Written evidence to the Business, Energy and Industrial Strategy Committee from Citizens Advice

1. About Citizens Advice

1.1 Citizens Advice provides free, confidential and independent advice to help people overcome their problems.

1.2 Last year we helped over 2.4 million people face to face, by phone, email or webchat. We provide support in 2,700 locations in England and Wales and people visited our online advice pages over 60 million times.

1.3 We are a voice for millions of people on the issues that matter to them.

1.4 Citizens Advice has statutory responsibilities under the Consumers, Estate Agents and Redress Act 2007 to represent consumers' interests in the energy sector.

1.5 Our data shows that millions of households across the UK are facing enormous pressure due to increasing energy prices and record inflation levels. The Government's package of support goes some way to protect households from bill shocks, but households on the lowest incomes will continue to face hardship, particularly as we move into Winter 22/23, when energy prices are predicted to rise even higher.

2. Executive summary

2.1 Consumers are struggling to pay their energy bills and are at risk of accruing debt: Figures from the ONS show that, between the 22 June and 03 July, 43% of adults who pay energy bills have found it very or somewhat difficult to afford them. This is up 10% compared with the previous period.[1]

2.2. Evidence from our Consumer Service shows that this could be pushing more customers into debt. In June 2022, Consumer Service cases recording where people have been unable to top up their prepayment meter reached the highest level on record. The Consumer Service have now seen more of these kinds of cases in 2022 than

[1] ONS, July 2022, https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/publicopinionsandsocialtrendsgreatbritain/22juneto3july2022

they did for the whole of 2021 and 2020 combined.

2.3 These cost of living pressures are being exacerbated by the failure of suppliers to follow rules that aim to proactively prevent self disconnection. In particular, Citizens Advice is concerned that not only is Ofgem not collecting enough data on self-disconnection, but that it is not fully using the data they do have. This data is required to better understand the extent of self-disconnection and how suppliers support customers in this situation.

2.4 The current method of collecting standing charges is also putting further pressure on consumers, as it continues to accrue even when customers are not using gas. Large accruals can arise when customers don't use any gas over the summer, but then face a big accrued charge when you turn it on in winter. These standing charges easily slip under customers' radars, causing bill shocks or exacerbating existing debt.

2.5 Customers struggling with debt sometimes have a prepayment meter fitted under warrant, so suppliers can claim back money owed to them. For many customers, particularly those in vulnerable situations, it's not 'safe or practicable' for this to be a debt collection method. Where it has been deemed safe, customers in this situation should have a smart PPM fitted, as this makes it easier to track and control usage. However, some suppliers will not fit a smart PPM in these circumstances, as it is unclear whether the current regulations allow for smart technology to be fitted under warrant. This regulatory grey area has not as of yet been resolved, meaning that some customers may be having legacy PPMs force fitted under warrant even when they are more likely to benefit from a smart PPM.

2.6 However, we have not seen any evidence of customers expressing dissatisfaction at not receiving a smart PPM under warrant. This is likely because the customer is unlikely to want a PPM in general, and will not have a strong opinion on whether it's a smart PPM or otherwise. We are concerned that as prices soar and more people fall into debt, energy companies will resort more readily to forced prepay installs where it is not safe for customers and puts them to higher risk of being off supply.

3. Submission

3a. Evidence that customers are struggling to pay their energy bills and that this is increasing the risk of accruing debt

3.1 We have concrete and alarming evidence that customers are struggling to pay their energy bills and that this is increasing the risk of accruing debt. A recent wave of our survey looking at consumer perceptions of the energy market found that over 50% of consumers are struggling to pay their energy bills, rising to over 60% of prepayment customers and 65% of consumers receiving state benefits.

3.2 Cases where customers have been unable to top up their prepayment meters reached the highest on record in June 2022, four months before the price cap increases again in October 2022.

