

National Energy Action (NEA) response to Ofgem's Self-disconnection and Self-Rationing Final Proposals – Statutory Consultation



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. To achieve this, we support the following Ofgem priorities:

- **Tackling energy debt.** We deliver benefit entitlement checks through Warm Home Discount Industry Initiative projects. In the year 2019/20, we helped 1,406 people access in total more than £3.8m in previously unclaimed benefits, helping households pay their bills and reducing their debt levels.
- **Driving a step change in customer service for vulnerable groups and improving identification of vulnerability** by enhancing awareness of the Priority Services Register (PSR) and through our training courses, including "Identifying Fuel Poverty and Vulnerability", each year we train approximately 3,000 frontline staff, who will go on to help an estimated one million people.
- **Encouraging positive and inclusive innovation through innovation projects** by ensuring exemplar network innovation projects are developed, disseminated fully, and encouraging network companies to ensure fuel poor and vulnerable households directly benefit from these innovation competitions and allowances.
- **Ensuring a fair and functioning energy market;** through regular engagement with Ofgem, NEA, alongside other consumer groups have helped secure key improvements³ in the treatment of low income and vulnerable households. Most recently, this has included pushing Ofgem to commit to refining their distributional analysis tools to ensure that their decisions are fair and equitable.
- **Working with partners to tackle issues that cut across multiple sectors** within our project with Northumbrian Water to identify the options for jointly combating water and fuel poverty together, bringing learnings and insights across two essential services.

Brief Summary of our Response

NEA warmly welcome Ofgem's proposals to ensure all energy suppliers across Great Britain identify pre-payment customers who run out of credit as a result of result of financial pressures and offer appropriate support; increase access to short-term credit and take into account all customers' ability to pay when engaging with customers in relation to debt issues. We are calling on Ofgem to ensure these basic protections are in place in advance of this winter and in this response we also underline the importance of further steps to address which can help to avoid millions continuing to ration their energy use which shortens lives⁴ and causes wider unnecessary risks to health and well-being.

Summary of Recommendations

- I. Ofgem should take forward all of the proposed changes to the licence proposed and prioritise this work so that they can be implemented by the start of December. This includes ensuring all of the six, new ability to pay principles be adopted into the licence condition from the outset in full.
- II. Ofgem should require suppliers to report the number of households identified as self-disconnecting on an ongoing basis in order to track the effectiveness of measures taken. This analysis should in turn be reported in Ofgem's annual State of the Market report or the annual consumer vulnerability report.
- III. Whilst Ofgem are mandating the offering of friendly and emergency credit, Ofgem should require all suppliers to 'level up' a common minimum level of emergency credit.
- IV. Ofgem should instruct suppliers to offer all their legacy prepayment customers, with no technical means of accessing emergency credit, a smart meter as a matter of urgency. This should be built into suppliers' annual smart meter target setting.

- V. Ofgem should work with the industry to identify ways in which identifying self-rationing is practicable, and subsequently implement them in the electricity and gas supplier licence conditions. For example, where electricity balances are being drawn down at consistent levels, but gas usage slows or stops, there could be an indication of self-rationing.
- VI. As the consultation document states that self-rationing is simpler to identify when the customer has a smart meter, Ofgem should alter the licence conditions to require suppliers to take all reasonable steps to identify self-rationing in smart metered customers.
- VII. Ofgem should continue to work to reduce self-disconnections, supplementing the proposed licence changes with:
 - Enhancing monitoring and reporting of the PSR and ensuring financial vulnerability is captured in a systematic way by suppliers via the PSR .
 - Investigating 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, do not lose credit before they can access any energy.
 - Encouraging suppliers to increase the use of money-matched repayment schemes and payment holidays
 - Encouraging the take up of Fuel Direct, both directly with households and through suppliers
 - Work with BEIS to ensure that Warm Home Discount Industry Initiatives are extended and expanded. This can be done through sharing information on the benefits of the scheme so that BEIS can make an informed decision on its future.

Our response

NEA warmly welcomes Ofgem’s consultation on self-disconnection and self-rationing. If implemented in full, the proposals made in this consultation will undoubtedly have a positive impact reducing the number of customers that self-disconnect and self-ration. The policy proposals are broadly in line with a number of suggestions that NEA made within our both our response to “Prepayment Self-Disconnection and Self-Rationing: A Call for Evidence” and the subsequent policy consultation on the same subject and we welcome Ofgem’s commitment to taking these proposals forward with appropriate urgency.

