StepChange response to Ofgem prepayment meter rules and protections for domestic consumers call for evidence

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Preamble

We welcome Ofgem's decision to pause installation of PPMs and forced switching of smart meters until the end of March, the Market Compliance Review into prepayment meter practices and this call for evidence on prepayment meter rules and protections.

Those experiencing problem debt are often also struggling to meet the cost of energy. The proportion of StepChange clients with energy debts has significantly increased in recent years, from 17% in 2019 to 28% in 2021. In a recent national survey commissioned by StepChange, 35% of GB adults stated they had rationed the amount of heating, electricity or water they used to keep up with credit commitments in the last three months.

In H2 2022, 24% of StepChange advice clients had a PPM. We are concerned that such clients often have poor customer journeys, experience intrusive enforcement action and are often unable to maintain reasonable minimum energy usage. When we have surveyed clients on their ability to meet essential costs, we have found ample evidence of energy rationing and self-disconnection.[1]

We note that this call for evidence has been prompted by evidence of non-compliance with license conditions and public concern with the bulk switching of households to PPM arrangements following the sharp increase in energy costs in 2022.

While we welcome the action that Ofgem has taken, given supplier reliance on PPMs to resolve debt issues, we do not think the changes necessary to protect households can be completed in six weeks and would like to see a longer programme of phased work by Ofgem and the government:

- Alongside the measures proposed in this consultation to tighten license conditions, Ofgem should work with the government to take immediate steps to support PPM customers, including pausing debt collection from existing PPMs (except with the consent of a customer) and directing firms to offer redress to people wrongly put on PPMs, including enabling customers to have legacy PPMs removed or be switched to credit meters free of charge.

  Given, the evidence of detriment faced by customers with legacy prepayment meters, we would like to see an end to the installation of legacy meters going forwards. Forced switching of smart meters should not resume until Ofgem has tightened rules on PPMs and demonstrated that the industry has taken steps to reduce reliance on PPMs.

- Strengthening protections for customers will require an increase in the assistance available to customer struggling with energy costs to prevent arrears arising and to support those with energy arrears they cannot afford to repay. We note the recent Citizens Advice discussion paper on dealing with energy arrears, which highlights a range of potential options to facilitate stronger protections.[2] Due to the exceptional increase in energy costs, our preferred approach is a funded pot drawing on government and supplier funding to address arrears arising from the exceptional

[1] For example, in a late 2019 survey of 668 clients who receive one or more social security payment, 31% of respondents told us they had been unable to heat their home for five or more days in the last month.

[2] Citizens Advice (2023) *Tackling energy debt: Assessing options to address the growing energy debt crisis*

increase in energy costs. This will need to be complemented by measures to prevent new arrears arising, such as an expansion of emergency vouchers, non-repayable credit and debt holidays.

- In the longer term, sustainable solutions to the underlying problems driving concern with the installation and role of PPMs require a holistic rethink of support with energy costs, including a social tariff. Ofgem and the government should work with stakeholders to develop better solutions to ensure energy is affordable to all households and recover energy debt without putting customers' health and wellbeing at risk.

While some people value the budgeting control that pre-payment meters provide, that benefit must be put in context. For households with low incomes, the alternative to a pre-payment meter is often a struggle with unaffordable energy bills and arrears. For such households, PPMs are often the least bad option. The bulk conversion of customers to PPMs in late 2022 and early 2023 illustrates the blunt function PPMs serve in the energy market.

We welcome the government's commitment to work with organisations to consider the best approach to consumer protection in the energy market from 2024. Ofgem's priority should be, as soon as possible, to end reliance on PPMs to resolve debt issues and ensure ability to pay. While suppliers should have options to pursue repayment from customers who can repay arrears affordably but choose not to do so, the use of PPMs goes far beyond that purpose.

Annexes at the end of this response set out brief case studies gathered by StepChange advisers in February and early March 2023, followed by a summary of the characteristics of clients with PPMs. We would be glad to share further case studies and any further evidence from StepChange's advice service that is helpful to Ofgem.

