

# Consultation Response



## StepChange Debt Charity response to the Ofgem consultation: *Prepayment meters installed under warrant: final proposals*

November 2016

StepChange Debt Charity London Office  
6<sup>th</sup> Floor, Lynton House, 7-12 Tavistock Square, London WC1H 9LT  
Contact: Henry Hall  
Tel: 0207 380 3394  
Email: [henry.hall@stepchange.org](mailto:henry.hall@stepchange.org)

---

We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds, LS2 8NG trading as StepChange Debt Charity and StepChange Debt Charity Scotland. A registered charity no.1016630 and SC046263. [www.stepchange.org](http://www.stepchange.org)

## Introduction

StepChange Debt Charity welcomes the opportunity to respond to this Ofgem consultation on ***Prepayment meters installed under warrant: final proposals***.

StepChange Debt Charity is the largest specialist debt charity working across the UK. 550,000 people contacted us for free debt advice and support on problem debt in 2015. As a result we have considerable experience in dealing with people who are vulnerable through financial difficulty.

Our response to this consultation will set out some analysis of our clients' experience of fuel debt. We will follow this with brief responses to the consultation questions.

## StepChange clients with fuel debt

The number and proportion of people StepChange Debt Charity has seen with gas and electricity debts has grown in recent years.

- In 2011 we saw 12,657 people with electricity arrears, around 8% of our clients who were responsible for an electricity bill. By 2015 this had increased to 32,183, or around 14% of our clients with an electricity bill.
- In 2011 we saw 9,461 people with gas arrears, around 8% of all clients with responsibility for a gas bill. By 2015 this had risen to 21,236 people, around 12% of all clients with responsibility for a gas bill.

The rate of increase has steadied off over 2015 and the start of 2016, but the numbers of people we are seeing with fuel debts are still considerably higher than five years ago.

Further analysis of StepChange Debt Charity clients with fuel debts (gas and electricity) shows how people with fuel debts are more likely to show signs of broader vulnerability than our clients who do not have fuel debts.

Looking at a sample of almost 160,000 people who contacted StepChange Debt Charity in 2015 by telephone, we found the following:

- People with fuel debts were less likely to be able to make ends meet: 41% of those with fuel debts had a negative budget (expenditure in excess of income) even after budgeting counselling. This compares to 28% of StepChange Debt Charity clients without fuel debts
- People with fuel debts were more likely to have council tax or rent arrears as well: 58% of StepChange clients with fuel debts also had rent or council tax arrears. This compares to 27% of those without fuel debts.
- People with fuel debts were more likely to be on lower incomes and in receipt of means tested, incapacity and unemployment benefits: 64% of those with fuel debts compared to 46% of those without fuel debts.
- StepChange clients with fuel debts were more likely to have children: 52% of those with fuel debts compared to 39% of those without
- Our clients with fuel debts were more likely to be in receipt of (or a household member was in receipt of) disability and incapacity benefits: 24% compared to 17% of those without fuel debts. This suggests that people with fuel debts are more likely to show other indicators of vulnerability, even compared to other people in serious financial difficulty.

Indeed, based on a sample of 25,057 clients debt advised over the phone between 13th June to 30th September 2016, data shows that clients who identify themselves as vulnerable beyond their obvious financial vulnerability are more likely to have fuel arrears.

Clients with additional vulnerabilities are 6 percentage points more likely to have arrears on electricity bills than all clients. Clients with dementia or Alzheimer's disease are twice as likely to have arrears on electricity compared to all clients.

Clients with additional vulnerabilities are 8 percentage points more likely to have arrears on gas bills than all clients. Clients with mental health issues such as bipolar, anxiety or depression are even more likely to have arrears, 5 to 7 percentage points higher than all clients.

As a result StepChange Debt Charity strongly supports the proposals by Ofgem to ensure that PPM customers in the most vulnerable situations do not face costs that result from their vulnerability, or would exacerbate it.

### **Question 1: Do you agree with the outcomes intended as a result of our policy detailed in paragraph 2.4?**

StepChange Debt Charity agrees with Ofgem's position set out in paragraph 2.4 that installations of PPMs under warrant should be avoided wherever possible, and only used as a last resort. Based on a survey of 1,794 StepChange clients in May 2016, one in three clients with utility arrears said they had a prepayment meter forced upon them<sup>i</sup>. 27% of these prepayment meters are from electricity providers and 24% are from gas providers<sup>ii</sup>.