In the consultation “Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing”, Ofgem made proposals surrounding the identification of self-disconnection and self-rationing; emergency, friendly and discretionary credit; and the ability to pay principles. Our views on the final proposals in the statutory consultation, as well as our view on further work to be conducted in this area, can be found in the respective sections below.

Proposals Relating to Identification of Self-Disconnection and Self Rationing

Our view remains that we agree with the proposal to identify prepayment self-disconnection and the associated proposed licence conditions. We also believe that Ofgem should consider whether requiring suppliers to report the number of households identified as self-disconnecting on an ongoing basis in order to track the effectiveness of measures taken against self-disconnection. This analysis should in turn be reported in either Ofgem’s annual State of the Market report, or annual report on vulnerable consumers in the energy market. This will help ensure that future decisions can be made as to whether further changes are needed to help prepayment customers who have not been able to top up their meter when it runs out of credit.

Whilst we understand the rationale for not pursuing any changes in the licence conditions regarding self-rationing right now, and are sympathetic to these, we do believe that there are some instances where identification could be simpler, and therefore warrant action by suppliers to at least make an attempt at identification. For example, where electricity balances are being drawn down at consistent levels, but gas usage slows or stops, there could be an indication of self-rationing. Ofgem should work with the industry to identify ways in which identifying self-rationing is practicable, and subsequently implement them in licence conditions.

We agree with Ofgem that it should be easier and more cost effective to identify self-rationing in the case that the household has a smart meter in prepay mode. However, we are not convinced that the standards of conduct provide an adequate signal to suppliers to identify smart prepay customers who self-ration, and

believe it would be a missed opportunity if Ofgem did alter the licence conditions to require suppliers to take all reasonable steps to identify self-rationing in smart metered customers.

We fear that if the licence changes do not occur now, it will take months to collect the data to show that the SoC are not providing the signals to do so, and perhaps years before another opportunity arises to alter the licence. This would mean that vulnerable customers miss out on vital support over several winters and therefore ask Ofgem to reconsider on this vital point.

Proposals Relating to Credit Functions

The credit functions related to prepayment meters (emergency credit, friendly credit, and additional support credit) are all incredibly important. This has been shown to be the case during the lockdown phase of the Covid-19 crisis. The disparity between supplier offerings in terms of these credit functions had a profound impact on prepayment metered households and created a lottery in terms of the support that could be accessed. Feedback from our staff towards the beginning of lockdown said that some suppliers have extended the 'friendly credit' for electricity PPM users whilst others have not, and the emergency credit limit varies by supplier. Additionally, earlier this year, NEA ran a call for evidence⁵ to collect information regarding the pandemic from organisations that provide support to vulnerable energy customers. This showed how acute the issues were surrounding the variability of credit functions available for prepayment customers. We found that:

- Respondents emphasised that the consistency of suppliers in offering discretionary funds or pre-loaded PPM cards was a problem during lockdown, and 87.5% (21 out of 24) said it was having some impact or a severe impact.
- Approximately 9 in 10 respondents said that there was a moderate or high risk of PPM users self-disconnected and/or self-rationing, with some saying they had directly seen and experienced more self-disconnections during lockdown.
- There was high support among respondents for support for the introduction of decent standards of emergency and friendly credit for all suppliers.

We have therefore subsequently recommended⁶ that friendly credit should be universally 'levelled up' and all suppliers should offer a minimum standard of emergency credit. Whilst these proposals were not taken up during the lockdown period, we are pleased that Ofgem propose to take them forward, in part, in this piece of work, through mandating the offering of friendly and emergency credit, if not prescribing minimums.

We are also pleased that Ofgem consider that as an alternative to credit functions, where they are not technically feasible, offering a smart meter could be appropriate. NEA argues that suppliers should offer all of their prepayment customers without these functions a smart meter as a matter of urgency. It should not just be one of a suite of options, but a first port of call that suppliers should proactively pursue. Customers without these functions have suffered considerable detriment throughout the lockdown, facing stark choices, for example between breaking shielding guidelines by leaving the house and entering a shop to top up, or running out of credit on their meter and doing without energy. These choices were even harder for those households that were both shielding due to the virus and had a prepayment meter. We believe that the number of these households, whilst small, was not insignificant.

