



*Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing*

*CAP's official response to Ofgem's consultation*

August 2019

**always hope.**

Christians Against Poverty (CAP) welcomes the proposals made in this important consultation. We have long been concerned about the prevalence of self-disconnection and self-rationing. We want to congratulate Ofgem on the substantial progress represented by this review and proposals.

Every day at CAP we come face-to-face with desperate situations. One in five of the people CAP helps went without heating on a daily basis during winter. 60% of the people we help have mental health problems and for 27% debt caused their relationship to completely break down.<sup>1</sup> Debt is destructive and isolating.

More than half (53%) of CAP clients on a prepayment meter have self-disconnected.<sup>2</sup> This ranges from having gone without heating for a few days a month (23%), two to three weeks (19%), to not using it at all (8%). It is common for PPM users to consistently self-disconnect, topping up a small amount at the beginning of the week and consistently running out after three or four days. Seven in ten (67%) also said they had sacrificed meals as a result of their financial difficulty.

It is incredibly important that effective monitoring of self-disconnection and self-rationing is put in place, and that Ofgem ensures this is of a minimum standard. In addition, standing charges can cause significant problems for those who cannot afford to top up their meter for extended periods of time. Ofgem needs to examine the rationale for standing charges, and ensure customers who cannot afford to top-up do not automatically get into debt.

We have been encouraged by the strong emphasis placed on affordability issues in the recent review of the Consumer Vulnerability Strategy (CVS), and welcome the Ability to Pay principles being put into the licence conditions. However, there is more action needed to ensure debt repayments are proportionate and do not trigger self-disconnection.

It is concerning that there are no details in the consultation document as to what Ofgem means by sustainable support for those experiencing long-term self-disconnection. The cause of this will not solely be debt, there is a more basic income and cost issue at play. While Warm Home Discount provides a very valuable financial boost to pay for heating over winter, it does not fill the year-round fuel poverty gap for many people. To work towards a market where energy is affordable to all, the Energy UK's independent Commission for Customers in Vulnerable Circumstances recommendation that 'the case for the introduction of a social tariff should be re-examined for particular groups of financially challenged and vulnerable customers' needs to come to fruition.

I hope that you will find our input helpful to refine the proposals to reduce self-disconnection and self-rationing. We recognise this consultation as an incredibly important piece of work and anticipate the improved outcomes it will bring. We welcome further engagement with Ofgem and are happy to provide any further explanation that would be useful.



Dawn Stobart  
**Director of External Affairs**

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<sup>1</sup> CAP (2019) *Client Report: Changing perceptions*, available at [capuk.org/clientreportpdf](http://capuk.org/clientreportpdf)

<sup>2</sup> CAP (2017) *The poor pay more: winter 2016/17 progress report*, available at [capuk.org/poorpaymore17](http://capuk.org/poorpaymore17) and CAP (2015) *The poor pay more: prepayment meters and self-disconnection*, available at [capuk.org/downloads/policy\\_and\\_government/poor-pay-more-2015.pdf](http://capuk.org/downloads/policy_and_government/poor-pay-more-2015.pdf)

## Proposals to improve identification of self-disconnection and self-rationing

Question 1: Do you agree with our proposal to require suppliers to identify prepayment self-disconnection and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence condition.

Yes, CAP agrees that the proposed requirement, to identify prepayment self-disconnection, should be placed on all suppliers. However, the licence condition should specify and define what constitutes self-disconnection.

As stated in the consultation document there is substantial variation in how suppliers monitor self-disconnection currently. We agree that there should be space for innovation in monitoring using smart meters but believe the licence condition should set a minimum standard based on current technology to ensure a baseline for consistency. This is especially important given the intention to require suppliers to report the number of self-disconnections in their Social Obligations Reporting (SOR).

Due to the lack of evidence of a high volume of 'choice' self-disconnections being picked up within existing non-vend monitoring, it would be reasonable for the maximum non-vend window to be set at two months in summer and one month in winter. There may also be scope to mitigate the risk of catching people who have topped up large amounts to last a long period of time, for instance by averaging the credit added to a meter across the number of weeks their normal consumption pattern would suggest appropriate and flagging self-disconnection if no vend is made after this point.

Question 2: Do you agree with our proposal to require suppliers to identify self-rationing and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence condition.