Response to call for evidence questions

SLC0

Q1: Does Ofgem have the right balance between principles-based regulation (Standards of Conduct and Vulnerability Principle) and prescriptive rules (SLCs, guidance) to guide suppliers when installing or remote switching to prepayment meters? Please explain.

No, we do not agree that Ofgem currently has the right balance between principles-based regulation and prescriptive rules. The forced installation of PPMs and the constraints a PPM imposes on a household's energy use are each potentially harmful. These factors mean it is important for the regulator to take special care about the circumstances in which PPMs can be used.

A rationale for a principles-based approach to regulation is that it supports firms to tailor their products and services to the needs of individual consumers and can encourage high standards and innovation. These aims to not apply, or apply weakly, in the case of PPMs. Moreover, a persistent weakness of principles-based regulation is that divergences inevitably emerge between the principles as intended and interpretation of the principles as written into supplier processes and practices. This means the approach is poorly suited to protecting the interests of highly vulnerable households.

Ofgem has, to some degree, recognised these factors and introduced prescription through license conditions and supporting guidance. However, those measures have proved to be insufficient to safeguard vulnerable customers. Ofgem should therefore introduce much clearer, unambiguous requirements which shift the balance of supplier decision-making against the use of PPM arrangements (via a smart meter) except in narrow circumstances.

Q2: Should there be prescriptive processes and questions suppliers must seek to answer before progressing to PPM in the debt journey? Should this be set by Ofgem?

Yes, we agree there should be prescriptive processes and questions suppliers must answer before progressing to a PPM.

StepChange research with clients has shown how people in financial difficulty often experience attempts at engagement as unclear, ambiguous or threatening; stress and mental health problems closely associated with financial difficulty also often exacerbate disengagement.[3] Where customers in arrears perceive their options to be unattractive or punitive, as in the case of priority energy debt collection via PPMs or otherwise, barriers to engagement are likely to increase.

These factors mean that suppliers can see escalation to enforcement action like the installation of PPMs through a warrant as a means to engagement. We consider that new processes and questions could play a useful role in requiring, encouraging and supporting suppliers to create a better designed customer journey that recognises the likelihood of vulnerability among customers in energy arrears. However, this must be matched with structural change that creates more attractive options for those struggling with energy arrears through viable alternatives to PPMs and forced switching.

Safe and reasonably practicable

Q3: SLCs 27 and 28 require suppliers to only install PPM if safe and reasonably practicable and Ofgem published updated guidance on it in 2016. In your view is the term "safe and reasonably practicable" still sufficient or should this be changed?

No, we do not agree that the term 'safe and reasonably practicable' is still appropriate. There is evidence that legacy PPMs pose serious risks to customers even where the conditions described in the safe and reasonable practicable guidance do not apply. This term obscures the reality that, where PPMs are installed as a means of debt recovery, they are not safe for customers because they are closely associated with energy rationing and self-disconnection, which in turn lead to poor health and wellbeing outcomes.

Q4: Should we expand the list of vulnerable characteristics for which customers should never have PPM force-fitted or (if on a smart meter) forced-remote switched? If so, what additional characteristics should we include in our guidance, and why?

Yes, Ofgem should expand the list of vulnerable characteristics for which customers should never have PPM force fitted. This should be an evidence-driven process drawing on evidence of the links between PPMs, energy rationing or self-disconnection and poor outcomes to identify characteristics that should preclude remote switching.

Safe and reasonably practicable

[3] StepChange (2022) *Mixed Messages*; StepChange (2022) *Making ends meet: Insights from StepChange advice clients*

Q5: Should we require suppliers to assess financial vulnerability when assessing whether a PPM is safe and reasonably practicable? Please explain.

Yes, we agree that suppliers should assess financial vulnerability. However, Ofgem should work closely with free debt advice providers in taking forward any proposals that could have implications for free debt advice. StepChange continues to experience inappropriate referrals by energy suppliers of clients who tell us they do not need advice but have been informed StepChange can facilitate access to emergency vouchers. This is unhelpful for such customers, who should be supported by their supplier, and erodes limited free debt advice capacity. It is important that any measures do not inadvertently undermine free debt advice capacity.

