



# **Prepayment meters installed under warrant: final proposals**

*The Children's Society's response*

## **Introduction**

The Children's Society is a leading charity committed to improving the lives of thousands of children and young people every year. We work across the country with the most disadvantaged children through our specialist services and children's centres. Our direct work with vulnerable groups including children in poverty, disabled children, children in or leaving care, refugee, and migrant and trafficked children, means that we can place the voices of children at the centre of our work.

In 2015 The Children's Society launched the '*Show Some Warmth*<sup>1</sup>' report which found that in the previous winter two million families – with 3.8 million children – were struggling to pay their energy bills. Our research found that nearly one in five families (1.3 million families, with 2.2 million children) have been in energy debt at some point. Since the launch of this report, The Children's Society has been working with energy companies to improve their support for families and children living in energy debt. Our response to this consultation draws on our qualitative research, our experience of supporting families and children in energy debt and our engagement with energy companies to date.

We also ran a pilot programme on seeking to help families in fuel poverty across children's centres in Bradford, funded by Northern Gas Network. The findings from this project can be found in our *Warm & Informed*<sup>2</sup> report. The Children's Society has also recently conducted research into the experiences of families living in fuel poverty and the impact of home energy efficiency measures on their lives.

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

The Children's Society is supportive of the proposal to avoid the installation of prepayment meters under warrant wherever possible, and of the need to increase incentives for suppliers to engage and support customers in energy debt. Evidence from our 'Show Some Warmth' report found that customers who pay by prepayment meters pay around £80 more a year for their energy than those who pay by direct debit. However, more recent evidence<sup>3</sup> from the Competition and Markets Authority

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<sup>1</sup> <http://www.childrenssociety.org.uk/what-we-do/resources-and-publications/show-some-warmth-full-report>

<sup>2</sup> [http://www.childrenssociety.org.uk/sites/default/files/Warm%20and%20Informed%20-%20summary%20report\\_0.pdf](http://www.childrenssociety.org.uk/sites/default/files/Warm%20and%20Informed%20-%20summary%20report_0.pdf)

<sup>3</sup> <https://www.gov.uk/government/news/next-step-towards-300m-saving-for-prepayment-energy-customers>



found that the cheapest available prepayment deals were on average £260 to £320 a year more expensive than those available for direct debit households. This shows that families who use prepayment meters are already being charged a premium, without the additional burden of warrant costs adding considerable strain to often precarious family finances.

These are often families who are struggling with their bills, having been switched onto this payment option as a form of debt management. Our research<sup>4</sup> tells us that debt rarely occurs in isolation; families frequently report being caught in a constant juggling act, being forced to choose between heating their homes and other essentials such as providing hot meals for their children and buying new items of school uniform. Therefore, the introduction of a policy that seeks to end the costs associated with the installation of prepayment meters for vulnerable customers, whilst encouraging energy suppliers to signpost towards appropriate debt advice and support, would be a welcome step. The current proposal goes some way towards achieving this, but does not go far enough. It is clear that continuing to add further costs to the debt that already exists by passing on warrant costs will only serve to make the financial difficulties worse.

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*“I had to pay £100 to move onto a PPM I didn’t even want”*

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The current preferred option from Ofgem would see the most vulnerable customers exempted from paying warrant costs. However, we remain concerned that families with children in energy debt might still be subject to assuming additional warrant related costs. It would be beneficial for Ofgem to provide energy companies with detailed information outlining the different types of customers who might be vulnerable and thus likely to require additional support.

Whilst we feel that Ofgem’s proposal is a step in the right direction, **our preferred option would be to scrap all warrant costs and installation and removal fees for prepayment meters** unilaterally. By doing this for all customers, rather than only for certain vulnerable groups, it ensures fairness for all and prevents a complex two-tier system of charging from developing.

**Question 2: Do you agree with our preferred option as detailed in paragraphs 2.8 to 2.11?**

The Children’s Society feels that Ofgem’s preferred option – a cap and prohibition with possible principle of proportionality – represents progress, but fails to go sufficiently far in seeking to protect customers in problem debt. In the initial prepayment findings in June 2015<sup>5</sup>, Ofgem set out a suite of options that would be consulted upon, which included the removal of installation and removal fees in all

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<sup>4</sup> [http://www.childrenssociety.org.uk/sites/default/files/debt\\_trap\\_report\\_may\\_2014.pdf](http://www.childrenssociety.org.uk/sites/default/files/debt_trap_report_may_2014.pdf)

<sup>5</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment\\_report\\_june\\_2015\\_finalforpublication.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf)



circumstances. This option would be more effective than the current cap of £100 to £150 that is proposed; such a move would help ensure that all customers, regardless of their income, can access competitively-priced energy tariffs, and would ensure they are not forced further into debt.

