Making a positive difference
for energy consumers

Energy: the debate

Ofgem Roundtable Report
Payment Differentials

Foreword from Rachel Fletcher and Sarah Harrison

Most energy consumers currently use direct debit (DD) to pay for their energy bills. However, almost 40% use prepayment meters (PPM), or on receipt of their bills, standard credit (SC). Many consumers value the control these payment methods offer, but PPM customers can face particular issues. For example, they pay about £80 more for their gas and electricity consumption (dual fuel) per year than those using DD.

While not all PPM or SC customers are on low incomes, they are more likely to be in fuel poverty than DD customers. Concerns have therefore been raised about the impact of this difference in cost on consumers on low incomes and in vulnerable situations. There have been calls for price differentials to be removed or regulated.

Ofgem does not regulate prices or profits in the retail market. We have however put in place rules to prevent overcharging. Suppliers can only charge more for one payment method than another, if the price differential can be justified by cost difference. We also recognise our important role in helping to ensure that costs do not fall disproportionately on low income customers and those in vulnerable situations.

In May 2014 we completed a review of price differentials and published our results. We found no evidence of overcharging – that is that costs were unjustifiably added to the bills of typical PPM and SC customers. The differences in costs were largely due to the differences in costs to serve - in the case of PPM customers the need for a separate meter and payment infrastructure; in the case of SC consumers higher costs are largely due to bad debt from non-payment.

We also analysed the potential impact of payment differentials being removed on fuel poor households. Our research indicated that equalising PPM or SC payment differentials could make around half of the fuel poor worse off, including some of the most severely fuel poor. It may not therefore deliver the social outcomes suggested by some.

In October 2014, we decided to host a roundtable to discuss our analysis and have an informed and open debate about these complex issues. In particular we are mindful that while prices are cost-reflective there is a different issue as to whether they are fair. We therefore invited a broad range of stakeholders from across government, parliament, industry and consumer groups to discuss the options available to support low income PPM and SC customers.

This report provides a summary of the presentations, discussions and the actions proposed during the event. We will share this report more widely with government, and other interested parties to help inform the wider debate on energy affordability and policy decisions. We are committed to playing our part as appropriate, in delivering the suggested actions and will provide an update in our Vulnerability Strategy progress report.

This roundtable is part of a wider series of discussions on vulnerability issues – Energy: the debate.

Rachel Fletcher

Senior Partner Energy Markets

Sarah Harrison

Senior Partner Sustainable Development

Roundtable agenda

In October 2014 Ofgem hosted a roundtable to discuss PPM and SC payment differentials and potential action that could be taken to support low income and vulnerable consumers who use these payment methods. Stakeholders were invited from across government, parliament, industry and consumer groups to discuss the issues.

The roundtable had two main parts:

Part I

focussed on our analysis of payment differentials and included a speech from Fiona O'Donnell MP on prepayment meters. This was followed by questions and a whole room discussion on the cost to serve PPM and SC customers, and whether payment differentials should be removed or capped.

Part II

included presentations from Ofgem, DECC, Energy UK (EUK) and Citizens Advice. These outlined their respective approaches to vulnerability and steps being taken to support low income and vulnerable SC and PPM consumers. This was followed by break-out discussions focused on the questions below:

- What actions might be taken to help low income SC and PPM to access cheaper bills?
- To what extent is smart the answer? – the expected impact of smart metering on payment differentials and customer experience

