

Maxine Frerk
Director, Governance, Consumer and Social Affairs
Ofgem
9 Millbank,
London, SW1P 3GE

19 February 2009

Dear Maxine,

Review of current debt blocking arrangements

Consumer Focus welcomes this opportunity to comment on proposals for changes around debt blocking, particularly in relation to suppliers' automatic right to debt block.

Debt blocking prevents consumers taking proactive steps to tackle their debt, by barring them from finding and taking advantage of the best energy deals available in the marketplace. For the poorest energy consumers in our society, debt blocking is a genuine obstruction to escaping from fuel poverty. February figures suggest that there is currently a 15% difference in price between the cheapest and the most expensive prepayment meter and standard credit tariffs available for an average gas consumers and a 10% difference for electricity. Given that BERR calculated that a 1% rise in energy prices pushes an estimated 40,000 households into fuel poverty, improving the switching rates of customers in debt could lead to a significant number of people being lifted out of fuel poverty.

According to the latest available Ofgem Social Monitoring Statistics, there are 2.3m consumers in GB with an energy debt, of which approximately 1.7m would be blocked from changing their gas or electricity supplier because of an outstanding energy debt greater than £100. However, it is important to note that the Ofgem definition of debt only includes those households who have agreed a debt payment arrangement with

their supplier, which is scheduled to last longer than 91 days¹. The actual number of consumers who would be debt blocked if they attempted to switch supplier is therefore likely to be significantly higher.

The Debt Assignment Protocol (DAP) provides a means of transferring for PPM customers with debts under £100. Since being introduced in 2004, however, the DAP has failed to fulfil the role for which it was intended. Ofgem's 2007 annual Domestic Suppliers' Social Obligations report², notes that "very few" PPM customers with an energy debt have successfully transferred supplier using the DAP.

In December 2007, Consumer Focus' predecessor body, energywatch, wrote to ask suppliers a number of questions about PPM switching, including one on the DAP. One supplier responded by calling the DAP an "expensive white elephant". A summary of industry responses to the energywatch letter is included as an appendix.

Ofgem will be aware that energywatch was critical of the terms on which the DAP was originally introduced. In 2003, energywatch called for a broader approach to be taken, to give a larger number of consumers the opportunity to tackle their energy debt by accessing better deals without the obstacle of debt blocking. In the four years that the DAP has been in operation, it has failed to provide an effective tool against debt for those consumers it was set up to target. Consumer Focus believes that the primary causes of the DAP's failure have been its lack of promotion, the complexity of completing transfers under the DAP and the fact that suppliers retain a veto over transfers.

Consumer Focus supports the continuation of the DAP in principle, but there are a number of changes to it that we believe are necessary in order for it to function effectively in the interest of energy consumers. Broadly speaking, we would like to see a larger number of consumers with a wider range of circumstances benefitting from use of the DAP in future. This would mean not only better promotion to raise awareness of the DAP, but the refinement of the existing arrangements so that it is easier for consumers to use, without the complex administrative burden that currently hinders its operation.

1

<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Monitoring%20Suppliers%20Performance%20Guidance.pdf>

²<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Suppliers%20Social%20Obligations%20Monitoring%20Report%202007%2011208.pdf>

Preferred option

The view of Consumer Focus is that a combination of the various options outlined, particularly option 2e, would present the best outcome for consumers with energy debt.

- The DAP threshold should be raised, with further consideration being given to the level at which it should be set (option 2e).
- Suppliers should target debt, tariff and energy efficiency advice at those customers who fall behind with their bills, especially when they object to transfer. Wherever possible they should link customers in debt with the provision of energy efficiency measures available under their Carbon Emissions Reduction Target (CERT) obligations as well as using it as an opportunity to promote their social initiatives such as social tariffs, trust funds, etc (option 2a).
- Further examination should be made of whether it would be practical to exempt any specific customer groups from debt blocking (option 2b).

Changes to the existing DAP process

The existing DAP protocol³ is extremely complex. It is clear that a customer-led DAP process has not worked for either consumers or suppliers. Consumer Focus' clear preference is for introduction of an automated, supplier-led DAP process, which would apply to both PPM and credit customers, as this would be more likely to address the needs of a higher percentage of fuel poor households.

The responses to energywatch's December 2007 letter and Ofgem's own findings appear to indicate that the majority of consumers do not appear to get beyond step one or two of a nine step process. Whilst we accept that many consumers may drop out of the DAP once they realise that their debts will not, in fact, be written off, we believe that this misunderstanding could be addressed, possibly through changes to the marketing and sales process.

