



Proposals to improve outcomes for prepayment customers

CAP's official response to Ofgem's consultation

December 2015



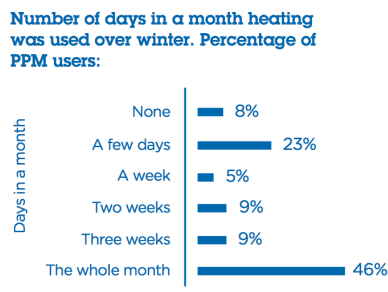
Lifting people out of debt and poverty









Christians Against Poverty (CAP) welcomes Ofgem's long-awaited consultation on prepayment meters (PPM). This is an issue that is of high priority for us, as two fifths of our clients have a PPM and we come face-to-face with the hardship many of them face when we visit clients in their homes.

In December 2015, CAP published findings from client research showing that self-disconnection is widespread amongst PPM users. 54% reported self-disconnecting,

not using their heating for at least one week a month over winter because they could not afford to top up their PPM. For 36% of this group, this meant that they only used their heating for less than a week a month, whilst 8%, in fact, did not use their heating at all.



The report also showed that PPM users were more likely to display signs of vulnerability and a higher proportion than non-PPM users faced the impossible choices that are often associated with debt. For instance, 65% of all CAP's clients with learning disabilities have a PPM, and PPM users were twice as likely to have borrowed from some sort of high cost credit. The full report can be accessed at capuk.org/poorpaymore.

 <p>57% fell behind with their rent or mortgage</p>	 <p>76% sacrificed meals before CAP's services</p>	 <p>33% couldn't cook hot food</p>
 <p>28% of PPM users are lone parents</p>	 <p>29% of PPM users have mental ill-health</p>	 <p>63% have at least one key support issue</p>

In light of these findings, we believe it is imperative that more is done to protect and improve outcomes for PPM customers. From our engagement with the energy industry, we recognise there is an appetite to do more and Ofgem has already taken some initial steps to help deliver this. We view this consultation as an important part of this process, but are concerned that the scope of this consultation does not encompass many of the pressing issues and does not consider longer-term protections.

We are glad that the consultation paper acknowledges that PPM customers face higher energy tariffs and consideration should be given to this as an unintended consequence of installing PPMs under warrant. Yet there is still a lack of coordinated action to tackle this injustice and CAP wishes to encourage Ofgem to take a lead on this. This is vitally important considering that PPM customers are disproportionately poor and vulnerable, and for many using a PPM is not a choice. In fact our research showed that 56% of PPM users moved into a property where a PPM was already installed, and as highlighted by the CMA many PPM customers face significant barriers to switching to a cheaper payment method.

While it is commendable that Ofgem is seeking to remove or reduce the cost of moving onto a PPM, especially for customers in vulnerable situations, the improvement to PPM customer outcomes will be significantly limited without addressing other factors that keep customers in hardship whilst using a PPM. More focus on other important issues affecting PPM customers, including lack of customer understanding about standing charges and self-disconnection, and protections for customers on smart meters, would strengthen the impact of the proposals this consultation makes.

That said, the focus on customers in vulnerable situations is extremely welcome. Although the identification of these customers will likely be a challenge, the commitment shown to ensure all customers' needs are accommodated is welcome.

Finally, CAP would like to take this opportunity to thank Ofgem for their commitment to improve customer outcomes for PPM users. We do recognise that many PPM customers appreciate the control prepayment gives them over their energy use and debt repayments. Therefore, we look forward to seeing the outcomes from this consultation process and future work in this area to ensure that all PPM customers receive good outcomes.



Matt Barlow
UK Chief Executive

Christians Against Poverty (CAP) helps thousands of individuals and families struggling with unmanageable debt each year. Through our network of 290 CAP Debt Centres based in local churches, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In 2015, CAP worked with 12,812 households, with 2,642 of these clients becoming debt free in the year.