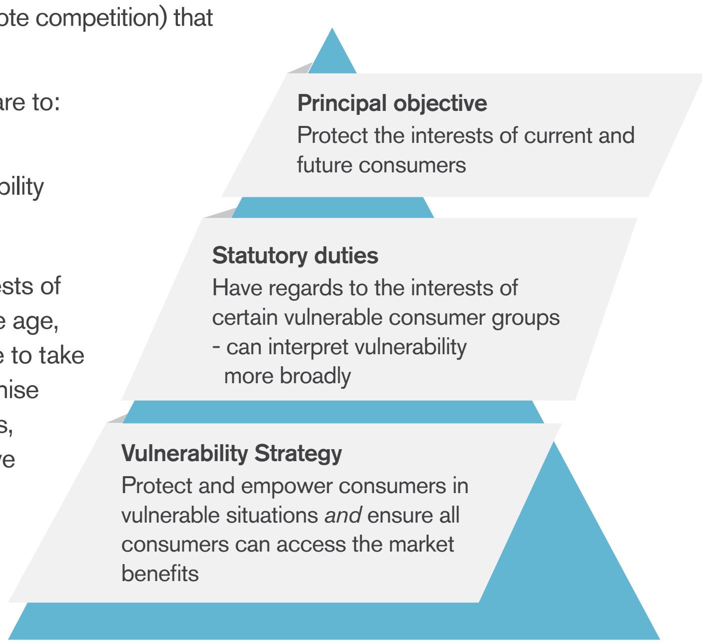
Introduction - the context

Ofgem's principal objective is to protect the interests of current and future consumers, wherever appropriate by promoting competition. Also by considering whether there is any other way of achieving this (whether or not it would promote competition) that would better protect the interests of consumers.

The overarching aims of our Consumer Vulnerability Strategy are to:

- Protect and empower consumers in vulnerable situations - so as to reduce the likelihood and impact of that vulnerability
- Ensure all consumers can access market benefits.[1]

In carrying out our functions we must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, and residing in rural areas. We are also able to take into account the needs of other consumer groups. We recognise that vulnerability is not only about an individual's characteristics, but also about the customer's circumstances (e.g. do they have internet, or live alone) and how the market responds to their needs. Vulnerability can also be temporary e.g. following a bereavement or due to mental health problems. Having a low income or using a particular payment method are also potential vulnerabilities.[2]



We must also have regard to the Social and Environmental Guidance.[3] This states that Ofgem should "ensure that consumers, including those paying by a prepayment meter or by standard credit, do not suffer any undue economic disadvantage as a result of their payment method".

The Social and Environmental Guidance also says that "where the government wishes to implement specific social or environmental measures which would have significant financial implications for consumers or for the regulated companies, these will be implemented by Ministers, rather than the Authority..." – this is largely for reasons of legitimacy.

We do not regulate energy prices or profits in the retail market. Nevertheless we do require suppliers to ensure that the difference in price between payment methods is cost reflective. In May 2014 we published an open letter with the results of our latest analysis of payment differentials – the findings of which were presented at the roundtable. Our analysis found no evidence to suggest that costs are being unjustifiably added to the bills of typical PPM and SC customers.

[1] https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf.
[2] https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf.
[3] https://www.google.co.uk/#q=social+and+environmental+guidance.

