

National Energy Action (NEA) response to Ofgem's "Prepayment Self-Disconnection and Self-Rationing: A Call for Evidence"



Action for Warm Homes

About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Background to this response

NEA warmly welcomes Ofgem's call for evidence on self-disconnection and self-rationing. Across the UK, at least 9,700 frail and elderly people die each winter because they are unable to adequately heat and power their homes³. Many more badly struggle to afford to adequately heat and power their homes due to the increasing price of energy,⁴ coupled with low household incomes⁵. Research from Citizens Advice earlier this year revealed 140,000 households (around 400,000 people) in Great Britain have regularly gone without gas or electricity due to not having enough money to top up their prepayment meter (PPM) in the last year alone. Of the 140,000 households that self-disconnected, 50 per cent had someone with a mental health condition, 33 per cent included a young child and 87 per cent were in receipt of benefits. This was also a trend that Ofgem highlighted earlier this year in their Vulnerability report. In order to inform our response and understand the depth of desperate and unsafe coping strategies self-disconnection and rationing prompts, NEA has drawn on our own experience in this field and consulted with some of our members via a call for evidence⁶ and at our 'Fuel Poverty Forums' to gain a broader set of views on the topic. The graphic below highlights the most common unsafe fuel poverty coping strategies.



Within the discussion at our forums we also looked to gain an insight into each question asked in the call for evidence. We also tried to understand what the scale of self-disconnection is for prepayment customers. Anecdotal evidence from attendees suggested that 10% of prepayment customers self-disconnect, in line with the estimate that is made

within the call for evidence. It was noted however that this figure does not include rationing. Nor does it consider how these issues are being ameliorated by fuel vouchers at food banks and emergency payments from local authorities. It was felt that this assistance hides the true scale of self-disconnection which would occur without this vital support and that there is a need to better understand, facilitate and fund this crucial means for vulnerable energy customers to continue to engage with the energy market and access this essential service. More generally, NEA hopes that, as well as identifying the scale of this issue, Ofgem will in turn consider whether any new actions can help to reduce the risk of self-disconnection and self-rationing. In this context, NEA's response outlines several actions which would reduce these risks across several different actors:

Energy suppliers

- 1) Energy suppliers should review whether they have suitable systems to identify if a household is at risk of harm from self-disconnection before a PPM is installed and Energy UK should use its Commission on Customers in Vulnerable Circumstances to review available support.
- 2) Progress on improving the Priority Services Register (PSR) must be maintained. Greater efforts should be made by suppliers to differentiate or segment the extent to which differing vulnerabilities are more likely to prompt significant negative consequences for the customer.
- 3) Wider reforms to existing PSR services and additions to the PSR minimum services list should also be considered. Raising awareness of the PSR and related services, driving up third party outreach and referrals are also key priorities.
- 4) All energy suppliers should set out if they intend to join the Energy UK Safety Net scheme. Where they don't choose to do so, a clear explanation should be provided about how these protections are embedded and how key risks of self-disconnection for their customers are addressed.
- 5) The removal of national telephone-based assistance service must be addressed urgently. Suppliers should also work closely with local advice services to ensure that the most vulnerable customers can access the right advice. Suppliers do currently offer advice services for their customers, but often when those customers are in debt to the supplier, they do not have the level of trust required to take this advice. We believe that advice from advice services would be more effective.
- 6) Energy suppliers need to provide extensions or variations to existing fuel debt repayment plans during cold weather. Where suppliers develop new mechanisms to provide emergency fuel credit/vouchers, they should be able to recover reasonable costs that may be incurred when supporting vulnerable households during cold weather periods.

UK Government

- 1) Meeting existing statutory fuel poverty targets is a key priority. The large gap between action to deliver warm and efficient homes, and the government's rhetoric to do so, now needs to be addressed urgently. The current policy gap must be addressed within the Comprehensive Spending Review in 2019 which will set out the departmental allocations across government for years beyond 2020.
- 2) The UK Government should follow through with changes to GB-wide Warm Home Discount (WHD) to ensure the £140 rebate continues for existing low-income pensioner recipients and is also provided automatically to more low income working families, using powers under the Digital Economy Act to ensure better targeting.

