of vulnerable customers in the smart meter rollout, through all stages of the consumer journey.

- All suppliers with customers on smart prepayment meters offer emergency credit. Most offer £5 or £10 and the customer pays this back the next time they top up.
- All suppliers that offer smart prepayment provide friendly credit during evenings/night-time, weekends and bank holidays (which allows a customer to have a continuous supply).
- Most suppliers (14 out of 19) with customers on smart prepayment meters offer low credit alerts through the In Home Display (IHD). Two suppliers offer email alerts, and four offer text alerts. Eight suppliers offer high consumption alerts via the IHD.

3.37. We are pleased to see some suppliers develop innovative ways to offer support to customers. Utilita has developed its 'Power Up' function within the My Utilita app and on their website to help smart PPM customers access discretionary credit. 'Power Up' uses data from the smart meter to suggest a recommended amount to borrow (up to £30 per fuel) and allows the customer to personalise this amount as well as the percentage recovery rate from their future top up payments. Between 5th September 2018 and the 18th December 2018 Utilita's customers used the 'Power Up' function 23,315 times with 60% of customers borrowing the recommended amount and only 12% choosing to increase this amount. Utilita have found that many customers avoid directly asking for financial assistance and 'Power Up' allows these people to access energy credit via the app at zero percent interest.

3.38. Although there are benefits to having a smart meter installed, those in vulnerable situations still face many of the same concerns of a traditional PPM. Data from our Request for Information suggests that smart PPM customers may disconnect more than customers with traditional meters, although this could also be due to the real time monitoring that smart meters offer. Citizens advice found 50% of those on smart PPMs continued to be concerned about keeping their meter topped up (the same percentage as for traditional meters).[129]

3.39. In early 2019, we consulted on changes to the data we collect under the Social Obligations Reporting. As part of this we consulted on a proposed new indicator of the number of smart meter customers who self-disconnected at least once during the reporting period and the number of these for whom the longest period of self-disconnection falls within certain brackets. We recently confirmed our decision to include this within the SOR data with effect from 1 January 2021.[130] This will allow us to gain a better understanding in to the extent of self-disconnection.

3.40. Going forward, we expect to see more suppliers looking into ways they can offer appropriate financial and non-financial support to those customers who are in danger of self-disconnecting from their PPM. We also expect to hear how more suppliers are using the data they collect from smart PPMs to cater for the specific needs of their vulnerable customers, including tailored support to prevent disconnection.

3.41. We are monitoring suppliers' progress in delivering smart prepay, including their progress in driving the development of a SMETS2 prepayment solution, and are clear that we expect them to be exploring where plans can be brought forward so that prepayment customers can benefit from the opportunities smart meters offer.

[129] Citizens Advice (2018) Switched On – Improving support for prepayment consumers who've self-disconnected
[130] Ofgem (2019) Decision on changes to Social Obligation Reporting

4. Next steps

4.1. This report highlights the variation in outcomes consumers in vulnerable situations are experiencing in the market. We urge industry, and specific suppliers who scored poorly in certain areas to consider how they will improve.

4.2. We are publishing this report in the context of significant changes in the energy network and retail markets. Our approach to this new era of sectoral change is guided by our overriding goal to protect the interests of consumers now and in the future, with particular emphasis on protecting the vulnerable. We will soon be publishing our final Consumer Vulnerability Strategy 2025 which sets out our priorities for vulnerable consumers over the next five to six years.

4.3. We are committed to evaluating and monitoring progress towards the outcomes we want to see realised during the lifespan of the Consumer Vulnerability Strategy 2025 and this report will continue to play a significant role in providing transparency across the energy market.

4.4. We look forward to engaging with stakeholders on the findings of this report and how we can drive improved outcomes for consumers in vulnerable situations.