Prepayment and standard credit – key statistics

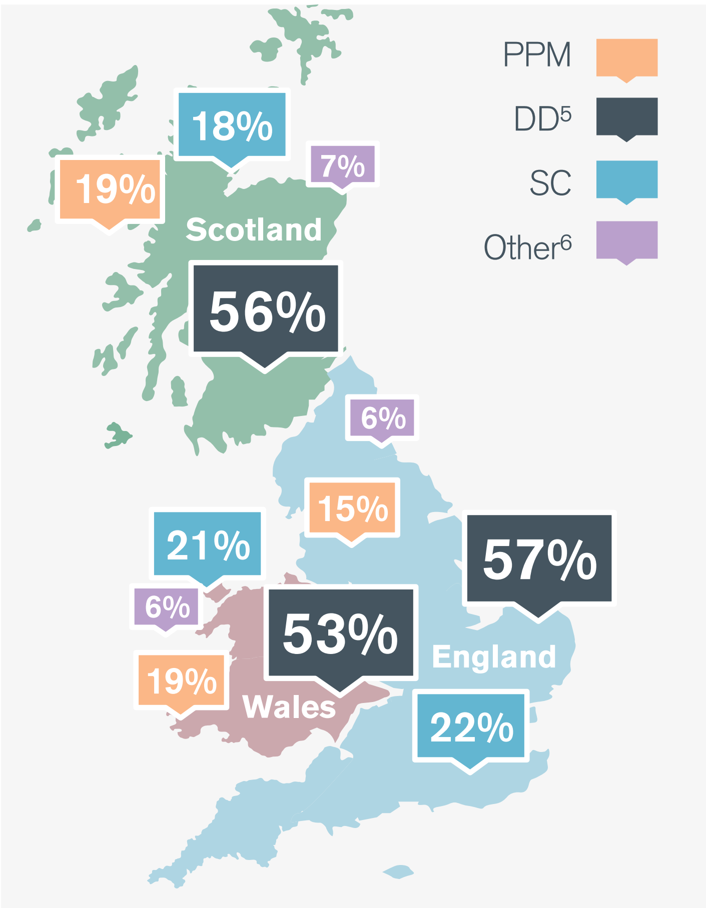
22%

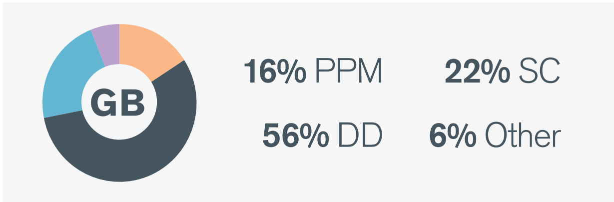
of customers in GB pay for their energy by standard credit

16%

in GB use pre-payment meters

The national breakdown by payment menthod is as follows:





- Around 22% of customers in GB pay for their energy by SC, 16% by PPM, 56% by DD, and 6% by other payment methods such as Fuel Direct or budgeting payment schemes.[4]
- Dual fuel PPM and SC customers pay on average £80 more per annum for their energy than those using direct debit.[7]
- While not all PPM or standard credit customers are financially vulnerable, customers using these payment methods are more likely to be on low incomes.[8]
- Estimates suggest that approximately 19% of PPM customers and 16% of SC customers in England are in fuel poverty, compared to 7% of DD customers. This means that PPM customers are more likely to be in fuel poverty, compared to customers using other payment methods.[9] Fuel poverty data by payment method is not available for Scotland and Wales.

[4] Ofgem, Social Obligations Reporting 2013.
[5] Direct debit refers to monthly direct debit.
[6] Other payment methods include Fuel Direct, budgeting payment schemes, monthly standing order, monthly payment schemes and quarterly variable direct debit.
[7] https://www.ofgem.gov.uk/publications-and-updates/price-differences-between-payment-methods-%E2%80%93-open-letter.
[8] Citizens Advice (2014), "Topping-up or Dropping-out: Self-Disconnection among Prepayment Meter Users", http://www.citizensadvice.org.uk/index/policy/policy_publications/er_fuel_water_post_digital_telecoms/topping_up_or_dropping_out.htm.
[9] Based on DECC Fuel Poverty Statistics, Detailed Tables, England, 2012, Low Income High Costs (LIHC) definition, Tables 15-16.

Around half of the fuel poor in England (45%) pay by DD, followed by PPM (25%) and SC (around 22%).

Breakdown of households in fuel poverty by payment method, dual fuel [England only]

Payment method	% of all fuel poor households	% of households paying by payment method that are fuel poor
PPM	25%	19%
SC	22%	16%
DD	45%	7%

Note: Average for gas and electricity[10]

Fuel Poverty in England is calculated by a low income high costs indicator. This finds a household to be fuel poor if it:

- **Has an income below the poverty line (including if meeting its required energy bill would push it below the poverty line) and**
- **If it has higher than typical energy costs.**

Average fuel poverty gap (£)[11]:

Payment method	Gas	Electricity
PPM	£309	£347
SC	£403	£459
DD	£377	£489
n/a - No gas	£795	
All households	**£443**	**£443**

- According to data available for England, households who use PPMs are the least likely to be in severe fuel poverty or to put another way, have the smallest fuel poverty gap among all the payment methods. SC and DD households have a higher fuel poverty gap than PPM households for both gas and electricity.
- The fuel poverty gap is the measure of how much more a fuel poor household needs to spend to keep warm compared to typical households. The fuel poverty gap is calculated as the difference between the fuel cost paid by fuel poor and average required fuel costs. Households in more severe fuel poverty are those with higher fuel poverty gaps.