In addition to this, CAP is the largest provider of face-to-face adult financial education in the UK. There are currently 849 churches providing the CAP Money Course, a three week money management course, equipping nearly 12,000 people each year to budget, save and spend wisely. CAP has also recently expanded to tackle more causes of poverty. To this end, CAP now operates 145 CAP Job Clubs and is piloting 44 CAP Release Groups to tackle both unemployment and dependencies respectively.

Chapter 2: Installations carried out under warrant

1. Do you agree with the scope of warrant charges?

CAP agrees that it is appropriate to consider all aspects of debt recovery within the scope of warrant charges. Charges for home visits, court costs and enforcement action all contribute to the total outstanding debt and therefore it is important to include all of these when considering the impact they have on customers in difficulty.

2. Do you agree with the desired consumer outcomes?

All the consumer outcomes highlighted in the consultation paper are vital and welcome. CAP agrees that warrant charges should be applied fairly, particularly with consideration of the appropriateness of the charges in each individual case. It is also welcome that any wider unintended consequences of the proposals are also being considered. Similarly, CAP agrees that it is important for the warrant process to be transparent and fair, and that consumers in vulnerable situations are not penalised. However, to fully reduce the impact on the most vulnerable, wider energy and debt recovery issues outside the scope of this consultation need to be considered, especially relating to PPMs.

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

As option set C would still see customers in vulnerable situations charged some level of warrant fee, it will not be effective in meeting the consumer outcomes. As the consumer outcomes reference, it is vital that those in vulnerable situations do not face additional charges because of their vulnerability. In CAP's opinion, it cannot be deemed fair to apply warrant fees where a customer's circumstances mean that their ability to manage or afford energy payments and other financial pressures is restricted. At the point warrant costs are incurred, clients in vulnerable situations will either be in that position because they have not received the support they needed to avoid it, or because they have no financial means to repay. As a result, charging additional fees will only escalate the situation and will not provide any resolution for the customer.

From the remaining option sets, whether A or B will be the most effective will depend on the definition of vulnerability used. While Ofgem's Consumer Vulnerability Strategy sets out a broad and comprehensive definition of when customers could be deemed to display vulnerability, relating to the situation they are in rather than personal characteristics, in CAP's experience energy suppliers' definitions vary. While some will include all CAP clients in their vulnerable client provisions because of their financial difficulty, others are less inclusive with a greater focus on explicit disability factors. If a narrow definition of vulnerability is used by some suppliers or there is concern that some customers in vulnerable stations will slip under the radar, option set B would be most appropriate to ensure the financial burden on customers in vulnerable situations that fall outside the warrant fee exemption is reduced. However, if a more encompassing definition is used then option set A would be satisfactory.

4. Should cases of energy theft or wilful damage to the meter be exempt from our proposals?

Where there is wilful damage or energy theft, it may be justified to recover full warrant costs in some circumstances. However, it is not clear-cut enough for a blanket exemption from the proposals to be appropriate. The situation the customer was in at the time of the offence should be taken into consideration, especially their vulnerability and mental state, and for first time offenders. In some cases, the customer's situation will have been desperate, for instance being unable to feed their children or facing eviction. In these circumstances, while not condonable, their actions are to some extent understandable. For the purpose of helping the consumer take positive steps to resolve their financial and personal difficulties, CAP would deem it to be reasonable for some consumers to be covered by the proposals, despite their previous actions.

Other concerns:

Vulnerability

The focus on ensuring customers in vulnerable situations are not penalised is commendable, but the challenge lies in ensuring there are robust identification mechanisms amongst suppliers. The concern lies in the fact that vulnerability is incredibly complex and difficult to identify. In some cases risk factors may not be particularly obvious and very few customers in vulnerable situations openly disclose this, with some not even perceiving themselves to be vulnerable. This means that some customers in vulnerable situations are likely to fall through the gaps and not receive the proposed protections.