Yes, CAP strongly agrees suppliers should be required to identify self-rationing. In CAP's research, only 8% of clients on a prepayment meter self-disconnected for a whole month or more, yet a further 45% had not used their heating on every day of the month due to the cost.<sup>3</sup> By identifying customers who are self-rationing suppliers will be able to support those facing ongoing affordability or mental capacity issues at an earlier point and prevent this turning into long-term self-disconnection.

The more challenging nature of this monitoring is acknowledged. However, we believe there are several ways in which this could be done effectively. At a minimum, suppliers should monitor for changes in vending or consumption behaviour to spot where this is substantially reduced or erratic.

In addition, suppliers should be required to conduct a baselining exercise to establish what sustainable consumption is for a given household so that this can be compared to actual ongoing consumption. Both data about a customer's average seasonal consumption over a long period and the quality of the fabric of their housing will be important in this. If suppliers are expected to make use of data such as this, they would develop more data capture points when on-boarding and reviewing customer accounts. Ofgem should also consider a

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<sup>3</sup> CAP (2017) *The poor pay more: winter 2016/17 progress report*, available at [capuk.org/poorpaymore](http://capuk.org/poorpaymore)

requirement on suppliers to share a customer's historic consumption data to a new supplier when a customer switches so that the new supplier can monitor for self-rationing more accurately. The Financial Conduct Authority (FCA) has placed a similar requirement on the banking industry, when a customer closes a bank account they can request to be sent up to five years worth of their transaction history.

## Proposals to reduce level and impact of temporary self-disconnection and self-rationing

**Question 3: Do you agree with our proposals to require suppliers to offer emergency and friendly credit for all customers?**

Yes, CAP agrees that emergency and friendly credit offerings should be formalised and all suppliers required to provide them. In addition to the proposals, there should be changes made to how standing charges are applied during emergency and friendly credit periods.

It is common for CAP clients to not understand that the standing charge will be held and deducted immediately from their next top-up as they do not have visibility of this amount on their meter. This causes confusion and clients do not top-up a sufficient amount to get back on supply. This can trigger further self-disconnection because they believe there is no point topping up their meter. To increase the awareness and visibility of the amount that will be repaid on the next top-up, standing charges should be applied when the meter is in emergency and friendly credit. Ofgem should require suppliers to increase their emergency and friendly credit amounts to compensate for taking standing charges from this credit.

Furthermore, Ofgem should also specify in the licence conditions that where a customer does not top-up enough to get back on supply after using emergency and friendly credit, this should be considered an immediate flag to trigger the supplier to offer support in line with their offering for temporary self-disconnection.

**Question 3b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence condition.**

CAP agrees with the proposed content of licence condition 27A.3 and 27A.4, but would like to see a clause added to reflect the points raised in response to question three. 27A.4 is particularly welcome to ensure that customers are not left unprotected because of technical barriers.

**Question 4: Do you agree with our proposals to require suppliers to offer discretionary credit for customers in vulnerable circumstances?**

Yes, CAP agrees with the proposal to require suppliers to offer discretionary credit and that this should be proactively promoted and offered to customers. However, Ofgem should specify that this policy needs to include both providing repayable and non-repayable credit on a discretionary basis depending on the customer's circumstances.

It would be helpful to introduce new language in this area to improve clarity and inform customers' expectations. Discretionary credit implies it is non-repayable when this is mostly not the case. Repayable credit provided on a discretionary basis should instead be referred to as an advance.

Question 4b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence condition.

CAP does not agree with the wording of the proposed licence conditions. There is too much ambiguity regarding what constitutes a vulnerable situation and inclusion of this clause risks customers in need not receiving the support they need in line with the policy intention. Not having the financial means to top-up their meter should be sufficient grounds to provide repayable discretionary credit, 'an advance'. Taking this into account, as well as comments made in response to question four, we suggest that 27A.5 is amended to read:

27A.5 Where the licensee has identified a Domestic Customer who uses a Prepayment Meter ~~as being in a Vulnerable Situation~~, and that Domestic Customer encounters an event of Self-disconnection and/or Self-rationing, the licensee must offer Discretionary Credit to that Domestic Customer in addition to the support offered in SLC 27A.3 and 27A.4. **The Discretionary Credit may be either an 'advance' offered on a repayable basis, or be non-repayable depending on that Domestic Customer's ability to repay.** In assessing the sum and frequency of Discretionary Credit offered and the related repayment rate, the licensee must consider this on a case by case basis and must adhere to SLC 27.8.