Ofgem

- 3) Major anomalies with the current eligibility criteria for the Priority Services Register (PSR) must be addressed urgently. Ofgem should also aim to enhance monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- 4) Ofgem must address an unacceptably large variance in efforts to reduce the risk of self-disconnection and self-rationing across different energy suppliers depending on their size and capacity. They should stress its willingness to regulate all licensees if voluntary attempts to encourage greater participation of industry-led protocols fail to reduce this variance. Ofgem should also shadow compliance with the requirements of the Energy UK Safety Net to ensure that pledges to enhance protections for vulnerable customers are also compliant with the domestic Standards of Conduct.
- 5) Ofgem should investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy. **Ofgem's work in the targeted charging review must not lead to an increase in standing charges for electricity prepayment customers.**
- 6) If the Government choose to extend the current smart meter deadline, Ofgem must work with the Competition Markets Authority (CMA) to extend the Pre-Payment Meter price cap.
- 7) Ofgem must enhance tenants' knowledge of their rights to switch, choose their payment type and benefit from smart meters and protect tenants from the on-selling of sub-metred electricity and non-regulated fuels via their landlords.

Local Government and third sector

- 1) In the short-term, improved access to adequate emergency and crisis support during severe cold weather episodes is needed. Local emergency crisis loans in local authorities should not be discretionary and available or repurposed for cold weather-related support when cold weather alerts are issued.

Our response to this consultation

Question 1 - Are there any categories that we have not captured in Table 1? We welcome views and evidence on the main causes of self-disconnection and groups of customers who are more likely to self-disconnect and experience detriment.

Table 1 in the call for evidence adequately describes several types of self-disconnection, but NEA and its members believe that there are additional categories that require some consideration. The following examples are real self-disconnection experiences that have been captured during our fuel poverty forums.

- **Periodically changing financial priorities** - Financial priorities can periodically change for vulnerable customers in financial difficulty. One example of this is when school clothes need to be bought for children within the household. In this situation,

with limited funds, the new clothes are likely to take priority over topping up, leading to the customer self-disconnecting if they cannot afford both.

- **Single and medically vulnerable** - Customers who both live alone and are vulnerable to spending extended periods in hospital can self-disconnect if, for example, their standing charge bill whilst away exceeds their balance on leaving the house.
- **Administrative error** - An administrative error occurring when there is a change of supplier, but a new key isn't provided, meaning that the customer cannot physically top up their meter. The balance on the meter will run down to zero and the customer will effectively "self-disconnect" until the problem is solved.
- **Administrative difficulties during the Supplier of Last Resort Process** - We have heard anecdotal evidence of issues arising when going through the supplier of last resort process. This occurs during the period that the incumbent supplier losing their license and the allocation of the new supplier.

As noted above, it is hoped that these categories, along with the ones noted in the consultation, could be included in reforms the PSR.

In addition to these extra categories of self-disconnection, NEA urges Ofgem to consider times when there is very nearly a self-disconnection. We have heard substantial anecdotal evidence of times when customers avoid a self-disconnection because of financial support from Local Authorities or charities. Because these are non-mandated payments, they are not consistent across the country and may not be sustainable. We believe that these near misses must be considered in any action that Ofgem takes.

Along with the issues surrounding self-disconnection, a more widespread problem is that of rationing. This is especially prevalent in the winter months, when some of the most financially vulnerable customers will choose not to self-disconnect, but to ration their heating use, keeping their homes at inadequate temperatures to save money. Whilst this does not meet most definitions of self-disconnection, the outcomes are largely similar (for example, living in a cold home).

Question 2 - We seek views and evidence on how self-disconnection and self-rationing is being monitored for customers on traditional PPMs. We welcome views on how effective current practices are.

NEA understands that several suppliers look at self-disconnection automatically, through smart meter data. We expect that this will become more prevalent as more smart meters are installed and data becomes more useful and accessible. We hope that the work currently being carried out by Ofgem on social obligations reporting⁷ will lead to more effective monitoring of smart meter self-disconnections.

