



Protecting energy customers with prepayment meters

CAP's official response to Ofgem's consultation

March 2020

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Christians Against Poverty (CAP) welcomes the opportunity to input into Ofgem's consultation about protecting energy consumers on prepayment meters (PPM). With more than two million UK households living in fuel poverty, ensuring energy consumers pay a fair and affordable price remains as crucial as when the PPM safeguard tariff was introduced in 2017.¹

Every day at CAP we come face-to-face with desperate situations. More than half (55%) of CAP clients have rationed their energy use at least occasionally in the last two years.² Most commonly this has meant going without heating and hot

water because they could not afford the costs. It is common for PPM users to frequently self-disconnect, topping up a small amount at the beginning of the week and consistently running out after three or four days. Two fifths (19%) of PPM users have gone without basic energy-dependent activities for more than two months in a row. Additionally, seven in ten (69%) PPM users who went without meals due to debt, said they did so to pay for energy.

The scale of these desperate situations is something we are pleased Ofgem is also keen to address. As the cost of living continues to rise and an increasing number of people in the UK struggle with the affordability of energy, we welcome measures to continue to tackle the issue of consumer price protection. However we are concerned that it is the most vulnerable and those with the lowest incomes who are the least protected by the measures being proposed. Therefore we feel that price protection should remain distinct from the default tariff as Ofgem has proposed.

Affordability remains a key issue that Ofgem and the Government need to address. Too many customers on low incomes are unable to afford the energy they need and the proposed revisions do little to change this. Consumer trust remains low and more needs to be done to directly inform and educate those who are disengaged from the marketplace.

Issues remain around the accrual of standing charges for customers as this can be a serious risk for those customers in vulnerable circumstances. CAP feels strongly that Ofgem should review the existing policy around this and consider introducing a cap on the standing charge arrears that can build up for PPM users.

We have provided further evidence and an explanation of our views below in response to the points set out in the consultation paper. Please do not hesitate to contact us if we can be of further assistance as the policy is developed.

A handwritten signature in black ink that reads "Paula".

Paula Stringer
UK Chief Executive

¹ Ofgem: Annual Fuel Poverty Statistics Report 2019 (2017 data)

² CAP (2020) A dark place: Unaffordable energy costs and how low income households cope, available at capuk.org/adarkplace

1. Do you agree that energy customers on prepayment meters (PPMs) need price protection after the expiry of the prepayment charge restriction?

CAP supports continued price protection for customers with a PPM. It is particularly felt that those on lower incomes are at greater risk of detriment as they are typically less likely to engage with the market. The original reason for the PPM price cap was to address barriers preventing prepayment customers engaging with the market. These barriers have not been successfully removed; for those prepayment customers who remain on traditional meters, debt and illiteracy continue to limit engagement. Those with limited access to the increasingly digital marketplace are still prevented from accessing some of the best services.

CAP's recent report, *A dark place*, highlights how the lack of affordability among low income customers means they will often find their energy usage very difficult to manage. Around half of CAP clients who use a PPM regularly self-disconnect, yet just one in ten would feel confident their supplier could or would help; this demonstrates a clear lack of trust in the marketplace and will naturally impact customers' willingness to investigate options such as tariff switching.

It is common practice in the energy industry for customers in significant arrears to be moved onto a PPM as a method of managing their usage without accruing further debt. However, this has the knock-on effect of reducing tariff options as there are generally fewer prepayment tariffs, and Ofgem have already acknowledged that these are widely accepted to be more expensive than paying by Direct Debit. With this in mind it is clear that prepayment meter customers still need additional protection from the potential for increased wholesale costs.

Prepayment customers will typically have less interaction with their suppliers. They receive an annual statement and self-serve through the meter, increasing their chances of becoming more disengaged. A key consideration that needs to be addressed is ensuring that these customers are encouraged to engage with the marketplace. It is unclear from Ofgem's proposal who would be responsible for ensuring that those with less frequent supplier communication are not subject to detriment due to a lack of awareness about protections or further options.

CAP advocates for more to be done around education and communication for customers affected by the cap, as many of those who would benefit from the prepayment charge restriction often have little understanding of its purpose. Many customers do not see the price cap as an incentive to switch, but rather a protection against price increases. CAP therefore feels that Ofgem should encourage suppliers to build stronger relationships with their customers to educate them around the benefits of switching tariffs.