Consumer Focus believe that another major reason for the low take up of the DAP is the fact that it is a customer led process. Ofgem from its recent research during the probe, found that 46% energy consumers are classed as 'inactive', with a further 37% as 'reactive'. It would be reasonable to assume that a significant percentage of these

³http://www.mrasco.com/pages/E2EV17JUN07/print_description/diagram1c91621f753e11d9991b00023fce522b.htm

‘inactive or reactive consumers’ are the ones who would most benefit from a revised DAP process but would be dissuaded by the complex, multi-stage procedure that they would be required to initiate and negotiate in order to realise any savings.

There are a number of issues that would need to be bottomed out by switching to a supplier led process, such as the implications of the Data Protection Act. However, there is scope for Ofgem and industry to explore whether changes to supplier contracts and/or the switching process could help address this issue.

In addition to the increased DAP threshold proposed by option 2e, there are further steps that Consumer Focus would like to see taken to improve the use of the DAP. The first of these would be to investigate extending its eligibility beyond PPM customers only, to include Standard Credit and flexible payment customers. Including these groups under the DAP would be attractive to Consumer Focus, in principle, because it would mean that not only PPM customers would be able to benefit from seeking out cheaper tariffs and switching supplier. The inclusion of these consumer groups would also serve as a better proxy for fuel poor households. However, we realise that this approach would carry greater risks for suppliers as the debt would not be secured on a PPM.

The second improvement that Consumer Focus would encourage would be more publicity for the DAP, and greater efforts by suppliers to make their customers aware of the DAP. Crucial to achieving this would be improved training of customer support staff, to ensure they are able to introduce the DAP to eligible customers who may be able to benefit from it. Part of the problem with the DAP to date has been the lack of awareness of it by both consumers and supplier staff, and this is something that this consultation should take the opportunity to tackle. Price comparison sites could have an important role to play here, for example both by publicising the DAP and by explaining the switching process to PPM customers who compare prices on the site.

The third improvement needed in the DAP is to reduce where possible its administrative burden on suppliers and consumers. An overly-burdensome administrative process is off-putting for all parties involved in using the DAP and has been partly to blame for the very low level of successful transfers that the DAP has facilitated. Addressing the administrative faults with the DAP would help improve transfer rates and benefit greater numbers of consumers seeking to address their energy debts. We assume that changes to the DAP would be addressed through the

industry self-governance process, therefore it is important that Ofgem issue clear guidance about its expectations in any forthcoming recommendations paper.

More detail on each option

Option 1 – Retain the status quo: We do not believe a continuation of the status quo is acceptable in relation to debt blocking and the Debt Assignment Protocol. Consumer Focus wants to see the barrier to switching for consumers with energy debt addressed and does not support the current situation being retained without amendment.

Option 2a – Retain debt blocking, but require suppliers to provide tariff and debt management advice when they object to a transfer: This option does not go far enough to entail a solution for consumers affected by debt blocking, but it is a sensible proposal and one that Consumer Focus supports. As well as advice on tariffs and debt management, suppliers should also offer energy efficiency advice when they object to a transfer, where possible by linking customers with the provision of energy efficiency measures available under their Carbon Emissions Reduction Target (CERT) obligations.

Option 2b – Remove debt blocking for specified customer groups: This option suggests the removal of the automatic right to debt block for specified customer groups, e.g. those off the gas grid, on the Priority Services Register, etc. Consumer Focus believes this may be a possible option in theory, however the administrative cost is likely to be high. Neither of the groups mentioned are a good proxy for the fuel poor and social tariffs offer a better solution for specified customer groups rather than exempting from debt blocking.

We are aware that all suppliers have a range of ‘vulnerability flags’ on their customer accounts, which indicate particular information such as whether the customer is on the PSR. We would recommend that further input be taken from suppliers to determine which groups could be identified and excluded from debt blocking, without creating an excessive additional administrative burden, for example by using the flagging systems they already have in place.

Option 2c – Remove debt blocking for all customers with debts below a fixed threshold, e.g. £50 or £100: This would take away the need for the DAP, by removing debt blocking for any customer, providing his or her debt is below an established threshold. Consumer Focus would not be supportive of this option, for two reasons. Firstly, the suggested thresholds of £50 or £100 would fall well below consumers’ average debt

levels, making them too low to make a meaningful difference to a significant number of energy consumers, particularly in the former case. Secondly, Consumer Focus supports the continued use of the DAP, albeit in an amended form, so would not want to see the whole protocol discarded in favour of a blanket approach to ending debt blocking.

