StepChange submission to Energy Security and Net Zero Committee inquiry:
Energy bills for domestic customers

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Summary

StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2023, 620,069 people contacted StepChange seeking debt advice or guidance with their problem debt and over 180,000 people completed full debt advice through our online and telephone service.

We welcome the Committee's decision to open this inquiry into energy bills for domestic customers. Energy affordability is a major public policy issue and Cornwall Insight projections suggest that high energy bills are likely to remain in place until at least the 2030s.[1] StepChange research indicates a challenging year ahead for people's finances. In nationally representative polling conducted in December 2023, more than two in five adults (43%), around 22 million people, said they expect their household financial situation to get worse over the next 12 months. Three in four (74%) of this group, around 16 million people, said this was because of energy bills going up in January.[2]

We strongly believe that holistic reform of the energy price model is needed to deliver long-term affordability to those at risk of fuel poverty and to provide sufficient protection and assistance to those struggling with energy debts. This includes the implementation of a social tariff in the energy market which protects vulnerable consumers, including those on the lowest incomes.

As part of this inquiry, we would particularly like to draw the Committee's attention to outstanding problems in the energy debt pathway for customers struggling to keep up with energy bills. Key problems we continue to see include suppliers failing to identify and take account of vulnerability, suppliers making unaffordable demands for repayment and punitive approaches to enforcement. We set out in our response urgent steps to address these issues.

Responses to questions

Q1. What are the justifications for allowing or removing standing charges from energy bills?

Ofgem recently published a call for input on standing charges, looking at how they are applied to energy bills and what alternatives could be considered. StepChange responded, welcoming the regulator's decision to open the conversation about reform and its recognition that standing charges are a particular burden for some consumers, especially those at the lower end of the income distribution.[3]

We encouraged Ofgem to consider interventions designed to improve outcomes for low-income households disadvantaged by the current standing charges set-up, while protecting vulnerable customers with high energy consumption needs. We agree with the Committee's assessment that

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[1] Cornwall Insight (2023) New forecast warns power prices to remain elevated until late 2030s
[2] StepChange Debt Charity (2024) Two in five people say their household financial situation will get worse over the next 12 months
[3] StepChange Debt Charity (2024) StepChange response to Ofgem call for input on standing charges

the current standing charge structure is unfair and penalises those on lower incomes or who are actively reducing their energy usage.[4]

Energy standing charges have risen by over 65% on average since April 2019 and currently sit at around £300 a year for an average household. This is a substantial increase which has contributed to affordability challenges for many consumers.

This growth is especially troubling for those on low incomes and prepayment meters (PPMs), as well as those with low energy usage; notably, there is considerable overlap between these groups. People in this position will often be trying to reduce energy usage wherever possible, but are still left unable to avoid these fixed daily costs. Importantly:

- In the first half of 2023, 43% of StepChange debt advice clients responsible for paying energy bills had energy arrears and 50% of this group had a negative budget, meaning after going through a full debt advice and budgeting session, their monthly income is not enough to cover their basic monthly costs.
- Three in ten (29%) StepChange clients responsible for paying energy bills had a PPM in the first half of 2023. High standing charges are especially concerning for this group of customers, because standing charges accrue even when no energy is being used and these costs must be cleared before a PPM customer can access energy again – a situation which worryingly increases the likelihood of self-rationing among PPM customers.

Given the number of people, including many StepChange clients, who are struggling to manage energy costs and likely to be negatively impacted by high standing charges, we encouraged Ofgem to actively explore options for standing charges reform which would improve the experiences of these groups while protecting vulnerable customers with high energy needs – eg, those dependent on medical equipment or a warm home.

One way to square the circle – essentially, lower standing charges whilst ensuring protections are in place for vulnerable high energy users – is to do so alongside the implementation of an energy social tariff which protects vulnerable consumers, including those on the lowest incomes. StepChange has consistently called on the Government to take this concept forward – as it committed to consider – and we remain strongly of the view that this is an essential step to achieve energy affordability for all financially vulnerable groups.[5] Support for this is wide-ranging, from charities and consumer groups through to Ofgem and Energy UK.[6] It is rare to achieve such a consensus, but it is testament to the strength and necessity of the proposals. We are pleased that this Committee has also previously endorsed such a move, and would urge it to continue amplifying its importance to Government.[7]

Much of the exploratory work to consider what a discounted, targeted support mechanism aimed at those in greatest need might look like has already been done; several prominent charities and consumer groups have carried out detailed research, policy and costing exercises to explore this. This includes the likes of

