



SELF-DISCONNECTION AND SELF-RATIONING FINAL PROPOSALS – STATUTORY CONSULTATION

AUGUST 2020

INTRODUCTION

[Fair By Design](#) welcome the invitation to respond to Ofgem’s consultation on protecting energy consumers with prepayment meters.

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

For more information about this response please contact Carl Packman:

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ABOUT FAIR BY DESIGN

Fair by Design is dedicated to reshaping essential services, such as energy, credit and insurance, so they don’t cost more if you’re poor. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, loans and credit cards with high interest rates; and insurance, through post codes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust manages the Campaign, and Ascension Ventures manage the Venture Fund.

OUR RESPONSE

Fair By Design welcomes the opportunity to respond to Ofgem's consultation on self-disconnection and self-rationing. One commonly known concept of people who are struggling financially is the choice of whether to 'heat or eat.' Self-disconnection and/or self-rationing are often expressions of people needing to make this awful choice (which, of course, is no choice at all). This demonstrates the seriousness of this subject, and the importance of this particular statutory consultation.

We are concerned that the number of prepayment meter customers who are self-disconnecting has risen over the past two years, as Ofgem has confirmed. This is even after raised awareness of the issue within the sector. We broadly agree that the proposals set out by Ofgem in this consultation, if implemented in full, would go a considerable way to reducing these occurrences of self-disconnections and self-rationing behaviour among retail energy customers. This would positively impact on their wellbeing.

However, on the timeframe we believe Ofgem could go further. We agree with colleagues at National Energy Action (NEA) on **recommending that Ofgem set an implementation target date of the start of December 2020**. The reasons for this are two-fold: it will give prepayment meter customers increased protections over winter, and over the period most likely to experience a second wave of Covid-19 and subsequent lockdown measures (when it is estimated over half of consumers will use more energy than is normal for the time of year).¹

In summary of our response, we feel that self-disconnections and self-rationing are issues related to price and affordability. Therefore, these are closely related to the poverty premium, the extra costs that low income households pay for their essential services and goods. We expand on this relationship in our full response below.

We agree that this issue has taken on a new level of importance since the beginning of the pandemic. **There are a number of steps we feel are necessary that would improve suppliers' response to those at risk of financial detriment: proactivity in identifying those at risk of self-disconnection and self-rationing is one step, and a focused rollout of smart meters to PPM customers before the revised rollout deadline is another.** We also explore this subject in more depth in our full response below.

Finally, we echo the sentiments of our colleagues at National Energy Action, in their report that looks at the 'gathering storm' of utility debts. Self-disconnections and self-rationing are both issues which must be tackled proactively, and with solutions that avoid it happening in the first place. So while ways of improving the identification of these issues must be a priority for the regulator and suppliers, so too should dealing with their root causes: customers

¹ Analysis by the Energy and Climate Intelligence Unit (ECIU) has demonstrated that, were the coronavirus lockdown to be continued or re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month (https://ca1-eci.edcdn.com/reports/ECIU_Leaky_Homes_Lockdown.pdf).

struggling to afford their bills. That's why there needs to be schemes in place to help those customers, such as the Warm Home Discount scheme.

Summary of recommendations

1. We recommend that Ofgem makes a request to firms to identify the specific reasons for why people are disconnecting or rationing their household energy use. This is in order to make sure that any forthcoming solutions are satisfactory to a household's particular situation.
2. We would like to see more proactivity on the part of the supplier to ensure customers are on the best deal. This will improve customer outcomes for the most vulnerable. We want to see this reflected in Ofgem's future regulatory rules for suppliers.
3. We agree with colleagues at National Energy Action that 'friendly credit' should be offered in a consistent way among suppliers, so that those in need know what they have access to in times of financial distress irrespective of what suppliers they are with.
4. We strongly urge Ofgem to ensure that suppliers publicly report on how many legacy PPMs they have converted to smart meters.
5. We urge suppliers to develop and share innovative practices to monitor and tackle self-disconnection, particularly as the smart rollout progresses drawing on increased skills with using this technology towards a positive end.

Self-disconnections, self-rationing, and the poverty premium

It is very concerning to see that there has been an increase in the rise of self-disconnections. Ofgem notes that there has been an increase in the levels of self-disconnections over the past two years.

