

# Proposals to improve outcomes for prepayment customers

Citizens Advice formal response



Citizens Advice is pleased to respond to this consultation. The prepayment market has for too long been characterised by poor consumer experience: lack of choice, lack of engagement and a second-class service. The Competition and Markets Authority recently proposed a number of possible remedies to address the lack of competition in the prepay segment and we await the publication of their final remedies. We welcome Ofgem's proposals to end unfair charging practices and improve supplier behaviour during debt-related activities.

As many of the existing problems in this market are linked to the traditional metering technology, Citizens Advice remains hopeful that the rollout of smart meters will bring improvements for prepayment customers. One aspect of this is the end to installation and removal charges as it will be possible to switch smart meters remotely between credit and prepay mode. However, prepayment customers should not have to wait until they receive a smart meter to benefit from these improvements. The rollout is not due to be completed before 2020 at the earliest and the number of consumers using traditional prepayment meters is continuing to rise. There must be urgent intervention to ensure fair treatment of prepayment customers in the meantime.

## **Installations carried out under warrant**

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### **1. Do you agree with the scope of warrant charges?**

Yes, we agree that the scope of warrant charges should cover all aspects of debt recovery up to and including costs to exercise a warrant and install a PPM, and should include charges incurred by customers who eventually avoid having a PPM installed under warrant. This is consistent with our experience of consumers being unfairly charged.

### **2. Do you agree with the desired consumer outcomes?**

**We expect warrant charges to be applied fairly for all consumers**

**We expect suppliers' warrant practices to be transparent and fair**

We agree with these two desired consumer outcomes. We also agree with the need for a third, complementary outcome that captures the additional expectations in relation to consumers in vulnerable situations.

### **We want to reduce impact on the most vulnerable**

We think, however, that this outcome is unclear and should be modified. The outcome should make clear what the 'impact' on vulnerable consumers is that this principle is looking to reduce. Vulnerability should not be created or exacerbated as a result of suppliers' warrant activities, including warrant charges. Therefore, a better formulation might be:

*We expect suppliers' warrant practices not to cause undue detriment to consumers in vulnerable situations.*

### **3. Which option set (A, B or C) do you think will be most effective in meeting our consumer outcomes?**

Set B:

- I. End warrant charges for consumers in vulnerable situations
- II. Cap charges for all consumers (one level cap), and
- III. Set out clear expectations of supplier behaviour

We think set B will be the most effective in meeting the desired consumer outcomes.

An end to warrant charges for consumers in vulnerable situations, as opposed to a cap, is necessary to achieve the third consumer outcome. Vulnerable consumers who have fallen into debt are more likely to be acutely financially vulnerable. Warrant charges can only serve to worsen their situation. The Extra Help Unit has stated previously that it would be useful, for example, to waive charges for consumers on certain income-related benefits.<sup>1</sup>

However, the impact of waiving charges is greater than simply the financial saving to the consumer. It can help alleviate stress, the sense of being penalised, and improve the relationship between supplier and consumer. This can stop vulnerable situations from worsening.

At the Ofgem prepayment roundtable in October 2015, the Extra Help Unit gave evidence of the benefits to both parties of waiving charges early in the debt process. Consumers will often object to such fees and ask for them to be withdrawn. If this does not happen, they can start to withhold payment, the

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<sup>1</sup> Evidence given at the Ofgem prepayment roundtable, October 2015.

debt spirals and the relationship breaks down. This exacerbates the consumer's situation as well as making it harder for the supplier to recover the debt. This is a good illustration of the need to waive charges for vulnerable consumers.

We also agree that warrant charges for all consumers should be capped in order to achieve the first objective. This should incentivise suppliers to reduce costs, including those of third party providers, with any remainder smeared across the customer base.

We are mindful that some suppliers have warned about potential impacts on the quality of warrant related services. Firstly, this underlines the importance of setting out clear expectations of supplier behaviour (and penalising suppliers for not meeting them). Secondly, if suppliers are unable to guarantee good standards in their warrant activities, then the onus should be on them to explore alternative solutions. Consumers should not face a lottery when it comes to warrant charges.