We advocate an affordable repayment approach for energy providers, to reduce the financial pressure that debtors face, and prevent debt problems being made worse. In many cases the installation of a PPM under warrant does not present itself as affordable for the financially vulnerable – so very much support the notion that the installation of PPMs under warrant should be avoided wherever possible.

We support the cap on costs incurred from the installation of PPM under warrant as this would increase the ability for consumers to repay. These additional costs would serve to make debt problems worse for the financially vulnerable and make repayment more unaffordable. We know that shocks to clients spending, such as having to pay for one off expenses can cause huge trouble, and can often force people to take out credit to pay for these expenses. Based on a nationally representative survey from October 2015, 44% of UK adults who couldn't afford to pay for a £200-£300 shock expenditure turned to a credit card, and 25% used their overdraft<sup>iii</sup>.

Given that our clients with fuel debts will have around six creditors on average, additional charges for instalment and collection activity can quickly cause problem debts to mount up. Previous research by StepChange Debt Charity estimated that in just six months a typical StepChange client could see an extra £2,300 added to their debts if creditors added default charges to their accounts.

**Question 2: Do you agree with our preferred option as detailed in paragraphs 2.8 to 2.10?**

StepChange Debt Charity supports the proposal of a cap on the cost of all charges related to the application, execution, and installation of a PPM under warrant. For reasons outlined above, the additional burden of paying for the installation of a prepayment meter could be unmanageable for customers in financial difficulty and would only serve to push them further into problem debt. However, this should be implemented as part of a holistic strategy for fair and sustainable debt management.

We support the intention to reduce the impact on the most vulnerable consumers by prohibiting PPMs being installed for these customers. Financial vulnerability and other indicators of vulnerability are often experienced together and become self-reinforcing if the right help is not available for consumers when they need it. We know that unresolved debt problems can have a detrimental effect on people in financial difficulty – 47% of StepChange clients polled said they had visited their GP as a result of mental or physical health problems caused by their debts<sup>iv</sup>.

We would suggest that the definition of financial difficulty should be carefully considered to ensure that a universal definition is used. We know from the experiences of StepChange clients that there are several different markers of financial difficulty, from arrears on essential bills to using credit to pay for credit. The definition for customers where are in severe financial difficulty should be agreed across the sector.

**Question 3: Do you have views on any further unintended outcomes which could be realised in addition to the risks outlined in paragraphs 2.47 to 2.50?**

The risks outlined in the consultation paper should be monitored and assessed after implementation, including to see whether the market has used the cap as the accepted going rate. This assessment should not however jeopardise the implementation of the cap.

**Question 4: Do you agree that the cap should be applied when the warrant process is not completed and that no further detail is necessary?**

We agree that the cap should be applied when the warrant process is not completed.

**Question 5: Do you agree with the proposal for a new debt proportionality principle (as detailed in paragraphs 2.59 to 2.66), in that this would not be limited to warrant activities and would require costs and actions relating to ALL debt recovery activities (including transfer objections) to be proportionate?**

StepChange Debt Charity strongly supports the proposal for a new debt proportionality principle to ensure that charges and actions are proportionate in the debt recovery path. We agree that the scope should be set broad, as customers can face additional costs at any point along the debt recovery path – the proportionality principle must include this to prevent the incentivising of costs earlier in the debt recovery path. Keeping repayments proportional to debts will increase the

affordability of debt repayments and will help to prevent debt problems getting worse by taking on more credit to pay for debts.

A principle of proportionality will also need to be applied to communication with customers, to ensure that the method of contact is proportional to needs. 83% of respondents to a recent survey of StepChange Debt Charity clients said that at least one of their creditors didn't take account of their vulnerabilities after making them aware of these<sup>v</sup>.

**Question 6: Do you agree with our definition of “under warrant” to mean a warrant that would authorise the installation of a PPM. Do you have any views on unintended consequences of this narrow scope?**

StepChange Debt Charity agrees with the definition of “under warrant” as set out in the consultation document.

---

<sup>i</sup> StepChange Debt Charity, 2016. [Creditor and Debt Collector Conduct: What's making debt problems worse?](#).

<sup>ii</sup> Ibid

<sup>iii</sup> YouGov survey of 3,348 GB adults between the 1st - 5th October 2015.

<sup>iv</sup> StepChange Debt Charity, 2015. [Statistics Yearbook Personal Debt 2014](#).

<sup>v</sup> StepChange Debt Charity, 2016. [Creditor and Debt Collector Conduct: What's making debt problems worse?](#).