Our main concern is that this is happening to customers who are already using an expensive means to access household energy: namely through a prepayment meter (PPM). Evidence found by the Personal Finance Research Centre, at the University of Bristol, shows that even those customers "who switch to the best prepayment meter tariffs pay more."² Of course this reflects the fact that PPM customers are typically charged more for each unit of energy than those on standard credit meters.

Though a breakdown of numbers would be very difficult to obtain, this will likely mean that there are PPM customers who have tried to switch to the best deal but are still finding supplying their home with energy expensive and unaffordable.

Self-disconnections and self-rationing will occur either because of the extra costs that some low income households have to pay for energy, or because other financial pressures render that household energy unaffordable.

This is an important distinction. The solutions for those experiencing higher cost energy bills are different from those who cannot afford their bills because of other financial pressures.

² <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>

As a result, **we recommend that Ofgem makes a request to firms to identify the specific reasons for why people are disconnecting or rationing their household energy use. This is in order to make sure that any forthcoming solutions are satisfactory to a household's particular situation.**

For some customers the solution will be the proposed payment holidays, while for others the long-term remedy will be proactivity on the part of the supplier to make a more affordable tariff available to them. Otherwise this household may find itself in a cycle of financial detriment, without focusing in on the root of the problem.

The reason for why we want more proactivity from suppliers, to help move customers over to a more favourable tariff, is because switching services isn't working for everyone. While we are not aware of the breakdown split of PPM customers, we know that three-quarters (73 percent) of low-income households had not switched fuel supplier in the last two years, and this was higher still among the digitally excluded (83 percent).³ This will be for a variety of different reasons including time poverty, digital exclusion, or no control provided by landlords over their energy supplier.

The Covid-19 lens

The rise in self-disconnections seen by Ofgem occurred before the Covid-19 pandemic struck. During lockdown the figures remained similar, and temporarily lowered to pre-Covid figures, potentially down to the warm weather. But this cannot be guaranteed, and certainly not as we enter into the winter months. Not to mention what will happen to people's personal financial situations as a result of changes in the labour market, to the government furlough scheme, and the immediate impact after temporary Covid-19 measures on other essential services are lifted (such as the end of payment holidays on credit products, set by the Financial Conduct Authority).⁴

The Resolution Foundation has recently found that household incomes for non-pensioners will fall by 4.5 percent in real terms between 2019-20 and May 2020. Drops will likely be unevenly distributed among lower income households, and this will affect the degree to which they can afford their household energy costs, among many other necessities.⁵ This is something Ofgem and suppliers must take into consideration when setting remedies for customers. Particularly for customers that require a longer-term remedy than the "additional credit support" Ofgem has put forward in this consultation paper. For many consumers Covid-19 has not presented a cash-flow problem, rather an income-loss problem.

Covid-19 raised other challenges for suppliers and energy customers. We welcomed the fast-acting work of both Ofgem and suppliers to make sure temporary measures were in place for customers requiring support during the period.

We are, however, very concerned about the low numbers of customers (8 percent) who contacted their supplier for support, gleaned from a Citizens Advice poll cited in the

³ Ibid

⁴ <https://www.fca.org.uk/consumers/coronavirus-information-personal-loans-credit-cards-overdrafts>

⁵ <https://www.resolutionfoundation.org/app/uploads/2020/07/living-standards-audit.pdf>

consultation document (we would assume the need was higher). We are also concerned that 60 percent of consumers did not recall receiving information about support available from their supplier, and that where there was support it was inconsistent among suppliers.⁶

We propose some thoughts on how we feel this could be improved in the future, through supplier proactivity, below.

Views on credit functions and Ability to Pay

We welcome the aspects of the consultation on emergency credit related to PPM customers.

We agree with colleagues at National Energy Action that ‘friendly credit’ should be offered in a consistent way among suppliers, so that those in need know what they have access to in times of financial distress irrespective of what suppliers they are with.