## Proposals to reduce the level and impact of ongoing self-disconnection and self-rationing

Ongoing self-disconnection does not solely arise because of debt, and as such it is insufficient for the proposals in this area to take a singular focus. Not all prepayment users experiencing ongoing self-disconnection will have arrears on the meter. More than half (56%) of CAP clients with a prepayment meter inherited the meter when they moved into their property, and are less likely to have energy arrears with their current supplier.<sup>4</sup> Predominantly there is a more basic income and energy cost issue at play.

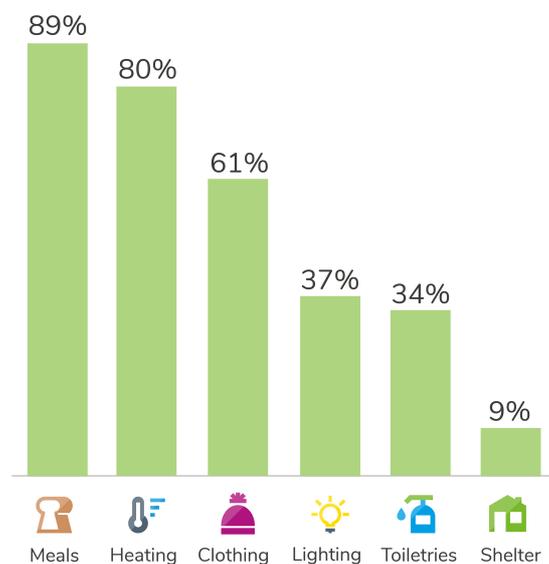
### Case study: unaffordable energy (1)

A CAP client had his home repossessed after getting into debt when his relationship broke down. When he contacted CAP for help he owed £57,000 in total and only had a net annual household income of £7,300. After paying his rent, council tax and utility bills (£102.60/month), he only had £30 a month left for food and all other living costs.

Energy affordability for low income households is a massive issue across the UK. Recent research by CAP showed that one in three (32%) clients experienced destitution while in debt.<sup>5</sup> Heating is one of the two most common essentials sacrificed by low income families. 80% of destitute households went without heating and 37% went without lighting on a daily or weekly basis due to debt.

### Destitution markers

Proportion of destitute households that went without each destitution marker



### Case study: unaffordable energy (2)

One CAP client, whose budget was unbearably tight, had a learning disability and got into debt due to a mental health problem. She only received £594.45 a month to cover all her living costs and her rent alone was £428. Due to debt repayments she could not afford to pay her full rent each month. She needed to budget £60 a month to top-up her PPMs, however, this would only leave her with £4 a week for food. As a result, she went without energy and other essentials to survive.

<sup>4</sup> CAP (2014) *The poor pay more: prepayment meters and self-disconnection*, available at [capuk.org/poortpaymore](http://capuk.org/poortpaymore)

<sup>5</sup> CAP (2019) *Left destitute by debt*, available at [capuk.org/destitutionpdf](http://capuk.org/destitutionpdf)

The current price protections in place do not ensure affordability of ongoing consumption. Low usage customers receive little benefit from the price cap and while it achieves a fairer price for disengaged consumers, it does not provide low income consumers with the confidence that they can use the energy they need.

It is welcome that the consultation document makes clear that suppliers need to provide sustainable support to customers experiencing ongoing self-disconnection, however there is little detail of what this should consist of. Ofgem needs to work with suppliers to develop new forms of additional support which could include:

- Ensuring the customer has accessed Warm Home Discount and provide help to make an application if they have not.
- Fast-track Warm Home Discount payments to prepayment meter customers who need the credit up-front to keep on supply.
- Payment matching schemes, like those offered by some water companies, where the supplier matches payments made towards debt or consumption.
- Automatically switching the customer to the supplier's cheapest tariff and waiving exit fees where a customer has not made a proactive choice.
- Providing tariffs with no standing charge for low-usage prepayment customers to prevent debt accruing during periods of self-disconnection.
- Providing in-house income maximisation advice for customers struggling to afford energy consumption.
- Automatically write off arrears that consist entirely of standing charges or load this debt at the back of the meter instead of the front.

