

Proposals to improve outcomes for prepayment customers

A response by Citizens Advice Coventry to an Ofgem consultation exercise on the experiences of prepayment meter users.

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Introduction

Citizens Advice Coventry provides the local community with advice on a range of issues including Community Care, Debt, Discrimination, Employment, Housing, Immigration, Public Law and Welfare Benefits.

We see over 10,000 clients per year with over 24,000 issues.

The service aims to:

- Provide the advice people need for the problems they face
- Improve the policies and practices that affect people's lives

The Citizens Advice service is based on 4 principles. We are:

- Independent – we will always act in the interests of our clients, without influence from any outside bodies
- Impartial – we don't judge our clients or make assumptions about them. Our service is open to everyone, and we treat everyone equally
- Confidential – we don't pass on anything a client tells us – or even the fact that they've visited us – without their permission
- Free – no-one has to pay for any part of the service we provide

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Proposals to improve outcomes for prepayment customers

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

Using a warrant to install a prepayment meter is quoted as being a last resort for suppliers to recover fuel debt. Figures state 100,000 gas and electricity installations were carried out under warrant in 2014 alone.

Customers who are already in debt and may be struggling to pay their fuel bills are incurring costs for warrants, which they are ill-placed to pay. These costs are not clear, and vary widely across supplier – figures provided suggest that these can range from £75 to over £550. This means customers face very different charges, which can impact further on their ability to switch suppliers, access the best tariffs on the market and deal with their debt problems.

Customer A with a debt of £150 may incur a warrant charge of £400 from Supplier A. This would put their debt over the limit that would enable them to switch suppliers and potentially access a lower tariff.

Customer B with the same initial debt of £150 but with Supplier B may incur a warrant charge of £100. They may still be able to switch suppliers, despite being in the same position as Customer A.

(It is noted that take-up of transfers under the Debt Assignment Protocol remains exceedingly low.)

Customers with meters located in different places could also be subject to different charges, as meters located on outside walls may not require a warrant at all.

Considering these factors, customers do not appear to be treated fairly across the industry regarding warrant costs. Whether a customer incurs a cost at all, how much this is, and whether it could prevent them from switching supplier, can vary.

The process must, because the current application of warrant costs doesn't, also take into account vulnerable customers who may already be dealing with illness, disability, poor mental health or other factors, and aim to minimise undue stress and additional debt for these customers.

Suppliers seem supportive of the principle that vulnerable customers should not incur warrant costs. We welcome this view, and are supportive of efforts to improve the treatment of vulnerable customers faced with fuel debts.

We welcome suppliers' confirmations that no margin is added to warrant costs.

Further, we would argue that as the use of pre-payment meters is widely accepted as a positive step towards energy efficiency – something all interested parties are committed to – warrant costs should not be applied to anyone for the installation of a pre-payment meter.

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

We would welcome more clarity around warrant charges so that customers of any supplier can find out what these charges would be. This would increase transparency.

We support the view that customers in vulnerable situations should not have to pay warrant costs. This would reduce the detrimental impact on these customers. But we also believe, if PPMs are to act as a national spur to energy efficiency, warrant costs should not be applied to any customers.

In addition, better identification of vulnerability by suppliers would be welcomed, to ensure the relevant processes were followed at the appropriate time.

The consultation drew attention to the possibility that a decrease in warrants to install prepayment meters could lead to more suppliers disconnecting customers, and that this was not a desired outcome.

We agree that any changes must seek to avoid an increase in disconnections, and should focus instead on customer engagement, debt management, supporting customers to access the most suitable tariffs and promoting energy efficiency. But we do not disagree with PPMs being imposed on errant customers as a debt recovery consequence; only the application of warrant costs to already struggling customers.

If PPMs really are a spur to energy efficiency, and suppliers are committed to energy efficiency, the sustained use of warrants to install PPMs rather than disconnecting customers should be viewed by suppliers as a long term positive in itself (although as we note above, we support the removal of charges for PPM installation).

