

Consumer Focus Board

Paper 8.1

Title: Debt and disconnection: update for the Board

Purpose: For information

Date of meeting: 16 September 2010

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Attachments: None

1 Overview

- 1.1 Further to papers presented to the Board on 29 June 2009 and 20 January 2010, this paper updates the Board on the outcomes of the 'wider' debt and disconnection review, following the 2009/10 review of vulnerable disconnections.
- 1.2 The paper also informs the Board about plans for the continued focus on this issue and planned activity throughout 2010/11.

2 Action for the Board

- 2.1 To **note** the work of the project team since the last update to the Board.
- 2.2 To **endorse** the outline of the recommendations made to suppliers in the confidential reports.
- 2.3 To **support** the plans for continued work on these issues.

3 The key issues

Reports from the 2009/10 review

- 3.1 Throughout 2009/10 the energy team has continued to work on the issues emerging from the joint Ofgem / Consumer Focus review of energy suppliers' debt and disconnection policies.
- 3.2 Ofgem finalised and published a report on the findings of the review in June 2009. Key points from the report included:
 - A focus on concerns about suppliers setting debt repayment rates at unaffordable levels that consumers are not able to pay. Consumer Focus highlighted specific concerns about this issue throughout 2009/10 and made a referral to Ofgem about British Gas, based on evidence from the Extra Help Unit. We await the outcome of the subsequent Ofgem licence compliance investigation which they announced in December 2009.

- Ofgem's main concern regarding ability to pay is the inconsistent approach taken by suppliers when they are attempting to understand the customers' circumstances, offering an appropriate repayment amount and a payment method tailored to those circumstances. This is not only between suppliers, but also internally within each supplier operation, with different practices. Again, this can be demonstrated with EHU evidence.
- Ofgem published a number of key principles suppliers should consider to ensure they are properly and proactively taking into account customers ability to pay, in accordance with Licence Conditions. The regulator also confirmed that they 'stand ready to take enforcement action where suppliers are in breach (of a licence condition)'.
- Other issues covered in the report include suppliers' charges throughout the debt path, and a review of suppliers' debt and payment method policies.

3.3 Consumer Focus circulated a draft confidential report in June to each of the big six suppliers (British Gas, EDF Energy, E.ON, ScottishPower, SSE, and npower). These reports were based on the findings of the joint review, and are designed to:

- give an in depth critique of supplier policies and processes;
- make specific recommendations for improvement;
- set out best practice across industry; and
- rank suppliers under each of the areas examined.

3.4 Energy suppliers have all committed to taking forward recommendations from this review.

3.5 The individual reports for each supplier are set out under five main headings:

Debt Repayment Rates

3.6 The Board will be aware that colleagues from the EHU and the energy team have been working closely on the issue of suppliers setting unaffordable debt repayment levels throughout 2009 and 2010, including a formal referral of British Gas to Ofgem. In the operational year 2009-10 around 20% of the cases handled by the EHU (1271 cases) included incidences where a consumer in debt had been asked to repay that debt at an unaffordable or unsuitable rate. The number of these cases has remained steady (at around 110 per month).

3.7 The Ofgem investigation into British Gas has been taking place during the course of this review. The individual supplier reports give a critique of each supplier's policies and practices. Recommendations included the importance of taking consumers' ability to pay into account, not demanding an 'up front' payment before agreeing to reconnect and ensuring consumers are put onto the correct payment method. The report also reminds suppliers of the need to ensure that third party advisers e.g. advisers from Citizens Advice Bureaux etc. can access help and support for their clients.

Communications

- 3.8 All suppliers use letters, outbound telephone calls and visits to contact consumers with a debt. During the course of the review some suppliers demonstrated that they were engaging with new technologies to enhance and advance the way that they communicate with their customers. Some suppliers are exploring more innovative contact methods that may work better for certain 'types' of debtors (for example younger people who are comfortable with new technologies, people without landline telephones, transient groups and customers who are new to debt).
- 3.9 The reports share best practice about innovative approaches and give a critique of written materials provided during the review. Consumer Focus makes clear recommendations to suppliers about the importance of tackling debt issues as early as possible in the debt path. Taking a helpful and non-threatening manner toward consumers in debt can help to encourage contact and agreement of an affordable, suitable payment plan. This can in turn prevent further debt building up.
- 3.10 When a pre payment meter (PPM) cannot be fitted
- 3.11 In early 2009 Consumer Focus was concerned that evidence from the EHU demonstrated some suppliers were disconnecting consumers when they were unable to install a PPM due to the fact that it was not safe or practicable to do so. Whilst we understood that this was due to technical difficulties, it is never acceptable for vulnerable consumers to be left without access to energy for heat or light. During the course of the review we asked a number of questions about suppliers' practices and policies when fitting a prepayment meter, as a response to debt, when it was not safe or practicable.
- 3.12 Suppliers policies vary greatly on this issue. Many suppliers are undertaking trials looking at different solutions to the problem. In the reports we encourage suppliers to share information about the practicalities of overcoming this issue. We remain concerned about suppliers' practice and are working with Ofgem on this issue. We will also be sending information based on EHU figures to suppliers with the individual reports.