[10] Estimated based DECC Fuel Poverty Statistics, https://www.gov.uk/government/collections/fuel.poverty.statistics.
[11] DECC Fuel Poverty Statistics, https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm.

Payment differentials – Ofgem's analysis

Adhir Ramdarshan
Ofgem

Ofgem provided an overview of the current protections and our recent analysis of payment differentials. The main points raised were:

- Under supply Licence Condition (SLC) 27.2A suppliers must not charge more for one payment method compared to another unless this can be justified by the cost difference.[12]
- Ofgem monitors compliance with this licence condition, and has carried out enforcement action as appropriate.
- Since SLC 27.2A was introduced in 2009, payment differentials between PPM and DD have gone down significantly – from about £140 to £80 per annum for dual fuel.
- In recent years the largest six suppliers' premiums for SC and PPM have aligned. Five of the Big 6 now charge the same premium for SC and PPM. The exception is Scottish Power who charge more for SC than PPM.
- Ofgem's analysis found no evidence to suggest that costs are being unjustifiably added to the bills of typical PPM and SC customers.
- Higher charges are largely a result of higher costs to serve. For PPMs this is notably due to higher costs of purchasing and maintaining the meter and the necessary infrastructure. For SC, this is primarily due to bad debt costs associated with non-payers.
- Suppliers have flexibility in how they allocate costs – they can level prices across payment methods.
- The current rules effectively put a cap on the amount that suppliers can charge at cost reflectivity, and allow the possibility of cross-subsidising where it has social benefits.
- The analysis found that gas PPM-DD price differentials were on average lower than the cost differential, implying that PPM customers are already being cross-subsidised.[13]
- Not all suppliers charge more for PPM and SC.
- Low income consumers are disproportionately represented in both the SC and PPM payment methods, however, around 45% of fuel poor consumers currently pay by DD.[14]

[12] See Standard Licence Condition (SLC) 27.2A of the Gas/Electricity Licence Conditions.

[13] Costs are higher for these customers because gas prepayment meters are significantly more expensive to install and maintain in comparison to credit and electricity prepayment meters. This suggests that some of these costs were being recovered across customers generally, helping to reduce price differences between prepayment and direct debit.

[14] Based on DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables England 2012, Low Income High Costs (LIHC) definition, Tables 15-16, https://www.gov.uk/government/collections/fuel-poverty-statistics.

Breakdown of households in fuel poverty using electricity by payment method [England only][15]

Fuel poverty data by payment method is not available for Wales and Scotland.

Payment method - electricity	Proportion of households fuel poor %
PPM	27.1
SC	24.6
DD	48.3
All households	100.0

Breakdown of households in fuel poverty using gas by payment method [England only][16]

Payment method - gas	Proportion of households fuel poor %
PPM	22.1
SC	19.7
DD	40
n/a = No gas	18.2
All households	100.0

Impact on domestic GB dual fuel customer bills of removing payment differentials by payment method.

Any changes to the current approach to socialise costs (e.g. equalising price differentials) would have winners and losers among the fuel poor, and those in the most severe fuel poverty.

Payment method	Impact per dual fuel customer
PPM	-£42
SC	-£45
DD	+£34

Further analysis would be needed to understand the full distributional impact of removing payment differentials, including evaluation of differences in the impact across nations (England, Scotland and Wales).

[15] DECC Fuel Poverty Statistics, https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm.
[16] DECC Fuel Poverty Statistics, https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm.

An MP's perspective

Fiona O'Donnell
MP for East Lothian

Fiona O'Donnell MP stated that she was not against PPM as a choice of payment method as she recognised it was often a useful way for households to manage expenditure but she highlighted the following issues raised by constituents and consumer representatives:

- Concerns about the impact of relatively high charges on low income and vulnerable customers. She cited Consumer Futures report that 60% of prepayment meter households have an income of less than £17,500.
- The importance of PPM customers having the same opportunities as those on other payment methods to switch suppliers and to access fixed price tariffs.
- Insufficient information on how to use PPMs – particularly on change of tenancy.
- Barriers to moving away from prepayment - including charges to remove meters and landlords not wanting to remove meters.
- Potential for hidden self-disconnection and the impact of wider changes to benefits on households' ability to budget and stay out of debt.
- Problems with standing charges building up over the summer period when people are not using energy, so that when the customer tops up their PPM meter in the autumn their money is used to pay off the debt and leaves them unable to heat their homes.