We would also note that self-disconnection becomes a possibility following the installation of any prepayment meter, whether installation is via warrant or not, if the customer continues to struggle financially. Vulnerable customers are likely to suffer from this practice disproportionately becoming a hidden impact of prepayment meter installations.

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

Set A:

- i. End warrant charges for consumers in vulnerable situations, and**
- ii. Set out clear expectations of supplier behaviour**

Set B:

- i. End warrant charges for consumers in vulnerable situations**
- ii. Cap charges for all consumers (one level cap), and**
- iii. Set out clear expectations of supplier behaviour**

Set C:

- i. Cap charges for all consumers (two level cap), and**
- ii. Set out clear expectations of supplier behaviour**

We would like suppliers to use the warrant process only as a last resort in all cases.

We are in favour of having clear guidelines for suppliers, both in how they identify vulnerability and how they then engage with those customers.

We support the proposal to remove warrant charges for vulnerable customers. And would favour warrant charges being removed for all relevant consumers.

Under current scenarios it would be useful to understand what proportion of customers subject to the warrant process would be classed as vulnerable. It is difficult to evaluate the impact of reducing or removing charges for vulnerable customers without this information. If vulnerable customers make up a significant number of warrant installations, it may be just as cost-effective to remove direct warrant charges from all customers.

We are supportive of capping charges for other customers if a blanket removal is not possible. In particular, warrant costs should not exceed the outstanding debt.

If charges were to continue for vulnerable customers, we would support a lower cap for this group, to reduce their exposure to these charges.

One proposal was to cap warrant charges to “a single level cap set at 50% across a suppliers average warrant charge.” It was unclear whether this is the average cost within each supplier, or across the market. More information on the spreads of costs would be useful.

Capping per supplier could still see customers of different suppliers, but in identical circumstances, experiencing different costs.

If capping were based on an industry average, some suppliers' warrant costs may be below the cap due to the huge range of prices being quoted.

Capping to an industry average could provide an incentive for suppliers to ensure they negotiate a fair price for warrants. The quality of the warrant service must remain appropriate.

There must be no incentive for suppliers to keep their warrant costs unnecessarily high which might artificially increase any cap. Suppliers should be able to justify their warrant costs and be able to show how they tender for these services. Any cap should be reviewed regularly and amended to reflect any movement in the market rate.

We would note the possibility that efforts to reduce the overall number of warrants may reduce economies of scale for larger suppliers. A reduction in volumes could increase individual warrant prices for those suppliers, although the total cost of the process should reduce if the use of warrants decreases overall.

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

Again it would be useful to understand the volumes involved, and what other legal recourse is available in these cases.

We would still expect vulnerability tests to apply to these households, in recognition that there may be vulnerable people living in the property who have not necessarily been involved in the alleged offences.

Question 5: *For licensees:* please explain how you identify vulnerable consumers and provide details of how any such policy or procedure is monitored and reviewed?

Citizens Advice Coventry would be pleased to contribute to industry discussions about identification of, and engagement with, vulnerable customers.

CHAPTER 3: Installations carried out under warrant

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

We read this question as referring to prepayment installations *not* carried out under warrant, in line with chapter 3 of the consultation.

We welcome the industry's efforts to date to reduce or indeed remove the direct costs to customers of having a meter exchange (whether to install a prepayment meter or exchange one for a credit meter).

Removing these costs removes a barrier to engaging with the market, as customers can decide which tariff and payment method suits them best, without having to pay an up-front cost to have the relevant meter installed. As figures show almost 60% of prepayment users have never switched supplier, we welcome any initiative that increases market participation by this group.

We understand the need for credit checks for customers moving from prepayment to credit meters. We would prefer not to see security deposits being required, but we recognise that security deposits can assist suppliers in providing credit meters to those with a poor credit history, thus helping them access a wider range of tariffs.

We are concerned that any security amount should be affordable for each individual, and payable in reasonable instalments.

It is suggested that security deposits be capped at 1.5 times the average quarterly usage of the property. If a security deposit is required, we would welcome a reasonable cap to ensure as many customers as possible can meet the cost.