Having this access to emergency credit in times of financial distress will also mean that energy customers will not have to resort to high cost commercial finance elsewhere, such as payday loans. This is the most expensive form of credit available on the commercial market, and the majority of those using it are doing so because of a financial emergency like needing to pay a bill.⁷

Additionally, this form of emergency credit needs to be extended to customers on terms consistent with the rest of the essential services market. To this end, we welcome Ofgem’s suggested Ability to Pay measures. Understanding a customer’s ability to pay will ensure that emergency credit does not exacerbate an existing financial pressure. Repayment rates based on ability to pay will also mean that emergency measures set by a supplier do not push a customer further into financial detriment as an unintended consequence.

While emergency credit will be an appropriate measure for some customers, others will benefit from greater supplier engagement to make sure they are on the best available tariff. Since we know many customers, particularly those on PPMs or on very low incomes, do not switch (for a variety of reasons, including time poverty, digital exclusion, the technical difficulties of needing to physically change a meter in order to switch, or no control from landlords over their energy supplier) **we would like to see more proactivity on the part of the supplier to ensure customers are on the best deal. This will improve customer outcomes for the most vulnerable. We want to see this reflected in Ofgem’s future regulatory rules for suppliers.**

Smart meters also have a part to play here. Given that the Competition and Markets Authority has previously agreed that smart meters would facilitate competition in the PPM

⁶ https://www.ofgem.gov.uk/system/files/docs/2020/06/self-disconnection_and_self-rationing_-_statutory_consultation_0.pdf (p.10)

⁷ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/For%20publication%20-%20Part1-Overviewofthetrendsinthepaydaymarketreport.pdf> (p.4)

market,⁸ suppliers should be doing all that they can to replace legacy PPM meters with smart ones.

Identification of self-disconnection and self-rationing

We are particularly interested to see a number of interesting statistics on smart meter usage and self-disconnections among PPM customers. Particularly where smart meter household-level data can help suppliers identify self-disconnections and self-rationing behaviour in a way that cannot be done with legacy PPMs.

For example (for context):

“Citizens Advice reported that smart meter customers, who can use mobile apps or online methods to top-up, were less likely to self-disconnect than those topping-up at shops.”

“A recent survey from Citizens Advice ran during Covid-19 shows that the majority of respondents (over 70 percent) strongly supported the use of data by suppliers to monitor self-disconnection and/or self-rationing and offer support, with only around 10 percent opposing.”

We also note that at the start of the lockdown period, many households were unable to add credit to their PPMs. We feel this highlights the urgent need for customers using legacy PPMs to have smart meters which will also allow data to be used to lower their bills, help them access the best deals, as well as ensure suppliers are more in touch with their customers’ needs.

This is why we strongly urge Ofgem to ensure that suppliers publicly report on how many legacy PPMs they have converted to smart meters. Ultimately we want the continued smart meter rollout to focus on PPM customers, those who stand to benefit the most. This will ensure that those on the lowest incomes will not be last in line before the current smart meter rollout deadline.

The rollout should follow other measures as well. For example, we support the recommendation in The Commission for Customers in Vulnerable Circumstances final report which says that **suppliers should “develop and share innovative practices to monitor and tackle self-disconnection. As the smart rollout progresses, they should draw on their increased skills with using this technology and improved understanding, to set a sector-wide target to reduce self-disconnection.”**

Urgent action on the wave of utilities debt

Finally, we echo calls for remedies on growing utilities debts raised by colleagues at National Energy Action, exacerbated by the impacts of the pandemic.

Their calls include: 1) consistent adoption of repayment schemes and payment holidays for energy customers facing financial detriment, based on cross-industry good practice; 2) promoting Fuel Direct, the government-led scheme that allows customers to voluntarily

⁸ https://assets.publishing.service.gov.uk/media/5d405962e5274a4016893bd0/Final_Decision_PPPC.pdf

arrange a fixed amount of their benefit payments to go directly towards bills; and 3) for BEIS to extend and expand the Warm Home Discount.

On the latter, we want to see the UK Government maintain the Warm Home Discount scheme and make key improvements to the scheme past 2021.⁹

In enacting these measures, we tackle the root causes of self-disconnections and self-rationing behaviour, improving outcomes for the most vulnerable energy customers, and lowering bills at the same time.

⁹https://fairbydesign.com/wpcontent/uploads/2020/02/02_NEA_WHD_doc_v04_Front_8pgs_DOWNLOAD.pdf