We also agree with the need for Ofgem to set out clear expectations of supplier behaviour, included in each set of options. This is particularly important for ensuring that suppliers' warrant practices are fair. For example:

- Suppliers have robust engagement strategies so they can satisfy themselves that a warrant isn't being requested in circumstances where it is unfair to do so;
- Suppliers agree appropriate debt repayment plans and methods with their customers, thoroughly considering alternatives before going down the warrant path;
- Supplier practices take into account individual circumstances, including whether these circumstances have contributed to the need to seek a warrant.<sup>2</sup>

However, we are concerned that this on its own will not be enough to protect consumers in vulnerable circumstances from poor supplier practices during the warrant process and wider debt collection activities. The regulator states early in the consultation document, 'our expectation is that suppliers should take all reasonable steps to identify [vulnerable] consumers and ensure that they communicate appropriately with them'.<sup>3</sup> Robust action will be needed to ensure this expectation is met in practice.

Firstly, there needs to be a coordinated approach to sharing learnings around consumers in vulnerable circumstances. This is particularly important given the

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<sup>2</sup> [ofgem.gov.uk/sites/default/files/docs/final\\_consultation\\_ppm\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/final_consultation_ppm_0.pdf), p. 22

<sup>3</sup> Ibid. p. 12

number of new entrants in the market who, in our experience, often lack a satisfactory understanding of vulnerability. Understanding and identifying vulnerability is particularly complex in the context of warrant activity, where the supplier is typically seeking to recover unpaid charges as a last resort. On the one hand, there may be elements of financial vulnerability. A consumer who is struggling to afford their energy is likely to have wider financial troubles, for example, and may experience wider financial detriment as a result of warrant activities. This is in direct conflict with the fact that the supplier is entitled to collect unpaid energy charges. On the other hand, there may be issues around lack of engagement, with the consumer not engaging due to the nature of their vulnerability.<sup>4</sup> The latter might be particularly difficult to understand and identify. Again, suppliers can struggle to distinguish this from the customer simply 'being difficult'.

One example from the Extra Help Unit shows how complex these issues can be:

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The consumer was off work receiving Statutory Sick Pay due to multiple health problems including depression, vertigo and a heart condition. The supplier had obtained a warrant but she had only found the letter advising of the court hearing after it had taken place.

The consumer was experiencing financial difficulties due to her circumstances and wanted to agree a payment plan with her supplier. There were also concerns about the additional court and warrant fees given her financial circumstances.

The supplier advised that unless the consumer paid a substantial upfront payment they would proceed with installing prepayment meters in two days time using the warrant. The consumer had asked that, if a payment plan was not possible, the PPM installation be delayed by a month to allow her to budget for purchasing top ups as she would not be able to afford to top up. This was not agreed to.

The consumer could not afford any upfront payment and the supplier proceeded with the PPM installation under warrant on the original date. The balance increased to reflect the additional court and warrant fees causing more financial worry to the consumer.

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<sup>4</sup> As noted in the consultation document, 'We are particularly concerned that some consumers in acutely vulnerable situations go through the warrant process. These can be consumers who do not engage because of the nature of their vulnerability', *ibid.* p. 9.

The consumer returned to the Extra Help Unit two weeks later as she had self-disconnected from both supplies. Discretionary credit was then provided by the supplier to keep the consumer on supply.

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Whilst this example clearly demonstrates that the consumer was in a vulnerable situation, suppliers often say that it is not so clear cut from their perspective. For example, there might be a history of difficult engagement with the customer, or the customer might not be comfortable discussing personal circumstances with them. This only reinforces the need for sharing learnings and disseminating good practice, as a number of suppliers have found ways to surmount these problems.