3.3 We also have evidence that rising energy bills, along with other skyrocketing cost of living increases, are causing debt problems to spiral. Our consumer service data shows that fuel debt, council tax arrears and debt assessment cases have increased significantly, while the number of people that we are supporting who are in a negative budget is at its highest since records began.

3.4 Other major debt advice charities are already experiencing similar trends. Both the National Debtline and Stepchange have seen a significant increase in the number of clients in debt to their energy supplier or unable to afford their energy bills.

3b. Evidence that pre-payment self-disconnections are already estimated to be at a record high, and that self-disconnection rules are not being followed by suppliers

3.5 In June 2022, Consumer Service cases recording where people have been unable to top up their prepayment meter reached the highest level on record. The Consumer Service have now seen more of these kinds of cases in 2022 than they did for the whole of 2021 and 2020 combined.

3.6 Usually, when consumers are facing self-disconnection, suppliers can utilise Additional Support Credit policies to help top up meters. However, many of these policies are under pressure, and some suppliers under financial constraints are unable to effectively continue to support customers as the cost of living crisis goes on.

3.7 SLC 27A requires suppliers to offer Additional Support Credit on “each and every occasion” to vulnerable domestic customers who are self-disconnected or who are at risk of self-disconnection, unless it is “not in the best interest of the customer”. Many suppliers have expressed concerns about continuing to offer repeated financial assistance as it may result in the customer getting into further debt. This interpretation of the guidance has led to cases where very vulnerable customers with severe health conditions, children and other circumstances continue to be disconnected. In these situations, we think that there is a good case that the risk of self-disconnection for customers is greater than the risk of debt building up.

3.8 When suppliers do not offer Additional Support Credit, they are still required to offer other support, including reassessing debt repayment arrangements and referring to third party support. We have evidence from contacts to the Extra Help Unit (EHU), that there have been cases where suppliers have failed to do this. Furthermore, when offering Additional Support Credit, suppliers are required to assess the customer's ability to pay, in line with SLC 27. The EHU has expressed concerns that the debt repayment rates can be set at a rate which prevents customers from getting onto a positive credit balance, resulting in customers needing further assistance.

3c. Evidence that standing charge collections are exacerbating debt

3.9 We have indicative evidence from the consumer service that standing charge collections are exacerbating debt and affordability concerns for some customers.

3.10 This is particularly apparent for PPM customers who do not use their gas over the summer months. In these circumstances, though the customer is not using gas, the standing charge continues to accrue on the meter. If the customer is not aware of this, then the accrued standing charge can lead to a bill shock in the Autumn, when money intended to top up the gas is 'swallowed up' by the standing charge costs.

3.11 Over time, these costs can become significant for consumers: under the current price cap, the maximum standing charges are 50p a day for electricity and 37p a day for gas. Over a week, the consumer would accrue £3.50 for electricity and £2.59 for gas. Over the summer period of 8 weeks, this could add an additional £48.72 to an Autumn energy bill.

3.12 This is further exacerbated if the meter in question is not a smart PPM. With smart PPMs, you have the ability to prioritise how debt is taken from the meter. For example, if a smart PPM with standing charge arrears is topped up, then the funds can either be solely put towards energy usage, or a proportion of the funds can be set to pay the debt. This prioritisation of energy usage over debt repayment is called putting the debt to the 'back' of the meter.

3.13 However, with traditional prepayment meters, the debt remains at the 'front' of the meter. This means that any top up will automatically go towards any accrued standing charges before enabling energy to be brought.

3.14 This is a particular problem for customers who have had a PPM fitted via a warrant. As detailed in section 3d, we are aware that PPMs fitted in these circumstances are most often not smart-enabled. This means that customers having a PPM fitted due to affordability issues are most at risk from accruing standing charges, and these standing charges exacerbating the affordability issues.