We do believe, however, that more can be done by suppliers to monitor self-disconnection of "dumb" meters, as well as that of rationing. Suppliers should be able to infer, to a reasonable level of accuracy, if a customer has self-disconnected or is rationing based on the regularity and amount of their top ups. If they are topping up much less than expected on one fuel but not another, there is a stronger likelihood of self-disconnection or rationing. We do not believe that supplier efforts to identify these customers are effective at this moment of time.

Question 3 - We seek evidence of examples where PPM customers were at risk of self-disconnection or who self-disconnected for affordability and/or operational and/or forgetfulness reasons, the impact on these customers, and how the situation was resolved.

Customers who self-disconnect are principally in danger of living in a cold home. The impacts of this are well documented:

- A baby born today and living in cold housing is also almost three times more likely to suffer from coughing, wheezing and respiratory illness. Existing evidence also highlights infants living in cold conditions have a 30% greater risk of admission to hospital or primary care facilities⁸;
- As the child develops, this in turn impacts on long-term educational attainment, either through increased school absence through illness or because they are unable to find a quiet, warm place to study in the home⁹. In adolescence, one in four teenagers living in cold housing are at risk of multiple mental health problems¹⁰;
- Home energy improvements help to tackle these issues and one detailed study showed an 80% decrease in the rate of sickness absence from school for children with asthma and recurrent respiratory infections¹¹;
- In later life, the impact of a cold home often compounds poor physical health and loneliness. Being cold badly enhances the risks of health conditions in babies including cardiovascular and respiratory diseases, falls and injuries and mental ill health, costing the NHS an estimated £1.36 billion each year¹²;
- Cold, damp homes are also a significant contributor to Excess Winter Deaths (EWDs) that occur each winter across the UK¹³. Within the last month, new ONS figures revealed the second highest EWDs in England and Wales for 42 years¹⁴ and we estimate at least 15,000 of these were attributable to cold homes.

In addition to these issues, through our engagement with front line workers, we have also identified several others and the graphic in the introduction highlights the most common unsafe fuel poverty coping strategies, however it is worth highlighting some of the consequences:

- Social isolation, where customers who self-disconnect are embarrassed to invite others to their homes. This can have an impact on their mental health. If this is remedied through staying away from home for a period, then the home can become very cold and without working refrigerators, food can go bad.
- Facing increasingly unmanageable situations including repaying large or growing debts whilst being excluded from signing up to the cheapest energy deals¹⁵. This can create huge anxiety which exacerbates existing mental health problems, leading to further depression and potentially suicide,¹⁶
- Customers who self-disconnect their gas to reduce costs, could actually increase their costs by moving to electric heating. This aggravates financial difficulties further.
- If some medically vulnerable customers that are reliant on electrical equipment self-disconnects for any reason, this could have fatal consequences.
- A lack of ability to make hot meals can have negative consequences on both mental and physical health.

Question 4 - We seek views on what great support service looks like for customers at risk of self-disconnection or who self-disconnect. We welcome examples of supplier good practice in dealing with self-disconnection and self-rationing.

The best practice from suppliers comes from those who have adequately trained their key staff on fuel debt advice issues. It is key that advisors, along with any other specialists deal with prepayment customers, have had this training to have sufficient knowledge to be able to effectively deal with as many situations as is possible

We also believe that there are several other things that could be done to ensure that customers at risk of self-disconnection, as well as those who do self-disconnect, have adequate support:

- Suppliers should identify these customers to actively and proactively intervene. Interventions could include:
 - Making sure these customers are at least offered the cheapest available tariff;
 - A review of payment type to ensure that the would customer is paying by the most appropriate means to avoid disconnecting;

- A pro-active review of debt repayment levels to ensure that customers are not needlessly repaying their debt too quickly;
- Flexibility in repayment of emergency credit so that payback is more graduated;
- Reviewing whether they have suitable systems to identify if a household is at risk of harm from self-disconnection before a PPM is installed;
- Maintaining the progress on improving the Priority Services Register (PSR), especially in differentiating or segmenting the extent to which differing vulnerabilities are more likely to prompt significant negative consequences for the customer in the form of self-disconnection;
- Setting out if they intend to join the Energy UK Safety Net scheme. Where they don't choose to do so, a clear explanation should be provided about how these protections are embedded and how key risks of self-disconnection for their customers are addressed;
- In the absence of a national helpline, working with local advice services to ensure that the most vulnerable customers can access the right advice.
- Providing extensions or variations to existing fuel debt repayment plans during cold weather.

