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## Debate on a motion relating to energy company charges for payment other than by direct debit (04 February 2014)

03 February 2014

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### Summary

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An increasing number of households are struggling to meet the cost of heating and powering their home. While this problem is certainly not unique to those who pay for their energy by prepayment meter or standard credit, these households pay on average £100 a year more than those paying by direct debit. This can make all the difference at a time when the cost of living, and the price of energy in particular, is rising more quickly than household incomes.

The majority of regulatory and supplier efforts on tackling this issue have been to encourage people to move to paying by direct debit wherever possible. Citizens Advice supports this approach in cases where this is appropriate. However, direct debit is not an option that is available to all households, while others are wary of losing control of their finances. We would therefore like to see more focus on improving the support available to those paying by prepayment meter, as well as more investment from suppliers in terms of creating innovative products which meet the needs of these customers.

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### Contact

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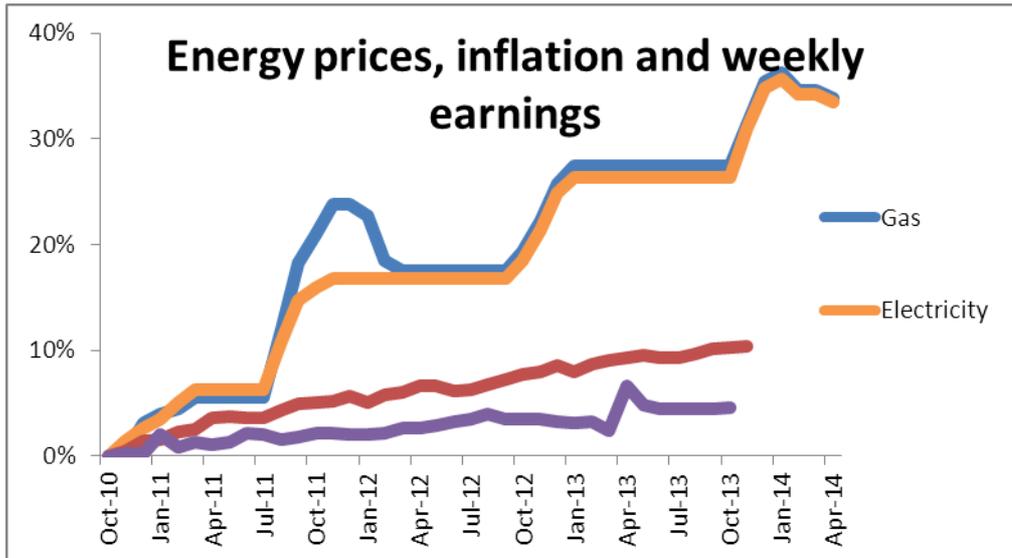
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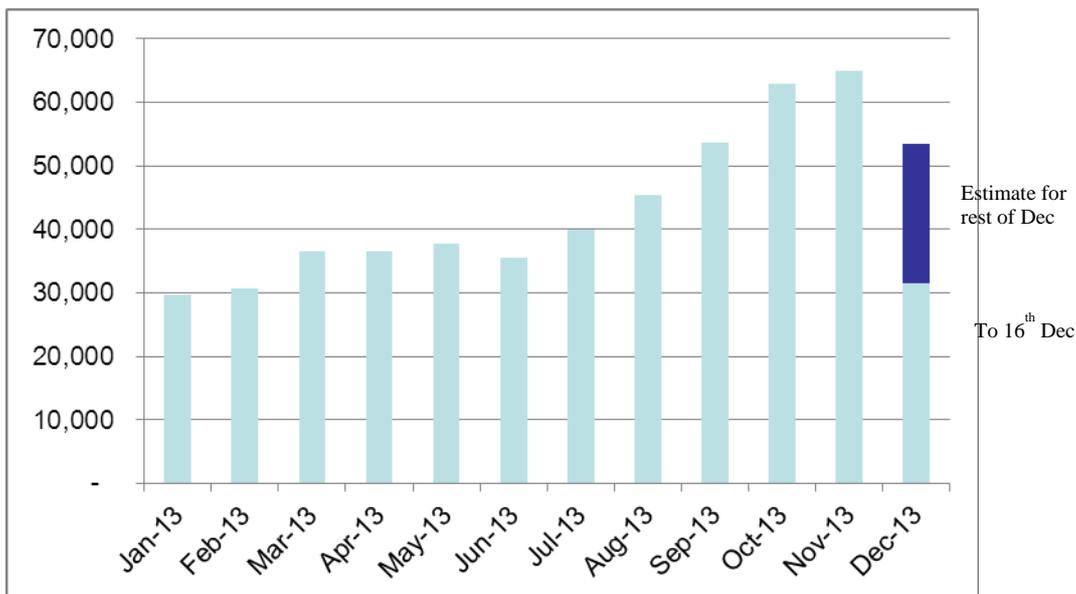
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## Background

Many households are finding it increasingly difficult to find the money to heat and light their homes. Energy prices have increased by roughly 8 times that of average earnings since 2010 and are also outstripping CPI inflation. The Autumn Statement introduced savings through ECO and social levies, but these are relatively small: £50 off a £1,350 dual energy bill.