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[4] Energy Security and Net Zero Committee (2023) *Preparing for the Winter report*
[5] HM Treasury (2022) Autumn Statement 2022; HM Government (2023) *Powering Up Britain: Energy Security Plan*; and National Energy Action (2023) Social Tariff Letter
[6] National Energy Action (2023) Ninety-five organisations call for the introduction of a social tariff; Ofgem (2023) Jonathan Brearley's speech at the Institute for Government and Energy UK (2023) Government must switch on to help vulnerable energy customers this winter
[7] Energy Security and Net Zero Committee (2023) Preparing for the Winter report

Citizens Advice, Age UK and National Energy Action (NEA).[8] It is now just political will which is required to convert this into concrete consultation and action. The Government could and should use this immensely valuable work as a springboard to consult at speed on how a social tariff might be implemented to address inequalities and affordability challenges in billing.

In the, hopefully temporary, absence of Government intervention, we especially note proposals, led by NEA, to make standing charges work better for PPM customers. Options put forward for consideration include:

- reallocating some of the standing charges to the unit rate for PPM households only;
- the introduction of standing charge freezes in certain well-defined situations (for example, being used to reduce the build-up of debt during self-disconnections); and
- moving standing charge accrual 'to the back' of PPM meters (which would enable users to pay accrued standing charge costs in a reasonable way over time but not prevent them from accessing energy supply in the interim, minimising the risk of self-disconnection).

Reform targeted towards PPM customers would have to come with extremely tight monitoring and enforcement around poor supplier practice and inappropriate installations, so vulnerable customers with high energy usage do not slip through the cracks and end up on this meter type.

If implemented and monitored effectively, safeguards around PPMs could arguably minimise negative distributional impacts while supporting a group of customers which is currently disadvantaged, but further research is needed to assess how this would translate in practice. We would welcome steps by Ofgem to explore the viability of a range of options for standing charges reform, and to assess their overall impact on different groups. Any action taken should be designed to improve outcomes for low-income households disadvantaged by the current set-up, while protecting vulnerable high energy users.

Q3. Are pre-payment tariffs necessary to deter fraud and theft and, if so, are the rules in forcibly switching people to pre-payment properly policed?

The proportion of StepChange debt advice clients with energy debts has significantly increased in recent years and 29% of our clients who are responsible for paying energy bills have a PPM. The charity is concerned that such clients can have poor customer journeys with energy suppliers, experience intrusive enforcement action and are often unable to maintain reasonable minimum energy usage.

The proportion of StepChange clients in energy arrears has continued to rise as high energy prices persist. 43% of StepChange clients responsible for paying energy bills had energy arrears in the first half of 2023, at an average amount of £1,679.

Clients with a PPM face uniquely challenging circumstances. 61% have an additional mental or physical vulnerability on top of their financial difficulties and 34% have a negative budget. Despite high instances of additional vulnerability and negative budgets among this group, these clients are more likely to have faced intrusive enforcement and payment demands that lead them to ration their energy use and self-disconnect.

Threats of, or actual, unsuitable prepayment meter installation

Evidence from StepChange's advice service shows that supplier performance around consumer safety is patchy. A more effective approach to monitoring and enforcing compliance with conditions and guidance is essential to ensure higher standards around involuntary PPM installation are effective.

StepChange recently sent Ofgem a summary of over 200 social policy case studies submitted by our debt advisors between April-September 2023, relaying client experiences with energy suppliers. Based on this evidence, we picked up on several problematic trends and examples of poor practice by suppliers. This included examples of numerous clients who have been threatened with PPM installation, despite this meter type being inappropriate for their personal circumstances. Other clients have described already being on PPMs whilst having vulnerabilities which make this unsuitable, including those with essential medical equipment and at risk of disconnection.

While some of these instances will likely have occurred before the moratorium on involuntary PPM installation began in early 2023, they are indicative of a worrying lack of due diligence and customer care by some suppliers, which must be rooted out at speed.