For instance, CAP helped a client in her forties who had learning difficulties and was unable to read or write. She had built up debt when her mother passed away and she had to set up home in a new flat and start to manage her own finances. This client had a PPM and struggled to afford to top it up. She also did not understand why money was being deducted when she did. As a result, she had not used her heating for two years and had been eating cereal for dinner every day during this time. This client did not have the skills or confidence to engage with her energy supplier. Furthermore, the fear and shame she was experiencing meant she did not feel comfortable disclosing her vulnerability to her creditors and she tried to hide her illiteracy and other risk factors.

There is also a risk that vulnerability will be defined too narrowly and will not accommodate the multiple layers of vulnerabilities, and how they interact. For instance, while CAP would consider all CAP clients to be vulnerable because their personal circumstances mean they are unable to manage their debts themselves, for some their ability to cope is further constrained by other factors, such as mental health conditions. Currently, some energy suppliers will only offer their vulnerability provisions to clients with specific risk factors and there is a lack of appreciation of the range of vulnerable situations that mean clients require extra support.

Current protections

Like Ofgem, CAP is also concerned that energy suppliers are increasingly pursuing warrants because this is viewed as an easy route to collect debt. It is welcome that Ofgem are suggesting that more attention should be given to alternative debt recovery options, aside from disconnection.

Related to this, it is CAP's view that the current protections under the Gas and Electricity Acts that give customers 28 days to pay and seven days notice of intent to install a PPM do not present them with a choice or opportunity to prevent the installation of a PPM. In CAP's experience, if this point has been reached customers do not have the funds to pay the debt in full within 28 days. Instead CAP would strongly recommend that as well as being given 28 days to pay, it is made mandatory for customers to be informed about free independent debt advice services at this stage, with the provision that if they engage with debt advice and set up a payment plan the warrant will not be pursued. This would give customers in financial difficulty an accessible option to resolve their situation without incurring the stress and cost of the warrant process and subsequent issues relating to PPMs.

Smart meters

These proposals are presented as medium-term solutions, as smart meters are thought to remove the need for additional protection. However, it is not clear whether this will be the case.

Despite being able to do so remotely, information from Citizens Advice suggests that under smart meters a warrant will still be needed to disconnect a customer's energy supply, along with being required to conduct a home visit. It is not clear if this will be the case when forcibly installing a PPM, but if so then surely warrant costs will remain. Even if a warrant is no longer required because energy suppliers will no longer need to forcibly enter the property, there will certainly be other related costs that remain for preliminary home visits, debt recovery costs and enforcement agents etc. Therefore, it cannot be assumed that smart meters will eliminate the need for these proposals.

In addition, if a warrant is not required, it is concerning that customers will lose the right to have a hearing in the magistrates' court and there will be no objective voice to determine the appropriateness of forcibly installing a PPM in their situation. This will also remove the opportunity for magistrates to check that the required engagement, which the consultation document mentions, has taken place between the customer and energy supplier. There are also ready concerns that energy suppliers are already forcibly installing PPMs too often. Careful consideration needs to be given to the protections that need to be put in place under smart meters to ensure that this is not exacerbated.

Chapter 3: Installations carried out under warrant

5. Do you have any views on our approach or better alternatives to achieve the outcomes we have identified?

It is clear that Ofgem has an appetite to see the elimination of installation and removal charges for PPMs. As well as being a barrier to competition, CAP is particularly aware of the detriment caused to clients who are struggling financially, but are unable to switch to a cheaper payment method, in part because of these charges. It is encouraging that now only 4% of customers would face removal charges and 1% installation charges, but it is essential that the pressure be maintained until all suppliers have removed these. So far Ofgem has done a great job at driving voluntary change in this area through engagement with suppliers and CAP agrees it makes sense to continue with this approach, with further actions to be considered if full removal of these charges does not materialise.

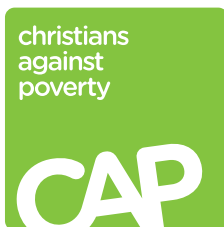
Requests for further information

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