Ofgem highlights that protections for customers who are financially vulnerable is likely to increase the level of unpaid energy bills. We note the recent Citizens Advice discussion paper on dealing with energy arrears, which highlights a range of potential options.[4] Due to the exceptional increase in energy costs, our preferred approach is a funded pot drawing on government and supplier funding to address arrears arising from the exceptional increase in energy costs. This will need to be complemented by measures to prevent new arrears arising, such as an expansion of emergency vouchers, non-repayable credit and debt holidays.

The issues raised by financial vulnerability speak to the importance of sustainable long-term reforms to improve the affordability of energy for households with low- to middle-incomes. We note that from April 2022, the Department for Work and Pensions took the decision to prevent energy suppliers from creating new Fuel Direct arrangements to pay energy bills directly from customers' social security payments (so that only claimants could do so or increase the level of existing payments).[5] In doing so, the Department noted that Fuel Direct claimants would experience an average monthly increase of over £100 following the increase in the energy price cap. That situation speaks of the untenable relationship between the cost of energy (and the stability of the cost of energy) and the minimum income available to households. Ofgem should now work with the government to develop a social tariff to ensure a realistic relationship between the cost of energy and the means available to households with low incomes. This should include a wider suite of funded tools to prevent arrears arising and a progressive approach to debt collection drawing on responsible debt collection practices.

Q6: Should the licence or guidance more clearly clarify that installation of PPM under warrant is a 'last resort?

We have noted that we believe Ofgem should now work to end the installation of legacy PPMs. However, failing that we agree that Ofgem should more clearly clarify that installation of a PPM under warrant is a last resort and believe this should be put in license conditions.

Q7: Our disconnection rules stress specific characteristics to be considered ahead of disconnection. Are these characteristics sufficient to account for the vulnerable circumstances being seen today?

No, we do not think the characteristics specified in the disconnection rules are sufficient because they are too narrow and vague to capture customers who are at acute risk of poor outcomes. We do not think there is any definitive list that can ensure disconnection is safe but would welcome work from Ofgem to develop

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[4] Citizens Advice (2023) *Tackling energy debt: Assessing options to address the growing energy debt crisis*

[5] Correspondence between the Secretary of State for Work and Pensions and Jonathan Brearly, 18 May 2022

new rules. We would suggest these should not only prescribe specific characteristics but seek to ensure suppliers understand the situation of customers affected and identify risks of poor outcomes arising from disconnection.

Smart meters

Q8: Do you consider that the rules for legacy and smart prepayment are appropriately aligned to ensure sufficient and equivalent protection, no matter the meter type? If not, what changes should be made?

We have no comment on specific rules. Our view is that Ofgem should prevent the future use of legacy PPMs and significantly enhance protections, support and flexibilities afforded to existing PPM customers and smart meter customers in PPM mode.

Q9: Suppliers are responsible for the acts of their contractors and their compliance with relevant licence conditions, but should we consider specific guidance for suppliers on how they manage third parties involved in the installation of PPMs?

As this question notes, suppliers should already be ensuring that third party contractors meet license conditions. At least part of the problem of poor conduct among contractors is that suppliers are not meeting existing license conditions, so it is not clear that new guidance alone is the answer. We welcome the action Ofgem has taken through an investigation and market compliance review. We would expect Ofgem to take appropriate action in light of those steps as well as drawing lessons for the monitoring, oversight and enforcement necessary to ensure suppliers are protecting the interests of vulnerable customers.

Q10: Are there any other proposals you have that would support PPM customers? Please explain the proposal and provide evidence if available.

We note the Enforcement Conduct Board (ECB) has recently been set up to provide independent oversight of the enforcement industry and ensure that all those who are subject to enforcement action in England and Wales are fairly treated, with a special regard for those experiencing financial difficulty or other vulnerable circumstances. The ECB does not yet have full, statutory underpinning but the government has committed to review this within two years.