> *The client, who has cancer and suicidal tendencies, was moved onto a PPM despite being registered as vulnerable by her supplier. Cancer treatment left her housebound and unable to top up her meter. She was left disconnected several times over the winter as a result. The supplier committed to moving her back onto monthly direct debit but instead the client began receiving multiple calls a day demanding repayment of £1,000 arrears.*

Case study recorded in June 2023

1. *The client relies on an oxygen machine for 15 hours a day. Despite this, she was put on a prepayment meter with a £3 per day standing charge when her relationship with her long-term supplier was migrated to a new firm. The client can't afford this and has self-disconnected at times, meaning she can't run her life essential medical equipment. Her new supplier has given a £15 credit only, and has told her this will be deducted from the next top-up she makes. – (Recorded September 2023)*

2. *The client was not offered a way to repay debt before receiving notice that a prepayment meter would be installed. The client is disabled with severe mobility restrictions that mean she will not be able top up her meter at the shop, nor does she feel able to navigate the mobile top-up app. Despite disclosing these vulnerabilities with her supplier, she felt she was not listened to. – (Recorded June 2023)*

3. *The client is on a PPM despite their daughter using a feeding tube which requires constant electricity supply. Their energy supplier would not provide emergency credit or assist in any way when supply was running low, despite the vulnerabilities present in the household. – (Recorded June 2023)*

4. *The client, who is on the Priority Services Register and uses an electric stairlift and chair due to mobility issues, was threatened with PPM installation and even bailiffs, despite their vulnerabilities. The client's gas smart meter also isn't working. The client has had difficulties getting through to their supplier to resolve the situation. This has caused stress and worsened existing health issues. – (Recorded June 2023)*

We welcomed Ofgem's decision to strengthen consumer protections by incorporating key elements of the Involuntary PPM Code of Practice into Supply Licence Conditions and detailed elements of the Code into Safe and Reasonably Practicable guidance on involuntary PPM installation. These steps demonstrate Ofgem's recognition of the severe affordability challenges faced by consumers and the fact that former 'safeguards' have failed to protect vulnerable households from inappropriate PPM installation and harmful debt enforcement. We are very supportive of actions to prevent inappropriate forced PPM installation/remote switching and improve standards of responsible debt collection in the energy market.

However, when Ofgem consulted on these steps in summer 2023, we raised some concerns about elements of its proposals which risked continuing to expose consumers in financial difficulty and/or vulnerable situations to energy rationing, harm and poor outcomes. While some of our recommendations were addressed, others were not dealt with:

- In what became paragraph 3.13 of the PPM Safe and Reasonably Practicable guidance, suppliers are given discretion to install a PPM in cases where they have been unable to confirm the risks this would entail for a consumer. We had warned that this wording gives too broad discretion for suppliers to set aside key protections and is too vague as to how suppliers should reach judgements in the absence of conclusive information. Financial difficulty creates consumer vulnerability and engagement challenges which mean the operation of protections in situations in which contact is difficult is crucial. The rules should be clear that the onus is on suppliers to show that a PPM can be installed safely and, where this has not been possible, forced installation should not proceed. As a minimum, we would like to see Ofgem amend the wording to strengthen expectations of suppliers in this situation and clarify monitoring and follow-up expectations.

- The wording in the Safe and Reasonably Practicable guidance requiring suppliers to ensure that enforcement actions to recover debt are 'fair, reasonable and proportionate' is too vague to ensure adequate protections and is likely to lead to inconsistency between supplier approaches.

- Given the vulnerability of those included in the 'Further Assessment Needed' (FAN) category and of customers experiencing payment difficulty in general, plus trouble to date achieving high standards of consumer protection in the energy market, we advised that groups in the FAN category should be moved into the 'do not install' group while the FAN requirements should be applied to all consumers (with strengthened wording). After consulting, Ofgem moved households with children under 2 and adults aged 75+ into the 'do not install' group – a welcome move – but others remain at potential risk in the FAN category and beyond. approaches.[9]

Given the scale of poor practice we've previously seen, we would like to see a clear plan from Ofgem as to how it will effectively monitor and enforce new conditions as well as ensure there is adequate redress for those who have experienced inappropriate PPM installation in the past.

Strengthening protections around alternative forms of debt collection and enforcement

Non-PPM debt collection and enforcement, including the use of High Court Enforcement Officers (HCEOs), can pose risks to vulnerable groups which are similar to involuntary PPM installation; Ofgem itself acknowledges this in consultation documents.[10] Some suppliers already use HCEOs to some degree and StepChange has concerns that this practice could become more prevalent as it gets harder to use

[9] Ofgem (2023) PPM Guidance (Safe and Reasonably Practicable)
[10] Ofgem (2023) Prepayment meter rules and protections for domestic consumers: a call for evidence and Ofgem (2023) Statutory Consultation – Involuntary PPM

involuntary PPMs to collect debt; without action to improve protections, there is a risk this could lead to substantial harm. This demonstrates the urgent need for Ofgem to work proactively to quickly establish equivalent protections and strengthen its requirements of suppliers pursuing enforcement of energy debts.

