

# Consultation response: Ofgem Proposals to improve outcomes for self-disconnection

Response by the Money Advice Trust

Date: September 2019

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# Introduction

## About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2018, our National Debtline and Business Debtline advisers provided help to more than 204,000 people by phone and webchat, with 1.7 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2018 we delivered this free training to over 820 organisations. Furthermore, Money Advice Trust Training and Consultancy services have worked with over 224 commercial organisations to identify and support their customers in vulnerable circumstances.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

## Public disclosure

Please note that we consent to public disclosure of this response.

# Introductory comment

We welcome the opportunity to respond to this consultation. We are pleased that Ofgem is taking action to address self-disconnection and self-rationing among prepayment meter customers. These are significant areas of detriment, which we hear about from callers to our National Debtline service.

We would also like to thank Ofgem for providing opportunities for consumer groups to constructively engage with the regulator in the period leading up to publication. We were able to put forward many of our concerns as part of this process and in view of this, our written response will be relatively brief.

We support the principles Ofgem intends to introduce through these proposals, but we think **narrower obligations would be appropriate**. In addition, the consequences for consumers who self-disconnect or ration their energy use are very serious. The current level of support is inconsistent and there are suppliers in the market who have limited experience of addressing these issues. In this context we think a more “hands on” approach may initially be required. At a future point, with a good level of support embedded across the industry, Ofgem could revert to a principles-based approach.

We are encouraged to hear that Ofgem is engaging with BEIS on the government’s Fuel Poverty Strategy and with HMT on the introduction of Breathing Space. We would encourage Ofgem also to **keep close to the Money and Pensions Service** as it develops its National Strategy and to explore opportunities for collaborative work to help consumers manage their energy spending and address energy-related affordability and debt problems.

We are particularly encouraged by Ofgem’s proposal to incorporate its Ability to Pay Guidance into the Licence Conditions, which we strongly support. We would like to see explicit recognition in the Ability to Pay guidance that suppliers should make customers aware of sources of independent advice and give them appropriate time to seek advice.

## Background

Self-disconnection and self-rationing are growing areas of concern for the Trust. Although we do not collect data specifically on the incidence of these issues, advisers report a growing number of callers to our National Debtline struggle to top up their prepayment meter. This is consistent with trends in the UK debt landscape which we have observed and reported on over the last few years. A much greater proportion of our callers have energy arrears and/or arrears on other household bills than was the case a decade ago. Low income and difficulty affording essential spending are also common. These trends are explored in more detail in our 2018 report, *A decade in debt*.<sup>1</sup>

As Ofgem will be aware, the Trust’s Chief Executive, Joanna Elson, served as a commissioner for the *Energy UK Commission for Customers in Vulnerable Circumstances*.<sup>2</sup> Self-disconnection – along with more generalised affordability problems – was a prominent theme in the evidence heard by the Commission and was the subject of one of the recommendations in the final report. Suppliers, as well as consumer groups, have done much to draw attention to the issue. Npower’s efforts to address fuel crisis through its Fuel Bank scheme has contributed to our understanding of this area and is a good example of partnership work with a holistic focus.

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<sup>1</sup> Money Advice Trust, *A decade in debt*, September 2018

<http://www.moneyadvicetrust.org/researchpolicy/research/Documents/Money%20Advice%20Trust%2C%20A%20decade%20in%20debt%2C%20September%202018.pdf>

<sup>2</sup> Energy UK, *The Commission for Customers in Vulnerable Circumstances: Final Report, 2019*, <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7140>

# Responses to individual questions

## **Question 1: Do you agree with our proposal to require suppliers to identify prepayment self-disconnection and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.**

We support this proposal to place an additional requirement on suppliers to identify prepayment self-disconnection, but we think narrower obligations would be warranted. The over-riding priority must be to ensure consistency of support for consumers across all suppliers and alleviate the significant detriment caused by self-disconnection, while building up an evidence base that helps us better understand and address the problem.

We see a number of risks with taking a non-prescriptive approach. Suppliers may adopt significantly different definitions and approaches, making meaningful comparisons across the industry difficult or impossible. It is also possible that suppliers, particularly those that are less experienced in this area, fail to act quickly or adequately to resolve the problem. We appreciate that Ofgem intends to promote the sharing of industry good practice to tackle such issues but given the severity of the problem and current inconsistency, we would suggest Ofgem needs to clearly articulate requirements to suppliers and ensure that these requirements are enforced.

## **Question 2: Do you agree with our proposal to require suppliers to identify self-rationing and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.**

We support this proposal but, as above, we think the need for consistency and firm action should incline Ofgem towards a narrower approach.

## **Question 3a: Do you agree with our proposal to require suppliers to offer emergency and friendly credit functions for all customers?**

We agree with this proposal and have no further comments at this stage.

## **Question 3b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.**

We agree with this proposal. As Ofgem notes, these facilities are not well-known or understood at present. In addition to supplier communications with their own customers, we would welcome materials to help third-party advisers and representatives provide advice and support on this topic.

## **Question 4a: Do you agree with our proposal to require suppliers to offer discretionary credit for customers in vulnerable circumstances?**

We support this proposal. As Ofgem notes, there will be instances where discretionary credit is not in the best interest of customers. There is a balance to be struck between providing short-term assistance and supporting customers in the longer term to resolve underlying problems with debt, affordability, energy efficiency and other issues.

In many instances, it will be appropriate to signpost customers to sources of free, independent advice. However, we would emphasise the importance of suppliers making a proper assessment and signposting customers in a focused way, rather than adopting a blanket policy of signposting which would increase pressures on very limited advice sector resources.

## **Question 4b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.**

We have no comments to make on the content of this licence condition.

## **Question 5: Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence?**

We strongly support this proposal. Ofgem's Ability to Pay principles have made a significant difference to the treatment of energy consumers and we agree that incorporating the principles into the licence conditions provides a clear signal to suppliers. It will also of course be important to ensure proper monitoring of supplier practices and, where necessary, to consider enforcement action.

## **Question 6: Do you agree with our proposal to update the Ability to Pay principles to reflect changes in supplier debt recovery practices? Are there other changes that we should implement? We agree with this proposal.**

The most significant area not covered in the current principles is supporting customers to access independent sources of advice and help. Many suppliers already make a practice of providing information about debt advice and income maximisation services to customers in arrears. There are good reasons for doing this, since customers may have other debts or broader financial problems beyond their energy arrears that they need to address.

We would like to see the practice extended, along with provision of a hold action period to give customers the opportunity to seek advice (this would smooth the transition to Breathing Space when it is introduced). Signposting to independent debt advice should be regarded as a minimum requirement, but we would encourage suppliers also to incorporate income maximisation.

**For more information on our response, please contact:**

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