2. Would you prefer the PPM cap to continue, or would you agree with OFGEM that the default tariff cap being brought into line with PPM customers (with uplift) is a better solution?

CAP disagrees with the proposal to include the PPM cap in the default tariff cap. The safeguard tariffs were originally put in place for different rationales. Therefore, the conditions for any changes to the safeguards also need to ensure that those previous justifications are met. The default tariff cap is due to expire in 2021 and if this is not extended, then both tariff

caps could be lost. If this were to happen, disengaged customers with low incomes will face significantly more risk of increased and potentially unaffordable costs.

CAP is also concerned that more prepayment customers are at risk of self-rationing than those currently covered by the default tariff cap. Just under three in ten (29%) of all CAP clients have had to resort to regular rationing in the last two years, but twice as many PPM users have done so than those paying by Direct Debit or standard credit.

There is a clear correlation between the risk factors for self-rationing and the demographics of PPM users. Research from Citizens Advice Bureau shows that PPM customers are typically more vulnerable and prone to rationing energy. Furthermore, CAP clients on a prepayment meter are almost twice as likely to ration their energy and food compared to those paying by Direct Debit (76% PPM users compared to 41% of clients on Direct Debit).³⁴

The purpose of the price cap thus far, as described by the Competition and Markets Authority (CMA), has been to remove the technical barriers to engagement as a prerequisite for effective competition. CAP is more urgently concerned about those who are limiting energy use due to affordability. A considerable problem for PPM customers is the cost of standing charges, particularly when exiting a period of self-disconnection and having to deal with an accrual of arrears from this. CAP suggests Ofgem considers capping the amount of standing charges that can accrue on a PPM. For many prepayment customers, standing charges still present a considerable frustration and barrier to getting back on supply after a period of self-disconnection. During a focus group with CAP clients discussing their experiences of energy costs, one client referred to standing charges as feeling like a 'tax', as well as a continual source of confusion due to their daily build-up.

Although it is accepted that efficiency is improved through market competition driving lower prices, we also recognise that the cap is intended to protect customers in vulnerable circumstances from paying a loyalty premium. Deals offered by price comparison websites (PCWs) and automatic-switching sites can offer a significant discount on the tariffs available to customers. CAP feels that considerations should be made for particularly vulnerable customers who are unable to engage with the marketplace online, and will therefore suffer detriment through having to pay significantly more. For these customers, the cheaper tariffs are out of reach due to their payment method. Therefore Ofgem should consider taking steps to ensure greater parity between the value of the cap and other tariffs on offer. This will ensure customers are given better protection, such as limiting the price ratio between the PPM safeguard tariff and the cheapest tariff on offer.

3. Do you have any comments on the proposals to continue with the pass-through SMNCC method for suppliers?

CAP is not in a position to give a detailed response to this area of the consultation, however we do wish to comment on our ongoing concerns that the technology needs to be universally suitable and secure for all customers. For some, smart metering is still unsuitable, especially if there are technical issues such as poor network connectivity in their geographic region. In addition, suppliers have made limited progress in rolling out smart meters to existing PPM customers, limiting the benefits they receive.

³ citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/improving-support-for-prepay-customers-self-disconnecting/

⁴ CAP (2020) A dark place: Unaffordable energy costs and how low income households cope, available at capuk.org/adarkplace

Therefore, CAP suggests that the smart meter installation costs should not fall entirely within the PPM tariff. As already acknowledged by Ofgem, PPM tariffs are generally higher than those for Direct Debit customers, and this may therefore mean those who do not move onto smart meters incur an unfair level of additional cost. With few PPM customers having access to reduced tariffs in the marketplace, to include the pass-through Smart Meter Net Cost Charge (SMNCC) in the cap would be unfair on consumers who are not in a position to benefit. As such, it would be more appropriate to remove the pass-through SMNCC element from the prepayment tariff cap.

Requests for further information

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Christians Against Poverty (CAP) is a nationally recognised charity that works with over 600 churches to help the most vulnerable out of poverty across the UK. The services provided offer both practical and emotional support, are completely free and are available to all, regardless of age, gender, faith or background.

Through a network of almost 300 CAP Debt Centres, CAP offers a free face-to-face debt counselling service, with advice and ongoing support provided from head office.

CAP has also expanded to tackle more causes of poverty. To this end, CAP now operates Job Clubs, Fresh Start groups to tackle life-controlling dependencies, and Life Skills groups to empower members with the essential skills and support they need to live on a low income.



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