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against
poverty

CAP

Protecting energy customers with prepayment meters

CAP's official response to Ofgem's consultation

May 2020

always hope.

Once again, Christians Against Poverty (CAP) welcomes Ofgem's decision to ensure that customers with prepayment meters (PPMs) receive valuable price protection, particularly during a time of great uncertainty for many households.

Now more than ever, customers need protection. The impact of the coronavirus (COVID-19) pandemic will be felt long after the lockdown ends, and with many customers struggling even now, the importance of supporting the vulnerable cannot be understated. Fuel poverty is not a new experience for countless customers, and while the current climate has highlighted the need for additional support and protection, it will not end with the current outbreak. Karen, a client being supported by CAP, said:

'I had no free cash. I had nothing. I had to stick within budgets for different things, like food, fuel and electric, if I go over I can't afford it. It can be frustrating. Everybody is in different financial situations. For those in genuine poverty, help needs to be given in a way that is not giving one hand and taking with the other.'

It is felt that a number of the proposals made by Ofgem in this consultation may have a negative impact on customers like Karen*. There is a real concern over a poverty premium being created by the proposed measures. Data supports the suggestion that those on prepayment meters face additional barriers to engagement and switching than those customers on other payment types, further highlighting a perceived lack of choice in the marketplace.

Smart meter implementation cannot be used as the primary strategy for reducing the hardship faced by prepayment customers. Full implementation is several years away, and there remains a significant number of customers who will not benefit from moving onto this payment method nor realise the benefits of doing so.

Methodology

It is appreciated that the similarities between the methodologies of the two caps mean that there are benefits in combining the PPM cap within the default tariff cap. CAP disagreed that this was the right approach to take because it would not necessarily give a fair representation to the issues affecting both groups of consumers.

It is welcome that Ofgem has recognised stakeholders' concerns that the conditions which need to be achieved to negate the need for price protection by the different caps differ, but their solution to combine the caps while maintaining distinct levels does not offer a solution to these concerns. Instead, this creates a poverty premium as a disproportionate number of

households on low incomes (and often in vulnerable circumstances) will end up paying more. The current position is that the licence conditions do not allow for cost to serve differentials to be redistributed across customer groups. However, CAP feels this is an unjustifiable position to take based on the direction the industry has moved in the past few years and Ofgem's focus on affordability in the Consumer Vulnerability Strategy (CVS). With this in mind, removing the proposed PPM uplift would ensure a fairer playing field for customers regardless of payment method.

Barriers to engagement

Ofgem has already acknowledged within the consultation document that PPM customers do face greater barriers to competition and engagement, evidencing some of the key reasons why these consumers should be supported differently. CAP's own research suggests that PPM customers are less likely to switch tariffs, with only 38% doing so compared to 55% of Direct Debit users¹. This indicates that PPM customers are already less engaged with the marketplace and therefore a higher level of cap would cause them to pay more.

The inclusion of the prepayment uplift in the default tariff cap creates an explicit poverty premium. For many customers, this payment type is not a choice they have made; many customers have PPMs forcibly installed through enforcement by suppliers. Only 16% of CAP clients using a PPM had one installed in their home by choice², an indicator that for many customers this method is less desirable or deliberately chosen. It is recognised that Ofgem are seeking to encourage engagement from these customers, however CAP feels strongly that those who are unable to engage at this point will be disproportionately exposed to further detriment by this decision.

Smart meter uptake

Ofgem has commented that within due course all PPM customers will have smart meters, however with the implementation of the cap imminent and the deadline for smart meter rollout currently estimated for 2024, there is still a concern over the timeline involved. The actual target for suppliers is only for 80% smart meter take-up in this period, and so Ofgem does need to consider those households that will still be operating legacy meters at the end of this period.

Of further concern is the suggestion from Ofgem that including these costs for smart meter customers would disincentivise the take-up of smart meters. As stated by Ofgem, the purpose of

¹ Percentage of CAP clients surveyed that had switched energy supplier or fixed their tariff in the last three years.

² *A dark place*, Christians Against Poverty, April 2020.

the cap is to give price protection to customers in the marketplace, not to incentivise the rollout of smart meters. CAP would highlight the need for more work to be done to increase the take-up of smart meters for PPM customers, however this is not something that should be included in the default tariff cap price controls as set out in this consultation. PPM customers are among the most vulnerable and disengaged group in the marketplace and therefore additional attention should be given to ensuring these customers receive adequate support and information to make informed decisions over smart meter take-up.

Affordability

It is noted that Ofgem's response to our previous concerns over customer affordability have not been addressed as yet, although reference to future publications on self-rationing is welcomed. Ofgem has suggested a tariff differential approach to spreading the costs of maintaining existing payment type differentials. In response, we would draw Ofgem's attention to the recent report by the Department of Business, Energy and Industrial Strategy (BEIS), which highlighted a significant fuel poverty gap for households in the UK, with over 10% of households in fuel poverty. BEIS state that the average fuel poor household required a reduction of £334 to their fuel costs to move them out of fuel poverty³. CAP would like to highlight that the fuel poor are unlikely to notice any significant benefit from the proposed cap. The use of smart metering data could be used as a more effective tool for suppliers to ensure these customers are receiving additional price protections and are automatically placed on the cheapest tariff available on the market for their circumstances.

³ *Annual fuel poverty statistics report 2020*, Department for Business, Energy and Industrial Strategy, 30 April 2020

Requests for further information

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Christians Against Poverty (CAP) is a nationally recognised charity that works with almost 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.