We have stated that we support an end to the use of legacy PPMs. However, if Ofgem does not take that step, it should engage closely with the ECB to identify how best to ensure high standards of conduct among agents installing PPMs on behalf of suppliers. This could, for example, mean requiring such agents to be registered with the ECB, to meet standards set by the ECB and/or drawing on ECB expertise to frame rules and guidance.

Annex A: StepChange advice client PPM case studies

Note: These are brief case studies gathered by StepChange advisers in February and early March 2023. StepChange can share supplier details for each example and would be happy to share further case studies in future as well as any further evidence from its advice service that can inform Ofgem's ongoing policy development and monitoring.

1. A client prevented the installation of a PPM by an enforcement agent who was prepared to enter by force. The client is registered blind and the energy supplier is aware of this vulnerability. The agent left the property upon realising the vulnerability.

2. A supplier attempted installation of a PPM on 22 February this year for a client with cancer and a heart condition who lives in sheltered housing. (The installation was not successful.)

3. The client had a prepayment meter fitted in February 2022, but the meter did not display credit correctly. The client sought to have this problem addressed. The client was made aware of arrears when they were disconnected from the gas supply. The client has a young child and experiences anxiety.

4. A client in receipt of a Personal Independent Payment became aware that their smart meter had been switched to prepay mode when their electricity ran out. The client now has arrears deducted from their top ups at an amount that has not been discussed with them.

5. The client's standard meter gave no reading for several years. The client drew the attention of their supplier to this problem multiple times and paid an estimated bill. The client was not billed for units used digitally, by text or by post. The client learnt of arrears when a prepayment meter was installed by force.

6. The client's supplier threatened to install a prepayment meter despite the client being unable to leave the house. The supplier stated the only way to avoid this was a smart meter installation, which the client agreed to due to their worry about the situation. Following the installation of th smart meter, the supplier has refused to take payments towards ongoing usage until an agreement is in place to repay arrears.

7. A client who is 13 weeks pregnant and has Aspergers syndrome told us she was contacted by a supplier and informed a £355 charge will be added to her account if she does not clear her arrears in full by the following Monday.

Annex B: Summary of StepChange PPM client data

- 24% of StepChange advice clients have a PPM.[6]

- Clients with a PPM are more likely to be women (69%) than clients without a PPM (61%).

- 61% of clients with a PPM have a vulnerable characteristic (in addition to financial difficulty) compared to 54% of clients without a PPM. This is most likely to be a mental health condition, followed by physical disability, physical illness, domestic violence and bereavement. 12% of clients with a PPM report suicidal tendencies.

- 63% of clients with a PPM receive a means-tested benefit compared to 44% of clients without a PPM.

- 34% of clients with a PPM have a deficit budget compared to 29% of those without a PPM. (This means they have less income than needed to meet their costs after budgeting counselling.)

[6] StepChange began collecting data on clients with PPMs in Jun 2022 and all figures given in this annex are for June-December 2022. This represents 26,400 clients rounded to the nearest hundred (of 112,100 in total for that period).

- The mean monthly net income of clients with a PPM is £130 lower than clients without a PPM (£1,517 v £1,646).
- Clients with a PPM who are in energy arrears (31%) have average arrears of £1,596.
- Clients with a PPM are more likely to be single parents than clients without a PPM (35% v 23%) and less likely to be single adults without children (36% v 42%). The proportions of clients with and without a PPM who are couple parents or couples without children are similar.
- Clients with a PPM are less likely to be in full-time employment than clients without a PPM (43% v 31%) but slightly more likely to be in part-time employment (15% v 13%).
- 53% of clients with a PPM are renting from a council or housing association compared to 25% of clients without a PPM. Clients with a PPM are significantly less likely than clients without a PPM to be mortgagers (6% v 15%) or to be living rent free (5% v 15%). Similar proportions of clients with a PPM and without are PRS tenants (32% v 35%).
- Clients with a PPM are more likely to be aged 40 to 59 than clients without a PPM (37% v 33%) and less likely to under 25 (8% v 12%).

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