In the last four quarters Citizens Advice Bureaux have dealt with 84,000 enquiries about fuel debt, while hits to the energy section of our website doubled in October and November, the period during which suppliers announced their price increases. Calls to the Citizens Advice Consumer Helpline seeking advice about energy doubled in the same period.



A survey carried out by Citizens Advice ahead of Big Energy Saving Week found that 52 per cent of people said that they were trying to cut their energy costs by turning down the heating, while 51 per cent said that they were using less electricity. More than a sixth of people (16 per cent ) were even resorting to using fewer rooms in their home.

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## The impact of paying by prepayment meter or standard credit

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While these changes affect all energy consumers, people who pay for their gas and electricity by standard credit or prepayment meter pay an average of £100 more per year than those paying by direct debit. In 2013 the average combined electricity and gas bill for direct debit customers was £1314. Households paying for their energy through prepayment meters paid an average of £1424, while standard credit customers paid marginally more at £1425.<sup>1</sup>

Paying more for gas and electricity by prepayment meter or standard credit is just part of the picture for many low income households. Paying £100 more for energy alone could be the tipping point in an already stretched budget, but research by Consumer Futures found that those on a low income consistently pay more for basic household essentials. They calculated that those on a low income pay up to 10 per cent more in order to reach an acceptable standard of living.<sup>2</sup>

There are a number of reasons why someone may choose not to pay by direct debit. For example, some people, particularly those with a low household income or a history of financial difficulty, are very wary of falling into arrears and accruing debt. They therefore prefer the control that paying by prepayment meter or standard credit offers as to how much they pay and when. Others may live in rented accommodation with a prepayment meter that they are unable to have exchanged for a credit meter. Others are still refused access to payment by direct debit by their supplier as a result of failing a credit check.

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## What can be done to address this issue?

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It is important to note that Ofgem allows suppliers to vary their prices by payment method as long as the amount charged reflects the additional cost to the business of serving these customers. For example, the infrastructure required to serve customers with prepayment meters costs more to run than the infrastructure necessary to facilitate payment by direct debit. This reflects the approach taken by regulators across the economy.

The bulk of regulatory and supplier effort to address the issue of price differentials between payment methods has therefore been to encourage people to move to direct debit. Citizens Advice supports this approach in cases where direct debit is the most appropriate option available to the individual involved.

However, as outlined above, direct debit is not an option that is open to, or attractive to, all households. We therefore believe that more attention should be given to improving the products and level of support available to people who pay in other ways, particularly those with prepayment meters. While the big six suppliers all provide some form of support for their prepayment customers who cannot afford to top their meter (for example through providing emergency credit) the level of support available is patchy and rarely offers a sustainable solution for these customers.

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<sup>1</sup> DECC (Dec 2013) Average annual domestic electricity bills by home and non-home supplier and DECC (Dec 2013) Average annual domestic gas bills by home and non-home supplier.

<sup>2</sup> Consumer Futures (2013) Addressing the poverty premium – Approaches to regulation

As well as paying more for their energy than those paying by direct debit customers, prepayment meter users have considerably fewer tariffs to choose from than those with a credit meter. This is particularly important at a time when more and more households are struggling to afford their energy bills and risk falling into arrears. A common approach to collecting energy debt is for the supplier to move the customer onto a prepayment meter. Citizens Advice are particularly concerned that people whose incomes are reduced as a result of welfare reform will find themselves unable to afford to meet their essential costs and be required to move to a prepayment meter as a result. This could leave an increasing proportion of households vulnerable to self-disconnection and under-heating their home.

**Citizens Advice would therefore like to see a more consistent, fit for purpose safety net developed for prepayment meter customers.**

A further issue lies in the lack of choice for people who pay by prepayment meter. SSE have led the way in opening up all of their tariffs to prepayment meter customers; however in many cases prepayment customers are limited to one or two tariff options. Innovation also appears to have been lacking in upgrading the technology around prepayment. For example, the ways in which prepayment meters can be topped up are still extremely limited and in almost all cases still involve visiting a shop. This is remarkable when one considers the innovation in paying for similar goods, such as prepay credit for mobile telephones.

The roll-out of smart meters offers an opportunity to address some of these issues and Citizens Advice has called for prepayment meter customers to be given priority in this process. The potential benefits will only be realised, however, if suppliers invest time and resource into this neglected sector of the market. Additionally, the roll-out is still years away and meanwhile prepayment customers continue to pay more for an inferior service.

**We would therefore also like to see suppliers invest more time and resource in developing new, innovative products which meet the needs of prepayment meter customers. This is long overdue.**

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## Contact

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