Ms O'Donnell proposed a PPM Charter be put in place to ensure customers get the same level of protections and to set out clearly and succinctly what PPM users can expect from their supplier. This included:

- All tariffs offered with PPM as a choice of payment method.
- More convenient ways to top up PPM meters e.g. by phone or online.
- A Freephone number, including free from mobiles, in order to access help and information regarding meters.
- A manual provided with every meter which sets out how they work and lists the relevant charges.
- Suppliers to adopt a common definition of a vulnerable consumer for PPM and to monitor these consumers so that they are never without power.
- Standardise how suppliers monitor the energy usage of prepayment meter consumers.

Ofgem - Supporting customers in vulnerable situations

Zoe Mcleod
Ofgem

Ofgem outlined a range of activities which it is undertaking to support fuel poor consumers. This was mapped against DECC's work areas outlined in the draft Fuel Poverty Strategy.

Fairer markets /costs

- Monitoring payment differentials
- Market Investigation Referral
- Facilitate switching via: RMR reforms; Energy Best Deal and Energy Best Deal Extra - by spring 2015, at least 350,000 consumers will have benefitted; collective switching work; review of the Debt Assignment Protocol; review of switching objections
- Priority Services Register review
- Data sharing and identifying vulnerability
- Debt and disconnection work
- Smart metering activity including on smart billing and back-billing.

Supporting people/incomes

- Effective redress - more than £40m to support fuel poor customers and those in vulnerable situations
- £38m of unreturned credit balances to go to social funds
- ED1 price controls - network incentives to identify and support customers in vulnerable situations
- Administer Warm Home Discount (WHD) - more than £1 billion in support for those at risk of fuel poverty since it started in April 2011.

Warmer homes/ energy efficiency

- ECO - supported the delivery of nearly 1 million measures installed in over 800,000 homes
- Fuel Poverty Network Extension Scheme - more than 58,000 gas connections since the scheme began
- Facilitating community energy

DECC - supporting customers on low income

Rachel Crisp,
DECC

Department of Energy & Climate Change

DECC outlined the main schemes which government has set up to help fuel poor consumers and its commitment to try and ensure that the £12 energy rebate would reach PPM customers.

- Winter Fuel Payment - worth up to £300. Last winter 2013/14, £2.15bn was paid out to around 12.5m older people.
- Cold Weather Payments - provide £25 for every week of a cold spell.
- Warm Home Discount - over 1.4m pensioners will receive £140 off their electricity bill this winter 2014/15.
- ECO Scheme - has been extended to 2017 helping over half a million more low income households with energy-saving improvements.
- Big Energy Saving Network - an outreach initiative that trains community volunteers to help ensure vulnerable consumers are on the best tariff for them. In the first year this initiative provided face to face advice to around 90,000 people.
- Smart PPM - the Secretary of State has challenged suppliers to prioritise prepayment meter installations under the smart meter rollout - this will transform the way prepayment customers buy energy and help consumers save energy and money.
- Fuel poverty - a new long-term target to be set in law focussed on improving energy efficiency in fuel poor homes. Strategy to support target expected to be published towards the end of the year.[17]
- Government Electricity Rebate (GER) - all eligible domestic electricity customers will receive a £12 rebate on their bills in 2014 and 2015 to help lower the impacts of government environmental and social policy cost.

[17] This is now published. https://www.gov.uk/government/consultations/cutting-the-cost-of-keeping-warm-a-new-fuel-poverty-strategy-for-england.

