



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231
citizensadvice.org.uk

Steve Osmani-Edwards
Senior Policy Advisor - Consumer Vulnerability Strategy
Ofgem
9 Millbank
London SW1P 3GE

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Dear Steve

Response to final proposals for prepayment meters installed under warrant

Thank you for the opportunity to respond to your final proposals for prepayment meters installed under warrant. This submission is non-confidential and may be published on your website.

Citizens Advice have contributed throughout the consultation process. We are pleased to see a set of final proposals that we hope will protect consumers who fall into debt with their energy supplier from seeing the situation spiral out of control.

Below we set out our answers to each of the questions in your consultation document.

Question 1: Do you agree with the outcomes intended as a result of our policy detailed in paragraph 2.4?

Yes we agree with these outcomes. They are now much clearer about how Ofgem expects suppliers to approach the warrant process, treating all consumers fairly and proportionately and with particular regard for consumers in vulnerable situations.

Question 2: Do you agree with our preferred option as detailed in paragraphs 2.8 to 2.10?

Yes we agree with the option as detailed. The cap on warrant charges for all consumers will offer much needed protection from some of the most punitive charges for warrants while also encouraging suppliers to think more carefully about whether a prepayment meter (PPM) is really the best option for that household. The CMA's inquiry identified that there was an adverse impact on competition in the PPM market, introducing the safeguard tariff in response.

This case study from the Extra Help Unit shows the damaging effect that excessive warrant charges can have:

Case study 1 (Extra Help Unit)

The consumer had purchased the property in mid-2015. The consumer wasn't living at the property, as renovation work was being carried out. Little energy was being used during this time, as contractors were using a generator.

Prepayment meters were fitted sometime in December 2015 and the consumer presented with a bill for over £1000. The energy charges at the time of the warrant application were £206. Warrant fees of over £700 and late payment fees make up the remainder of the balance.

This left the consumer off supply and unable to move into the property. Additionally, repayment of the arrears of £206 became more difficult.

This should also incentivise suppliers to reduce the costs they incur in the warrant process, including those of third party providers. The impact assessment estimates that there were total warrant costs of £43.4m in 2015. On the basis of the social obligation report of 90,000 warrants that is an average of around £480 per warrant. However the minimum cost (ignoring outliers) was found to be £210. This suggest suppliers could potentially half their warrant costs (saving up to £24m) if there were sufficient incentives on them to do so.

We acknowledge that some warrant processes cost more than others and that there are valid concerns about maintaining the quality of the services. However the impact assessment has demonstrated that significant savings are available, much greater than any expected costs of the proposals.

We also support the extra protection through prohibiting warrant charges for some consumers. Many vulnerable consumers who have fallen into debt will also be acutely financially vulnerable. Warrant charges can only serve to worsen their situation. The Extra Help Unit has previously highlighted the particular difficulties that these charges can cause for vulnerable consumers.

This case study shows the extra detriment suffered by vulnerable consumers when facing warrant charges:

Case study 2 (Extra Help Unit)

The consumer had been in the property for 4 months or so prior to the supplier installing a PPM for an outstanding balance that the consumer had disputed. The consumer explained that the opening gas reading was incorrect, as he had not used gas at the property and the meter had shown no advance.

Despite the dispute, the company has asserted that little over £120 was outstanding. A further £306 added as debt and legal fees. The consumer was undergoing treatment for cancer and was finding matters somewhat distressing. It was eventually accepted that there was no gas usage and the balance reduced to £31.02 (standing charges). Although removing £30 in late payment fees, the majority of the fees (£276) were not removed, with the company insisting these were valid.

The impact of waiving charges is greater than simply the financial saving to the consumer. It can help alleviate stress, the sense of being penalised, and improve the relationship between supplier and consumer (73% of our clients in debt say they are left feeling anxious, stressed or depressed)¹. This can stop vulnerable situations from worsening. Consumers will often object to such fees and ask for them to be withdrawn. If this does not happen, they can start to withhold payment, the debt spirals and the relationship breaks down. This exacerbates the consumer's situation as well as making it harder for the supplier to recover the debt which can add costs to all parties.

Finally we would like to express our support for prohibiting the use of warrants for consumers in certain particularly vulnerable situations. While this would only apply in certain circumstances, we agree that there are some people whose situation means they would suffer severe trauma from having someone forcibly enter their home to install a new meter. The current expectation is that suppliers will use their discretion here but some of the cases we have seen in our local offices and the Extra Help Unit support the need for a firmer approach:

Case Study 3 (local Citizens Advice)

A woman with significant mental health issues (Personality Disorder and Social Phobia) who receives Income Support and Disability Living Allowance was in debt to her supplier. She was taken to court, and did not attend. The supplier won the case to install a prepayment meter. They claimed they were not able to change the decision as there was no physical reason why she could not use a meter. However, the supplier

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https://www.citizensadvice.org.uk/Global/Public/Impact/Citizens-Advice-Impact-report-2015_16_digital.pdf (p15)

stated that if she did not let them in they have the right to break in to install the meter. The client called us as she was distressed when the representatives of the supplier arrived but her phone battery died. Police were called as the client was self-harming. The local Citizens Advice spoke to the policeman who wanted to ask the supplier to withdraw the warrant. The supplier installed the meter anyway when the police took the client away.