#### Case study: standing charges

A CAP client in his 60s had been unable to afford gas in his one bedroom property since becoming unemployed. He instead prioritised electricity and topped up £15 a week. Over several years the standing charge on his gas PPM had built up to £400. He had not realised charges would still be applied and was shocked to find he owed such a large debt despite not consuming any gas.

Another cause of long-term self-disconnection is a customer's gas supply being capped when they do not have enough credit on their prepayment meter for a gas safety check to be conducted. Ofgem should commit to facilitating work between gas safety engineers and energy suppliers to ensure customers in vulnerable circumstances are not left off supply because they have no credit on their PPM for a gas safety check to be conducted.

#### Case study: gas safety check

A man in his 60s contacted CAP for help after living without heating or light in his property for four years. The client was wheelchair bound and had a terminal illness. His gas supply had been capped in his property the year before because a gas safety check could not be carried out as there was no credit on his meter. The standing charge had still been accruing as the supplier did not know his supply had been capped. Once CAP contacted them they arranged for him to be put back on supply and wrote off the accrued standing charge.

**Question 5: Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence?**

Yes, CAP agrees that the Ability to Pay principles should be incorporated into the supply licence. It is incredibly important that customers are treated as individuals and that debt repayments are proportionate. The clarification that Ability to Pay principles also apply in the prepayment setting is welcome.

However, other action is needed to ensure debt repayments through deductions from a prepayment meter do not cause self-disconnection. In particular, Ofgem should specify that debt repayments should be a percentage of a top-up, rather than per week, and as such missed debt repayments should not accrue on the front of the meter.

**Question 6: Do you agree with our proposal to update the Ability to Pay principles to reflect changes in supplier debt recovery practices? Are there any other changes we should implement?**

Yes, CAP agrees with the proposals to update the Ability to Pay principles to reflect changes in supplier debt recovery practices and for a smart meter context. In addition to the areas mentioned in the consultation document, there are other safeguards that are needed to future-proof these principles. The current warrant process for forcibly installing a smart meter does not apply in a 'smart world' where the switch is made remotely, as a warrant grants permission to enter a property. Ofgem needs to ensure there are robust enough safeguards to stop smart meters being switched remotely to prepay inappropriately.

**Case study: forced switch to smart prepay**

A couple and their teenage son woke up one morning in January to find they had no electricity. Subsequently they received a letter advising their smart meter had been remotely transferred from credit to prepay mode due to being £500 in arrears. They were very stressed by this and had no prior warning. CAP contacted the supplier and they agreed to switch the meter back.

In addition, suppliers should be prevented from demanding a security deposit from a customer who becomes formally insolvent to allow them to continue paying by Direct Debit. Most customers in this situation do not have the means to pay a deposit upfront and are left with no choice but to accept a prepayment meter, increasing their risk of self-disconnection.

**Case study: security deposit**

A CAP client who got into debt due to a long-term illness and living on a low income was paying £50 a month via PPMs for her gas and electricity. She received £317.82 a month in Universal Credit to cover all her living costs (excluding rent) and wanted to switch to a new supplier and pay by Direct Debit to access their best tariff. The supplier asked for £125 security deposit to complete the switch due to the client's credit history which the client could not pay. She had no energy arrears at the time, only £120 in rent arrears and £500 owed to telecoms companies.

## Requests for further information

This response has been written by Rachel Gregory, Social Policy Manager for Christians Against Poverty (CAP), with contributions from:

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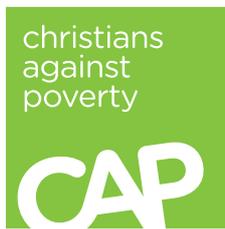
To discuss any queries and to request further information, please contact:

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Christians Against Poverty (CAP) is a nationally recognised charity that works with over 500 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 293 CAP Debt Centres, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In addition to this, CAP provides face-to-face adult financial education across the UK in partnership with 645 churches who run the CAP Money Course. This is a three-week money management course, which equips over 6,500 people each year to budget, save and spend wisely.

CAP has also recently expanded to tackle more causes of poverty. To this end, CAP now operates 124 CAP Job Clubs, 60 Fresh Start groups to tackle life-controlling dependencies, and 120 CAP Life Skills groups to empower members with the essential skills and support they need to live on a low income.



[capuk.org](http://capuk.org)



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