NEA believe that suppliers should work closely with local advice services to ensure that the most vulnerable customers can access the right advice. Suppliers do currently offer advice services for their customers, but often when those customers are in debt to the supplier, they do not have the level of trust required to take this advice. We believe that advice from these services would be more effective.

Question 5 - We welcome views from all stakeholders on the emergency, friendly, and discretionary credit functions. How well do you think these features work?

Emergency, friendly and discretionary credit functions all serve a purpose, but are not solutions for self-disconnections, especially for customers who face prolonged financial difficulty. For these customers, credit is a quick fix, but does not help in the longer term. We believe that the scale of usage of these services is large.

Friendly credit can be a useful device for customers who do not face affordability issues, but have trouble topping up for other reasons, such as forgetfulness, or lack of organisation. It also serves as a valuable safety feature, protecting vulnerable customers from needing to go outside at night to top up. Although smart meters with remote top up functionality will make the friendly function redundant for some people, it is important to consider vulnerable customers who either do not want a smart meter, or who are not digitally literate enough to use this functionality. For customers with financial difficulties, friendly credit it is still a debt, and can serve only to increase the difficulty they are in.

For those who have difficulty organising top ups and a fixed budget, these mechanisms give a better chance of keeping the lighting and heating on. However, they can find themselves in almost constant debt, especially when there is back debt as well as temporary debt. Because of this, we believe that suppliers should target regular users of these services for advice, not just on energy but for finances in general. This advice should not necessarily come from the supplier, as suggested in our answer to question 4.

The most common reason for going into debt from an energy perspective, are gas standing charges building up over the summer. When customers then look to use their heating over winter, they find themselves in debt because of the standing charge build up. This can lead to a need for one of the credit options in order to use the heating.

NEA has recommended two actions for Ofgem on this issue¹⁷:

1. That Ofgem should investigate the recovery of network costs within standing charges, especially for vulnerable customers with prepayment meters.
2. That Ofgem and the industry focus on reforming how Fuel Direct repayments apply as soon as credit is applied to a meter. This would allow a proportion of units to be drawn before repayments are made.

These two actions are lasting provisions that can be made to help customers vulnerable to self-disconnection.

Question 6 - We welcome examples of any recent good practice examples on steps taken to provide sustainable support to PPM customers who self-disconnect and/or self-ration.

As with our answer to question 4, we believe that the best practice from suppliers comes from those who have adequately trained their key staff on fuel debt advice issues. It is key that advisors, along with any other specialists deal with prepayment customers, have had this training to have sufficient knowledge to be able to effectively deal with as many situations as is possible

In addition to this, we believe that suppliers should do their best to ensure that they work with local support agencies when trying to help customers who have self-disconnected. There can be a lack of trust between supplier and customer on these issues, and local agencies can help to soften this for customers.

Question 7 - We welcome views on how you perceive the collaboration between stakeholders should operate and what type of organisations you believe will play a central role in this process.

NEA outlines several actions which would reduce these risks across a few different actors:

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- 4) All energy suppliers should set out if they intend to join the Energy UK Safety Net scheme. Where they don't choose to do so, a clear explanation should be provided about how these protections are embedded and how key risks of self-disconnection for their customers are addressed.
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Ofgem

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- 3) Ofgem should investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy.
Ofgem's work in the targeted charging review must not lead to an increase in standing charges for electricity prepayment customers.
- 4) If the Government choose to extend the current smart meter deadline, Ofgem must work with the Competition Markets Authority (CMA) to extend the Pre-Payment Meter price cap.
- 5) Ofgem must enhance tenants' knowledge of their rights to switch, choose their payment type and benefit from smart meters and protect tenants from the on-selling of sub-metred electricity and non-regulated fuels via their landlords.