The Children's Society have gathered evidence which shows that prepayment meter customers face wide ranging and complex issues; explicitly, fewer tariff choices, charges for installation and removing of prepayment meters and upfront security deposits.

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*"They just stick you on a standard tariff and that's it"*

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Frequently, vulnerable households on a low-income are forced to switch to prepayment meters in an attempt to help them manage their debt more effectively. The Children's Society research, 'Show Some Warmth', further demonstrated the well-established link between being in energy debt and having a prepayment meter. Moreover, it was found that 30% of families with children had a prepayment meter in their home. These figures are a cause for concern as the installation and removal fees associated with prepayment meters come as an additional expense that many families may struggle to afford. This is supported by the finding that 49% of families on a prepayment meter are struggling with their energy bills, compared to 29% of families overall struggling with their energy payments.

We support the suggestion to remove the costs associated with prepayment meter installation and removal for vulnerable customers as this would help families in debt pay off the money that they owe more quickly, and mean that they are able to spend more money on other daily essentials. Additionally, **we recommend that Ofgem work with energy companies to improve the monitoring of prepayment meter top-ups, and to contact customers early if they fail to top up.** This could be done by ensuring that the roll out of Smart Meters is targeted at fuel poor and indebted households in the first instance.

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

Regarding the proposed risk that setting a cap could increase incentives to charge up to this amount, particularly for the small number of suppliers who do not currently charge in any circumstances, we would urge Ofgem to prescribe rules requiring all energy companies to be fully transparent when it comes to any charges levied against the consumer. Ensuring that customers are charged a fair amount to compensate the cost incurred to the energy company would stop the risk of reactionary charges being applied by energy companies.



Additionally, we are concerned that a two-tiered system of charging would be brought about by charging some customers for prepayment meter installation and removal. Moreover, given Ofgem's failure to provide a clearly outlined definition of what it means to be 'vulnerable', we believe that there could be a risk of some vulnerable customers failing to receive support which could make a demonstrable difference to their debt and their ability to pay it off. Therefore, **we are supportive of any move by Ofgem to scrap all warrant costs and installation and removal fees for prepayment meters.**

**Question 5: Do you agree with the proposal for the new debt path 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 unlimited consequences of this broad scope?**

The Children's Society is concerned that as a direct result of financial pressures, many families on pre-payment meters are increasingly being forced into self-disconnection. Research from Citizens Advice<sup>6</sup> found that one in every six prepayment meter customers has cut off their energy supply because of high costs, difficulty topping up or faulty meters. Self-disconnection can have long term consequences for the health and well-being of households, especially for households with young children. We are pleased to see that Energy UK, in their recent pre-payment principles<sup>7</sup>, state that their members should '*review and consider measures to monitor ongoing PPM customer vending and self-disconnection following the post-installation check, including any issues following the installation of a smart PPM*'.

Our recent report 'The Damage of Debt'<sup>8</sup>, found that children living in families struggling with debt are five times more likely to be unhappy than children in families who don't have difficulty with debt. Whilst we recognise Ofgem's commitment to ensuring that the cost of collection activities should not exceed the debt owed we would recommend longer term support for families. **Putting in place debt repayment plans based on ability to pay, which ensure that energy companies receive the money they are owed without placing an unsustainable financial pressure on low income families, is of the utmost importance.**

## **Recommendations**

1. We recommend that Ofgem scrap all warrant costs and installation and removal fees for prepayment meters

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<sup>6</sup> [https://www.citizensadvice.org.uk/global/migrated\\_documents/corporate/topping-up-or-dropping-out.pdf](https://www.citizensadvice.org.uk/global/migrated_documents/corporate/topping-up-or-dropping-out.pdf)

<sup>7</sup> <https://www.energy-uk.org.uk/files/docs/PPMPrinciples-2016.pdf>

<sup>8</sup> [https://www.childrenssociety.org.uk/sites/default/files/childrens-society\\_breathing-space\\_debt-trap\\_pcr094\\_report\\_emb.pdf](https://www.childrenssociety.org.uk/sites/default/files/childrens-society_breathing-space_debt-trap_pcr094_report_emb.pdf)

2. We recommend that Ofgem work with energy companies to improve the monitoring of prepayment meter top-ups, and to contact customers early if they fail to top up

**For more information please contact David Ayre, Policy Officer on**  
[david.ayre@childrenssociety.org.uk](mailto:david.ayre@childrenssociety.org.uk)