3.15 Even where the customer has a smart meter, moving the standing charge debt to the back of the meter may not be the best solution for all consumers. Customers should get in contact with their supplier to agree the appropriate repayment rate, and suppliers should proactively be engaging customers to check their ability to pay. If the customer does not engage with their supplier, then it is easier for the supplier to remotely begin charging an unaffordable rate from a smart prepayment meter than a non-smart prepayment meter, potentially leading to worse outcomes for customers.

3.16 Customers struggling with debt sometimes have a prepayment meter fitted under warrant to make it easier for suppliers to claim back money owed to them. Where this has been deemed 'safe and practicable', a smart PPM should be fitted, as this makes it easier to track and control usage. However, some suppliers will not fit a smart PPM in these circumstances, as it is unclear whether the current regulations allow for smart technology to be fitted under warrant:

3.17 Current legislation permits suppliers to install "meters" where a customer has not "within the requisite period, paid all charges due".[2] However, these regulations were drawn up prior to the introduction of smart meters, and they do not specify whether other metering technology such as IHDs can also be installed under warrant.

3.18 This regulatory grey area has not as of yet been resolved, meaning that some customers may be having legacy PPMs force fitted under warrant even when they are more likely to benefit from a smart PPM.

3.19 However, we have not seen any evidence of customers expressing dissatisfaction at not receiving a smart PPM under warrant. This is likely because the customer is unlikely to want a PPM in general, and will not have a strong opinion on whether it's a smart PPM or otherwise. Given the health impacts of PPMs being force fitted as a result of debt, we will be monitoring this issue closely moving into Autumn and Winter.

4. Recommendations

Affordability

4.1 The sheer level of October's price cap rise means that the Government's package of financial support will not protect households from the full impact of rising prices. Many households will continue to find energy bills unaffordable, and we expect self-disconnection and self-rationing cases to rise.

4.2 Ofgem should publish guidance for suppliers to ensure that customers are adequately protected moving forward. The guidance should cover the following scenarios:

- People who cannot afford to pay anything towards their arrears.
- Situations where it would not be safe and practicable to install a prepayment meter due to the customer's financial situation and personal circumstances.

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2 https://www.citizensadvice.org.uk/consumer/energy/energy-supply/get-help-paying-your-bills/stop-your-energy-supplier-installing-a-prepayment-meter/

- Where it is no longer safe and practicable to keep a smart meter in prepay mode because of the customer's behaviour and financial situation.
- How and when to provide additional support credit, over and above the rebate, to support customers on legacy prepay where it is no longer safe and practicable for them to stay on prepay.

4.3 We also want to see Ofgem ramp up compliance and enforcement work on key affordability conditions, particularly around self-disconnection and affordable repayments, and introduce voluntary commitments to protect consumers.

Non-smart prepayment meters being fitted under warrant

4.4 Our consumer service data currently shows no difference in customer contacts or customer satisfaction when a non-smart prepayment meter is fitted over a smart one, and vice versa. However, if evidence is uncovered which suggests that this is becoming a problem for consumers, then we would encourage Ofgem to provide further clarity on the situation.

4.5 Generally, we do have strong evidence that smart prepayment meters often lead to higher levels of customer satisfaction, and to better outcomes when customers are at risk of self-disconnection. Where customers are not having installations under warrant (i.e. where they have chosen or accepted a prepayment meter), we would hope that a smart meter is offered.

4.6 We do recognise that in some instances the installation of a smart prepayment meter may not be possible, even where it has been chosen by the consumer. For example, the building may not be suitable for smart meters, or the installation may fail. In these cases, we would expect the supplier to delay an installation, rather than use a traditional meter.

Standing charges

4.7 To help customers avoid large catch up bills caused by built-up standing charges, suppliers normally advise customers to try and keep topped up over the summer if they can.

4.8 However, this approach will not be possible for many customers on prepayment meters. June 2022 was the highest month on record for PPM self-disconnection cases received into the consumer service, and case levels are only set to rise further as we head into Autumn and Winter.

For more information, please contact:

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