Whilst just six months ago asking millions of households to stay inside for 12 weeks was inconceivable, a repeat of this it is now within the realms of possibility, even if done at a local level as part of a coronavirus response. This scenario should therefore be well understood, and suppliers should act to prepare for them. Targeting of legacy prepayment meters without credit functions for smart upgrades is essential leading up to winter, and that Ofgem should not wait until the result of this consultation to direct suppliers to do so.

Ability to Pay Principles

We welcome the intention to update the principles to reflect developments in the market. It is important that they are kept up to date and regularly reviewed. Whilst disconnections due to debt, and the number of customers in arrears, have both fallen, more than two million customer accounts are either in arrears or paying a debt⁷, and there is a need to ensure that those that are in debt are repaying at an amount suitable for their circumstance.

NEA believes all six of the following principles (as proposed in the consultation) should be adopted into the licence condition:

Having appropriate credit management policies and guidelines will ensure that credit management is dealt with on a consistent basis across a supplier, whilst allowing for each customer to be dealt with on a case by case basis. We strongly agree with the adaptation of the principle to include a focus on staff incentives being linked to **customer** outcomes, not value of repayment rates. This change in management policy throughout the industry would have a profound impact on customer service, and the relationship between struggling households and their utility debt.

Making proactive contact with customers will reduce the likelihood that households fall into problem debt through addressing issues earlier and signposting to relevant third-party services. Without this principle, which ensures that suppliers contact their consumers in an effective manner, understanding a customer's ability to pay and acting on this will be very difficult. We believe that the signposting to third party advice should not be limited to debt advice, but should also include benefits entitlement checks, which can make a significant difference to people's lives. For example, approximately 1.3m older people are eligible for pension credit but are not claiming it⁸. This has further implications as pension credit serves as a gateway to other sources of income such as the Warm Home Discount. Including such provision in the licence condition would have a material impact on a significant number of people, whilst reducing debt levels in the energy industry.

Understanding individual customer's ability to pay means that each customer that is in a debt collection process should have their situation well understood by their supplier, including both the financial amount they are able to pay off, and the way in which they can pay this. Without this understanding, rates and payment methods may not be suitable for each individual customer and it is likely that debt issues escalate. If this is not implemented in full, it would likely result in many customers being put on default repayment plans, leading to poor customer outcomes.

Setting repayment rates based on ability to pay is absolutely crucial to the success of the package proposed within this consultation. Setting payment *type* based on ability to pay is commonplace in the market. However, whilst setting repayment *rates* based on ability to pay has a much larger impact on households, this is something that is largely missing. Although this principle relies on those preceding it to work, it is the key factor in reducing self-disconnections and more broadly self-rationing.

Ensuring the customer understands the arrangement gives the customer the ability to make educated choices in their financial management. If households do not understand the implications of their repayment plans, they may not be able to adequately plan for repayment and fall into further debt arrears.

Monitoring arrangements after they have been set up will ensure that repayment plans remain fit for purpose. The ability of a household to repay a debt does not remain static forever. Changes in circumstance can drastically impact on the amount that can be repaid, and the way the debt is repaid. Without monitoring, this will be missed, and there is a risk of problem debt building up and increasing arrears.

NEA believes that when in place, these principles will mean that suppliers will proactively contact their indebted customers, understand their situation with regards to their ability to pay the debt, using the most appropriate repayment methods for their circumstances and that the amounts being repaid are manageable and are leading to customers being able to pay off the debt. We also expect that credit agencies will be informed when debt has been repaid, and where appropriate, customers are signposted towards third party debt and benefits advice agencies. Put simply, these principles cannot just be applied to customers that enter the debt collection system but must apply to the millions of accounts that are currently in debt.

Timeframe

The consultation document provides a target for implementation of the proposals by the end of 2020. Whilst we welcome the speed of this, we believe that the ambition could go further and recommend that Ofgem set an implementation target date of the start of December. We think this for two reasons:

Firstly, it will give prepayment households the increased protections proposed in the consultation for the whole of winter, meaning, increasing the early value of making such changes and having a material impact on peoples lives as they look to keep their homes warm.