Option 2d – Remove debt blocking where debt is due to supplier error: This option is difficult for Consumer Focus to comment on at this stage, as it is not clear how it would work in practice. We would assume that some consumers would be covered by back-billing guidelines so their debts would be written off. In principle, Consumer Focus would support this approach, however Ofgem should provide further clarity about how it views this option working in practice.

Option 2e – Retain debt-blocking and increase the DAP threshold to £200:

Option 2e proposes that the DAP be retained but that the threshold for eligibility be raised to £200. The DAP has been little-used since it was introduced in 2004, and one of the steps that should be taken to widen its use is to extend the pool of consumers who are eligible to use it to switch supplier. Consumer Focus would support a higher threshold, which would allow many more customers with energy debts the opportunity to switch to cheaper tariffs with other suppliers.

In terms of the threshold level, it would be useful if Ofgem could explain the reason why it has been set at £200. Ofgem's latest available Social Monitoring Statistics (Q3 2008) show consumers' average gas debt at £185 and average electricity debt at £236. It would be useful to know whether suppliers have given an indication of what level of debt they would be willing to accept from transferring customers.

Ofgem's Social Monitoring Statistics place the percentage of PPMs installed for debt recovery purposes in Q3 2008 at a fairly high 74%. This is an increase of 4% on Q2 and 2% on Q1, and with the current economic downturn we should expect to see this figure continuing to increase. Raising the DAP threshold therefore also reflects the likely increase in debt levels being brought by these additional PPM customers.

Option 2f – Open up the DAP to all customers / Option 3 – Remove suppliers' right to debt block: These options carry similar risks for consumers that would make them unattractive options. In both cases, there is a likelihood of greater use of credit reference agencies by suppliers, as well as an increase in the requirement for

customers to have a PPM installed. In addition, a removal of debt blocking could lead to suppliers pursuing more aggressive recovery action, with negative consequences for consumers seeking to switch supplier in order to tackle their debt levels.

Scotland and Wales

The Scotland and Wales markets exhibit some distinct characteristics. Ofgem's Social Monitoring statistics also show that in Wales, the percentage of gas PPM consumers in debt is significantly higher than in the rest of the GB (19% compared with 16%). With higher energy debt levels commonly being found in Wales and Scotland, it is important that, as Ofgem examines the debt blocking rules and the use of the DAP, particular attention should be paid to finding solutions that take into account these geographical differences.

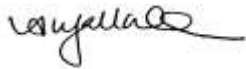
Further points

Feedback from the Consumer Focus Extra Help Unit has yielded a further issue that should be noted in relation to this options paper. Where the customer has mental health problems, it may be in his or her interest to have the supplier place a block on the account to prevent unwanted transfers. While some suppliers actively attempt to provide assistance to do this, others do not as they are wary of acting in a way that could be deemed anti-competitive. It would be helpful if all suppliers could agree to block transfers when the consumer or someone acting on his or her behalf requests that this measure be put in place.

Finally, we would mention the steps suppliers can take to limit consumer debt, eliminating the need for debt blocking overall. Suppliers need to improve on the processes they use to identify consumers in payment difficulty at an early stage. To do so would limit the amount of debt a consumer ends up with before a PPM is fitted and ease the pressure for more consumers to be eligible for exemption from debt blocking under the DAP. As an aside to this, we believe suppliers should also be improving their debt path processes to capture consumer information regarding vulnerability and other issues where possible.

If you have any further questions about this response please do not hesitate to contact me on 0207 799 7961.

Best regards,



Audrey Gallacher
Head of Company Performance and Consumer Experience
Consumer Focus

Appendix

Analysis of Replies by Suppliers to energywatch letter on PPM Switching of 21 December 2008

energywatch Question	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5	Supplier 6
Your company's experience of the Debt Assignment Protocol for PPM users wishing to switch with a debt of less than £100; and any views you might have on why this has not worked.	No comment as have limited experience. Very few customers use the protocol and supplier only implemented debt objections in Dec 2007.	Very low volumes of consumers using DAP. Supplier feels that the onus being placed on the consumer to act is a barrier.	Supplier believes DAP to be an expensive white elephant. Gained no customers through it. Supplier believes some debts are not straightforward, e.g. misdirected payments etc. and so are not suitable for this type of protocol. There is also possibility that some consumers commence DAP process without realising that their debt travels with them. They then drop out of the process when made aware of this.	Supplier has found very low consumer interest in DAP but no other comments.	Supplier wants the DAP to work but believes that complexity is behind its lack of success.	Supplier has found no problem with the industry processes. Supplier believes that consumers don't like providing information hence the low uptake of the procedure.