We would like to see similar protections in place to the new PPM rules and guidance for the use of HCEOs, with specific customer groups exempted from this form of enforcement. For example, we would like to see a 'do not use' category for HCEO enforcement which would include enforcement on small debts below a certain threshold, households in receipt of means-tested benefits and other additional vulnerabilities, alongside a wider 'Further Assessment Needed' category as per the PPM protections.

More broadly, we would like to see a requirement for all bailiffs used by suppliers to be signed up and accredited with the Enforcement Conduct Board (ECB). Building on this, standards on the use of enforcement to pursue energy debt should be drawn up in collaboration with the new regulatory body.

<u>Work on the wider debt pathway</u>

The use of involuntary PPM installation as a means of managing consumer debt cannot be looked at in isolation; it is one aspect of the energy debt pathway. Our experience as a free debt advice provider supporting clients in vulnerable situations strongly suggests that there is considerable progress to make by suppliers to fully implement responsible debt collection practices. We have particular concerns around suppliers failing to take account of vulnerability, inconsistency in how a customer's ability to pay back arrears is determined by suppliers, and the use of punitive enforcement methods.

Ofgem should build on its new consumer standards framework and the industry Winter Voluntary Debt Commitment to continue actively improving the experiences and outcomes of households experiencing energy debt. While the latter sends a welcome message about the importance of supporting those struggling with energy debt this winter, it offers little new practical support or measures and is not a substitute for concrete improvements in regulatory policy and supplier practices.

We would especially like to see improvement in the following areas:

- **Assessments of a consumer's ability to pay should be conducted using a robust budget tool such as the Standard Financial Statement (SFS)**, or the Common Financial Tool (CFT) in Scotland, to ensure consistency across the sector and with debt advice. For customers in financial difficulty, there should not be room for suppliers to argue that repayment plans are 'suitable' without evidence from a robust affordability assessment. Crucially, to ensure that repayment plans are sustainable, individuals should only ever be required to pay what they can afford; the industry-wide use of the SFS and CFT or equivalent tools is an important step to achieve this.
- **Supplier license conditions would benefit from greater prescription to ensure households do not face inappropriate and unfair enforcement methods**. Current conditions do not require a specific 'ability to pay' affordability assessment and will still allow suppliers to demand an undefined 'reasonable default repayment rate' where it has not been possible to establish a bespoke affordable rate. This is not sufficient to safeguard against unaffordable payments being taken from financially vulnerable households.
- **There must be stronger rules around the use of enforcement agents, aligned with new mandatory PPM license conditions and guidance**. We continue to see consumers in vulnerable circumstances facing inappropriate bailiff enforcement. Rules should make it clear that certain demographics should not be threatened with or face this kind of enforcement. We would also like to

see a requirement for all bailiffs used by suppliers to be accredited by the ECB. The existing conditions require suppliers to apply 'proportionality' in enforcement, without defining what this means. Given the propensity for individuals falling behind on energy bills to be facing extreme financial difficulty and their likelihood of facing additional vulnerabilities, we would like to see more prescription.

- **Communication from firms to consumers facing difficulty must be carefully designed and worded.** Ofgem has taken welcome steps to raise firms' awareness of the importance of sensitive, empathetic communications to engage struggling customers but its expectations lag behind, for example, the 'test and learn' approach embedded in financial services regulation.

- **Effective referrals to advice and support organisations:** StepChange has experienced a persistent problem of a high volume of inappropriate referrals by energy suppliers of customers who do not need debt advice (for example, customers with no debts, or no debts other than energy arrears, are told they need to obtain a budget assessment from StepChange to access emergency support from their supplier). This leads to frustration for customers and erodes the capacity of providers like StepChange to meet demand for debt advice, which continues to outstrip supply.

- Finally, new licence conditions and guidance must be accompanied by a proactive monitoring and enforcement regime that prevents continued failures or misconduct from suppliers.

Given these issues and their ongoing impact on consumers, we would like to see this Committee emphasise the importance of considering the energy debt pathway holistically, and highlight key areas of improvement for the Government, regulator and industry to tackle to support energy affordability and improve outcomes for customers struggling with energy costs.

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