Charges through the debt path

- 3.13 Consumer Focus was very concerned at the great disparity in the approach taken by suppliers to the charges levied to customers at various points of the debt path. At the time of undertaking the review, British Gas levied the highest charges, and EDF Energy the lowest (ranging from around £300 to more than £1000). Suppliers also vary greatly on what charges they pass to their customers, (e.g. some suppliers have separate charges for letters, visits etc, whilst others have flat charges at various points in the debt path). Whilst we understand that significant costs are incurred by suppliers throughout the debt recovery process, it is a concern that there is such inconsistency between the big six and raise questions over the legitimacy of the charges and how they should be allocated across the customer base.
- 3.14 In the reports we make clear that Consumer Focus considers it essential that the costs levied throughout various points of the debt path are made more transparent, and easier to understand. We are keen to ensure that no supplier is seeking to make a profit from what is already a very difficult and distressing time for consumers and that the charges levied are fair.

Response to the economic downturn

- 3.15 During the course of the review Consumer Focus was keen to get an understanding of what preparations and ongoing training suppliers had planned for staff as a reaction to the ongoing economic uncertainty.
- 3.16 The energy industry has experienced the effects of the recession, as demonstrated by the increased levels of debt amongst the general population. Consumer Focus understands that some suppliers have actively engaged with this issue and attempted to put in place services and support to handle increasing levels of debt. Some suppliers anticipated an increase in the average debtor days and the volume of customer debt, and had either already extended, or planned to extend the length of debt repayment plans in order to meet the needs of customers. Whilst we welcome this positive measure we also reiterated earlier comments about the necessity to properly understand customers' circumstances and ability to repay debt.
- 3.17 An example of industry best practice demonstrated in the individual reports is one supplier's extension of up to two years to repay a debt, depending on the customers' circumstances. It is imperative that all suppliers make provisions to plan for changes to the economy which will inevitably have an impact on their customers' circumstances.

Research into 'self disconnection' by consumers with a Pre Payment Meter (PPM)

- 3.18 Further to the review of supplier policies, in July 2010 Consumer Focus published findings from research into the rates of self disconnection amongst pre payment meter users (PPM): *Cutting back, Cutting down, Cutting off*. The research found that;
- 1.4m people living in homes that cut off their energy supply
 - Half of households disconnecting include someone with an illness or disability
 - Two in five are home to children under 16
 - Half of all PPM customers are rationing
- 3.19 We called publicly on energy suppliers to transform the experience of the 8.8m people who rely on pre-pay meters. The new findings are particularly worrying as, as mentioned above, almost half of households that disconnect their energy are home to someone with an illness or disability, and two in five are home to children under 16. Furthermore, almost half of people who cut themselves off told us that it happens more in winter, when people most need to keep themselves warm. Our work attracted wide national media coverage.
- 3.20 When the report was launched we wrote to the CEOs of the big six energy suppliers, relevant Ministers, Ofgem and the ERA, inviting their reflections and reactions to the research and suggesting a summit to discuss how industry can work to tackle some of the causes of self disconnection. This summit has now been planned to take place in late September, and energy company CEOs will be asked to sign up to 'five key commitments' to improve the experience of gas and electricity pre payment customers.
- 3.21 We will continue to work with industry and other stakeholders to take forward the findings of the report over the coming year as part of the energy debt work. The research also highlights key learning for the future and will be used to support our work on smart meters, in particular to campaign for greater consumer protections in a world where remote disconnection and switching to pre payment will be possible.

Plans for continued work on energy debt to April 2011

3.22 Consumer Focus will continue to work on this issue in 2010/11 and will be primarily focusing on:

- Taking forward the findings of the research into prepayment meter users and self disconnection.
- A focus on payment methods and Fuel Direct, linked to the work of the Community and Public Services team work on the Post Office Card Account
- Consumers in energy debt: Rights and Responsibilities, links to wider work on consumer empowerment.
- Issues associated with vulnerable micro businesses that have been disconnected or are under threat of disconnection.

4 Proposal

4.1 NOTE the work of the project team (made up of members of the energy team and the EHU) since the last update to the board.

4.2 ENDORSE the emerging recommendations as set out in section 3.

5 Resources

5.1 Resources for these initiatives have already been allocated and the work is built into the work plans of members of the energy team.

6 Next steps

6.1 The project team will continue to work closely with industry, Ofgem and other stakeholders to ensure that an evidence based policy advocacy approach is taken to ensure consumers in energy debt are not unfairly disadvantaged.

6.2 We will also continue to build on the positive cross organisational links that have been developed throughout this project.