Case Study 4 (Extra Help Unit)

Consumer was distressed as representatives from their supplier were demanding entry. The consumer is a single mother receiving treatment for severe depression and has been left shaken by the actions of the representatives.

The consumer was clearly shaken when speaking with the EHU – explaining that the agents were intimidating and banging loudly. EHU contacted the supplier who agreed to withdraw the agents so that they may look at the circumstances around the visit (consumer states there was no notification).

Case Study 5 (Extra Help Unit)

Consumer is HIV positive and has mental health problems and acute anxiety. He lives in the property with a friend who has Autism. Shaken by visit from representatives of supplier seeking payment of a debt that the consumer didn't owe (previous tenant – supplier was notified of COT and have acknowledged this).

The consumer felt intimidated and frightened and states that the agents refused to show the warrant for over 10 minutes while they were at the property. They eventually left when the consumer called the police. It appeared that the situation has had a lasting impact.

The success of these extra protections for vulnerable consumers will depend on the extent to which suppliers identify the vulnerability before charging the customer causing them distress. The new changes to Priority Services licence conditions now mean that suppliers must 'take all reasonable steps' to identify vulnerable consumers (proposed SLC 26.1c to take effect from January 2017). Ofgem also propose to bring forward a vulnerability principle which will include an obligation to identify vulnerable consumers. We hope this will provide sufficient encouragement for the industry as a whole to think about what more can be done to understand a consumer's situation.

Question 3: Do you have views on any further unintended outcomes which could be realised in addition to the risks outlined in paragraphs 2.47 to 2.50?

We would just like to note one area that does not appear to be covered specifically by the impact assessment with regards the prohibition of an execution of warrant. In the cases where this does come into force it will inevitably lead to an extra cost to suppliers who will not be able to recover that consumer's debt through a PPM. As acknowledged in the consultation document the threat to consumer outcomes when costs are passed onto suppliers is that these costs are 'socialised' by suppliers passing them onto all consumers through bills.

However suppliers will only pass on costs to consumers in a scenario of either not enough competition - where they can - or perfect competition - where they have to. Given the CMA's finding that suppliers currently enjoy a £2bn headroom from a lack of competition and 70% of consumers are on expensive standard tariffs, we agree with the impact assessment that the risk of socialising costs comes from a lack of competition in the market. Some of the CMA remedies should mitigate this risk, most directly through the PPM price cap which will protect existing PPM users from increased costs and secondly through the engagement remedies. If these remedies have the desired effect of increasing competition then suppliers would neither be able to or have to pass on these costs - especially given the savings that could apparently be made through reducing costs as outlined above.

However assuming competition in the market remains at a level that allows suppliers to pass these costs straight onto consumers then our estimate is that the cancellation of warrant processes for the 1% most vulnerable consumers would cost less than a penny per consumer on annual bills.² This estimate rests on a number of assumptions but gives a clear idea of the order of magnitude of potential socialised costs from the prohibition of warrants in certain cases where consumers would suffer particularly severe trauma.

We believe this minimal extra cost (which would significantly reduce once the smart meter rollout is completed) is justified by the extra protection given to some of the most vulnerable people in our society by an outright ban on people forcing their way into the person's home. The cases above show the kind of harm that could be prevented.

² This is based on the average £700 debt that is recovered by installing a PPM, at Ofgem's estimated recovery rate of 55% over 1% of an estimated 50k customers (90k warrants adjusted for dual fuel) being subject to warrants in 2015.

Question 4: Do you agree that the cap should be applied when the warrant process is not completed and that no further detail is necessary? (See paragraph 2.54)

We agree that a cap should be applied when the warrant process is not completed but believe that it should be made proportional to costs faced by the supplier prior to the execution of a warrant.

We acknowledge that suppliers may be minded to keep costs at a minimum to encourage customers onto a repayment plan. However the impact assessment builds in the probability that suppliers will start charging up to the cap where they were not previously, in order to recoup costs lost elsewhere.

Given the cost of the warrant application stage is estimated at £50, a charge of £100 or £150 could be viewed as punitive by the customer. Setting the cap at this level could also send mixed messages to suppliers when considered alongside the debt proportionality principle.

If the higher cap is maintained for the pre-execution stage then there will need to be monitoring to ensure supplier charging is proportionate and that customers who agree to the repay their debt are not penalised.

Question 5: Do you agree with the proposal for a new debt proportionality principle (as detailed in paragraphs 2.59 to 2.66), in that this would not be limited to warrant activities and would require costs and actions relating to ALL debt recovery activities (including transfer objections) to be proportionate? Do you have any views on unintended consequences of this broad scope?

Yes we agree with the proposal for a new debt proportionality principle. We do not anticipate any debt recovery activity where proportionate charging would pose a risk to consumer outcomes.

Question 6: Do you agree with our definition of “under warrant” to mean a warrant that would authorise the installation of a PPM. Do you have any views on unintended consequences of this narrow scope?

Yes we agree with this definition. There are cases where suppliers have to obtain a warrant to forcibly install a credit meter for health and safety reasons. Given the lack of evident financial vulnerability in these cases we believe that suppliers should use their discretion to decide whether to pass on costs. In doing so we would expect suppliers to consider the reasons for the consumer’s failure to respond and, where it is due to a vulnerable situation such as mental health problems, waive the fees.

We look forward to working alongside Ofgem as these proposals are implemented.

Best regards

Jake Beavan
Senior Policy Researcher
Retail Energy Markets