Local Government and third sector

- 1) In the short-term, improved access to adequate emergency and crisis support during severe cold weather episodes is needed. Local emergency crisis loans in local authorities should not be discretionary and available or repurposed for cold weather-related support when cold weather alerts are issued.

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ NEA's briefing with E3G earlier this year highlighted the UK has the sixth-worst long-term rate of excess winter mortality out of 30 European countries. Over the last five years there has been an average of 32,000 excess winter deaths in the UK every year. Of these, 9,700 die due to a cold home– the same as the number of people who die from breast or prostate cancer each year. The new analysis was released on Fuel Poverty Awareness Day the national day highlighting the problems faced by those struggling to keep warm in their homes. To read the press release and the full cop of the report visit: <http://www.nea.org.uk/media/news/230218/>.

⁴ According to recent analysis by MoneySuperMarket, the average price of the cheapest 30 energy tariffs has jumped by more than a fifth in just five months. After price hikes from all of the major suppliers, the average yearly cost of the best deals is now (Oct 2018) £1,042, having jumped £178 since May 2018.

⁵ BEIS Fuel Poverty Statistics for England, table 27, fuel poverty by employment status of household reference person (HRP), 2018. Across the UK, 22% of individuals (14 million people) are in relative poverty after housing costs (they have a household income below 60% of the median). Net disposal income after housing costs of a low-income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposal weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.

⁶ In total 60 respondents completed the Warm and Safe Homes questionnaire. Respondents represented a range of organisations, the most common of which was the not-for-profit/third-sector with 15 respondents, followed by 12 respondents from local authorities. A further 3 respondents were from the housing sector and two represented the energy sector (other). The following sectors had one respondent respectively: Private manufacturers, consultancy organisations, GDNs, private energy suppliers.

⁷ <https://www.ofgem.gov.uk/publications-and-updates/consultation-revisions-social-obligations-reporting>

⁸ Child Health Impact Working Group (2006) Unhealthy Consequences: Energy Costs and Child Health. Boston, MA: CHIWG.

⁹ NEA (2013) The Many Faces of Fuel Poverty. Page5.

¹⁰ NEA (2013) The Many Faces of Fuel Poverty. Page5.

¹¹ Somerville M et al. 2000. Housing and health: does installing heating in their homes improve the health of children with asthma? Public Health; 114, 434-39.

¹² Age UK. 2012. [The cost of cold: Why we need to protect the health of older people in winter.](#)

¹³ Worry about high fuel bills and fuel debt also continues to significantly damage mental health, which is affecting an increasing number of households. The cost of morbidity also places a huge burden on the NHS. In England alone, it costs health services approximately £3.6 million per day treating cold related morbidity and in the past four years alone over £5 billion of tax payers' money has been spent treating the symptoms of cold. Conversely, addressing these costs through further action on energy efficiency will help save money. Previous estimates suggest that each £1 invested to enable affordable warmth at home generates 42p in cost savings for the NHS.

¹⁴ While large fluctuations in the number of excess winter deaths is common and the relationship between EWM, temperature and influenza rates are complex, this year's provisional figures for the winter of 2017/18 show that excess winter deaths are 45.1% higher than last year (up by almost 15,570 from 34,530). You access the full ONS data release [here](#). Using the World Health Organisation (WHO)'s estimate that 30% of winter deaths are caused by cold housing, NEA estimate about 15,000 households died needlessly last year in England and Wales, equating to an average of more than 100 people per day within the winter months.

¹⁵ Many low income and vulnerable consumers, have a poor credit history; they are worried about losing out on support like the Warm Home Discount; or they face cost barriers if they attempt to switch back to a standard meter.

¹⁶ Christians Against Poverty (2015) The poor pay more: Prepayment meters and self-disconnection.

¹⁷ http://www.nea.org.uk/wp-content/uploads/2018/10/Options-for-delivering-low-prices-for-working-families_2018-FINAL.pdf