Secondly, it is now entirely foreseeable that there will be a second wave of Covid-19, and a corresponding lockdown, whether this is national or more localised than we have previously seen. Ofgem has shown⁹ that over half of consumers say they are using more energy than normal for the time of year, rising to 75% in households with children. Analysis by the Energy and Climate Intelligence Unit¹⁰ (ECIU) has also demonstrated that, were the coronavirus lockdown to be continued or re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month¹¹. These proposals have increased impact in such a situation, so having them in place as early as possible to ensure give the best chance that their existence intersects with a second wave is important.

Our proposed timeframe would mean that Ofgem have to make a final decision by the 6th October, meaning that there would be 6 weeks for Ofgem to consider responses and make a final decision. This timescale seems achievable and is similar to the arguably more expansive 'Supplier Licence Review', where the statutory consultation closes just four days prior and is due a decision in Autumn. The proposals on self-disconnection are considerably more pressing, are overdue (they are currently not on track to be delivered in the first year of the new consumer vulnerability strategy, as promised¹²) and so should be given prioritisation when it comes to allocating Ofgem resource, if this is a constraint.

Next Steps

The proposed areas for reform would mark good progress in reducing the number of self-disconnections; NEA is pleased that given the context of a global pandemic, and potential further lockdowns where self-disconnections can become more acute, Ofgem has progressed this work relatively quickly. We do not believe, however, that Ofgem should consider its work on self-disconnection as being finished.

More can be done to reduce the number of self-disconnections and level of self-rationing. As we have previously stated in both our response to the Ofgem Consumer Vulnerability Strategy 2025 and the policy consultation that preceded this statutory consultation, there would be merit in Ofgem setting a challenging target to eliminate self-disconnections by the end of the consumer vulnerability strategy period (2025). In order to do this, Ofgem should:

- Enhance monitoring and reporting of the PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them. Additionally, the major anomaly that financial vulnerability is not captured in a systematic way by suppliers via the PSR needs to be addressed urgently. Other consumer groups have also recently started to echo our views on this.
- 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, do not lose credit before they can access any energy. Ofgem's work on updating network charging regimes must not create a negative distributional impact for electricity prepayment customers.

Additionally, NEA has highlighted, in a new briefing¹³, there is a 'gathering storm' of utility debt within the water and energy sectors which is being badly exacerbated by the current Covid-19 crisis. Unless addressed, the paper highlighted how the impact of utility debt will badly affect customers' health, wealth, and well-being. NEA also underlined the impact on companies' financial viability and that utility debt is an on-going day-to-day drag on the economy, with money that could normally go towards paying for other goods or services to boost the economy, instead being used to pay off household debts.

The paper highlighted immediate actions to address these issues and alongside a number of quick wins, NEA called on the UK Government to accelerate their 'breathing space' legislation and come forward with a package of measures to address utility debt in amore co-ordinated way. Additionally, NEA believes that there are three actions that Ofgem could take in order to reduce the impact on households of debt accrued during the crisis, going into winter.

Firstly, to drive up the consistent adoption of good practices for industry-led money-matched repayment schemes and payment holidays. Best practice in the water industry is for suppliers to offer money-matched repayment schemes and payment holidays and that Ofgem could encourage energy suppliers to offer to their customers.

Secondly to promote Fuel Direct, both directly with households and through suppliers. The number of customers using fuel direct has reduced from around 39,000 electricity customers in 2011 to around 27,000 in 2015 and around 42,000 gas customers in 2011 to around 26,000 in 2015 (the last year records are publicly available). This will help debt repayment and give Government an option to provide targeted assistance to those who use fuel direct, providing a value for money option to help reduce debt in the sector.

Lastly, to work with BEIS to extend and expand the Warm Home Discount. NEA recently welcomed the joint approach to the 'Flexible and Responsive Energy Retail Markets' which also presents a key opportunity to address critical issues which effect consumer protections and vulnerable customers. Above all, NEA stressed the need for the UK Government to ensure the Warm Home Discount scheme continues and how essential it is to extend the scheme past 2021. Without certainty over the future of the scheme, NEA (and a wide range of other organisations) will not be able to maintain our work to award grants, fuel debt advice and wider services which save lives. This is despite industry initiatives often providing better value for money than switching or even direct yearly rebates which are the main focus of the current programme. Specifically, we recommend that:

- The Warm Home Discount scheme should be expanded and reformed so that the broader group receive automatic payments in a similar way to the core group does. This can be achieved in a cost neutral way whilst protecting the vital support provided within industry initiatives. Ofgem should work with BEIS to ensure that Warm Home Discount Industry Initiatives are extended and expanded. This can be done through sharing information on the benefits of the scheme so that BEIS can make an informed decision on its future.
- The Warm Home Discount and Energy Company Obligation supplier obligation thresholds should be reduced further, with smaller suppliers carrying the whole obligation (unlike the current WHD obligation, where smaller suppliers only have the core group obligation).
- Ofgem should increase the flexibility within delivering the "industry initiative" part of the Warm Home Discount, something that will become much more important when all suppliers are obligated to deliver the scheme.
- There is an urgent need for Ofgem and the UK Government to develop a clear work stream on what protections will remain in place to support low income consumers that can't engage in the market once the market-wide cap is removed.

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 has worked closely with Ofgem and others to ensure:

- Changes to warrant charges for vulnerable energy consumers
- Enhanced partnership working with network companies and energy suppliers to improve the Priority Services Register (PSR)
- improved performance from suppliers to identify, respond to and prevent vulnerable consumers from falling into further debt .
- New protections for consumers who receive back bills
- The RIIO GD-2 framework has a focus on identifying and supporting customers in vulnerable situations.
- The CMA recommended a prepayment cost cap that is currently enforced and expanded through the safeguard tariff
- Successful implementation of the default tariff price cap with extra protections for those receiving WHD.

⁴ Over the last 5 years, there has been an average of 35,562 excess winter deaths. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the world health organisation - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf

⁵ Our Call for evidence captured feedback on how covid-19 has impacted on vulnerable households and the support that can be offered to them. There were 73 respondents in total, most from not-for-profits and local authorities, but also from distribution companies, energy suppliers, installers/contractors, housing providers. 28 respondents were from England, 18 from Wales, 18 from Northern Ireland. 7 that work across GB and/or UK, and 1 respondent from Scotland. The majority of respondents provide support to fuel poor and vulnerable households, either directly or indirectly.

⁶ In our paper 'Addressing the Impacts of Covid-19 on Vulnerable Energy Consumers, we support a "universal 'levelling up' of friendly credit limits for PPM customers". For the full paper, see <https://www.nea.org.uk/wp-content/uploads/2020/04/Addressing-the-impacts-of-COVID-19-for-vulnerable-customers-020420.pdf>

⁷ The Ofgem report "Vulnerable consumers in the energy market: 2019" states that "The total number of customers in debt has increased. This is 1,309,768 for electricity and 1,048,8344 for gas" for the full report see https://www.ofgem.gov.uk/system/files/docs/2019/09/vulnerable_consumers_in_the_energy_market_2019_final.pdf

⁸ On 23rd Feb this year, Which? Reported that “1.3 million households could be missing out on pension credits worth £3,000 per year, according to government data.”. For the article, please see <https://www.which.co.uk/news/2020/02/millions-missing-out-on-3000-of-pension-credit-are-you-eligible-to-claim/>

⁹ See tables 38 and 39 of the Covid-19 Omnibus Data Tables April 2020 - <https://www.ofgem.gov.uk/publications-and-updates/what-are-consumers-experiences-energy-during-covid-19-emergency>

¹⁰ See: <https://eciu.net/news-and-events/press-releases/2020/energy-bills-for-families-in-leakiest-homes-to-surge-during-winter-lockdown>.

¹¹ For more information visit: <https://eciu.net/analysis/reports/2020/lockdown-in-leaky-homes>.

¹² Ofgem’s consumer vulnerability strategy, published on 25th October 2019, says that in the first year, they will “strengthen rules to protect consumers in vulnerable situations from self-disconnecting their pre-payment meters” and “Update the Ability to Pay principles and include them in the licence conditions to provide targeted support to consumers facing payment difficulty”. Based on the current timescales, this will not be achieved in the first year, by 25th October 2020. For the full strategy, please see https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf

¹³ For the NEA paper ‘The Gathering Storm: Utility Debt and COVID-19 please see <https://www.nea.org.uk/wp-content/uploads/2020/06/The-Gathering-Storm-Utility-Debt-and-Covid-19-June-2020.pdf?platform=hootsuite>