We suggest that Ofgem, alongside the Citizens Advice Service, take a proactive role in ensuring that all suppliers engage with these learnings on an ongoing basis. It is not satisfactory for only a subset of market participants to be engaging with these issues. For example, currently only the largest six suppliers are formally signed up to Energy UK's Safety Net, which leaves a significant number of suppliers uncommitted to it. We would support the idea of a code of practice as a means of encouraging all suppliers to engage with these issues and adopt good practice.

We also think Ofgem should consider publishing guidance in relation to consumers in vulnerable circumstances, particularly in the context of warrant activities. As highlighted above, this is a complex area where some suppliers, particularly new entrants, can lack depth of understanding. It is not enough to expect suppliers to 'take all reasonable steps to identify vulnerable consumers' when there are weaknesses in the understanding of vulnerability in the first place.

Finally, Ofgem must reinforce its expectations with suitable monitoring and, where appropriate, enforcement. Currently, Citizens Advice and Ofgem hold bilateral meetings with suppliers in relation their Social Obligations Reporting (SOR). These meetings are an opportunity to discuss the supplier's approach to debt and vulnerability and any indications of poor performance, drawing on SOR data and intelligence from the Extra Help Unit and Consumer Service. However, the meetings do not occur regularly enough to act as a robust monitoring mechanism on their own. This is becoming ever more of an issue as the number of licensees increases rapidly and there is simply not the resource available to hold regular meetings with every supplier. This could be reviewed as part of Ofgem's move towards principles-based regulation. In particular, we encourage Ofgem to consider other early indicators that could be used to

monitor suppliers' warrant-related activities and treatment of consumers in vulnerable circumstances.

**4. Should cases of energy theft or willful damage to meters be exempt from our proposals?**

Yes, we agree that this should be the case.

**5. Question for licensees only**

Not applicable.

## **Installation (non-warrant related) and removal charges**

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**6. Do you have any views on our approach or better alternatives to achieve the outcomes we have identified?**

As stated in our response to the CMA, we believe that if a consumer meets the criteria to be able to switch away from a prepayment meter, suppliers should not be allowed to charge installation or removal fees.<sup>5</sup> We believe likewise that suppliers should not be allowed to charge installation or removal fees for consumers moving from credit to prepay terms. We agree with Ofgem that this is consistent with the fairness principle set out in the Standards of Conduct.

We therefore favour an approach that can guarantee an end to installation and removal charges for all consumers with immediate effect. The proposed approach does not guarantee this. With SMETS2 meters available to all suppliers from the end of August 2016 and the DCC launching later in the year, we believe it is unacceptable that any consumers should still face meter installation and removal charges. In the event of a meter exchange, whether from PPM to credit or vice versa, suppliers should be obliged to install a smart meter, ideally a SMETS2 meter,<sup>6</sup> or else waive installation and removal fees. Otherwise, consumers could find themselves paying for a new meter only for it

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<sup>5</sup>[assets.digital.cabinet-office.gov.uk/media/56a649a5ed915d6d2a000020/Citizens\\_Advice\\_2nd\\_supp\\_remedies\\_resp.pdf](https://assets.digital.cabinet-office.gov.uk/media/56a649a5ed915d6d2a000020/Citizens_Advice_2nd_supp_remedies_resp.pdf)

<sup>6</sup> We are concerned that consumers with SMETS1 meters will face additional barriers to switching: if they try to switch, they will lose all smart functionality until their meter is exchanged for a SMETS2 meter.

to be replaced (free of charge) with a smart meter capable of operating in both credit and prepay modes within the coming months or years.

In addition, we believe that the inconsistent application of charges across the sector may result in customer confusion and, in some cases, a deterrent to switching meter based on the false assumption that this would result in the consumer incurring costs when, in most cases, they would not. Removing the scope for that confusion by applying the same standard across the industry could reduce (perceived) barriers to switching and thus help PPM customers to access more competitive tariffs.

Whilst we understand that Ofgem is keen to adopt a principles-based approach, rather than mandating a ban on this specific practice, the intervention should in any case only be viewed as an interim measure during the transition to smart. It need not, therefore, be seen as contradicting the regulatory direction of travel.