Supplier activity - supporting customers in vulnerable situations

Alun Rees, EUK

EUK outlined their members' approach to vulnerability and the range of voluntary and regulatory support provided by their members to support those on low incomes. The main points were:

- Defining vulnerability is complex.
- Under the EUK Safety Net they have adopted a broad definition: **"A customer is vulnerable if for reasons of age, health, disability or severe financial insecurity, they are unable to safeguard their personal welfare or the personal welfare of other members of the household".**
- EUK members recognise that vulnerability does not necessarily refer to the person who pays the bill – they also need to consider other people in the household.
- It is important to separate out vulnerability from fuel poverty as they are not the same thing.
- EUK members are mindful of the need to consider vulnerability on a case by case basis.

INDUSTRY SUPPORT FOR FUEL POOR AND VULNERABLE CONSUMERS

Social support

Wide range of support provided including under:

- the Priority Services Register
- the Debt Assignment Protocol
- Ability to Pay principles
- Winter Moratorium on disconnections
- the 5 Key PPM Principles
- Home Heat Helpline, and the EUK Safety Net.

The latter includes never knowingly disconnecting a vulnerable customer at any time of year – this covers SC and DD customers but not those using PPMs.

Warm Home Discount

- **£1.1bn** four-year, supplier funded, social price support scheme
- Support included, rebates, social tariffs, trust funds etc.
- **£175m** over and above requirements
- **120k** Broader Group rebates

Citizens Advice - supporting customers in vulnerable situations

Gillian Cooper,
Citizens Advice

Citizens Advice gave a short overview of their Fair Play for Prepay campaign, and outlined its proposed research to explore different ways in which low income and vulnerable consumers could be supported. It has commissioned the Centre for Sustainable Energy to explore the potential for:

- a back stop tariff which would match the cheapest price offered by that supplier
- an enhanced and extended Warm Home Discount scheme
- removing social and environmental costs from target groups' bills and
- the provision of a free block of energy for each household.

Key to each of these options was the expectation that the identified consumer would be automatically opted in.

- It expressed concerns about over-reliance on information remedies to tackle the problem of low engagement levels and what they felt was a failure of the market to deliver suitably attractive tariff options to certain groups of consumers.
- They highlighted concerns about PPM customers having limited top-up options, relatively little choice of tariffs and poor customer service. They also talked about wider problems including issues with faulty keys or meters.
- They outlined their Fair Play for Prepay campaign which is calling for the following for PPM customers:

  1. **A better price**
  2. **More control**
  3. **Easier use**

Discussion write-up

The section below outlines a summary of the discussions on the day and proposed actions to support low income and vulnerable consumers who use prepayment in particular. The views outlined are not necessarily shared by all participants.

Part 2 - discussions and suggested actions

Ofgem analysis – should payment differentials be equalised?

Proposals

1. Ofgem should continue to monitor price differentials
2. The Competition and Markets Authority (CMA) should investigate competition in the prepayment market to ensure it is working properly and costs to serve are as efficient as possible
3. Alternatives to competitive tariffs such as social tariffs/back-stop tariffs should be explored.

Discussion overview

There was agreement in principle of the need to ensure that low income customers should not face a 'poverty premium'. There was a general recognition of the significant decrease in payment differentials since 2010 but a desire for this to further decrease. This was especially the case given the relative benefits of any cost savings to this customer segment.

However, there was general recognition, including by consumer groups, that equalising tariffs by socialising the additional costs to serve, was a crude tool to deliver social outcomes. It could result in winners and losers among the fuel poor.

It was recognised that Ofgem does not regulate prices in the competitive market and that suppliers have discretion in how they allocate additional costs to serve. Some suppliers already socialise costs to reduce payment differentials.

Price capping

Attendees discussed the impact of capping tariff differentials. Ofgem clarified that the current licence condition effectively caps the differential at the individual supplier's cost to serve for that payment method. Ofgem was asked whether and how they could ensure that the costs to serve were as low as possible, for example, accounting for the efficiencies that companies should achieve, or narrowing the range of justifiable extra costs across the suppliers. Ofgem said they relied on promoting competition including switching to deliver this.

Ofgem has referred the energy market, including prepayment, to the CMA. This is because it has concerns that the market is not working as well as it should do for consumers. It was recognised that there had been relatively little innovation in the PPM market, and there are fewer tariff choices for PPM and SC customers than DD.

Smart metering was widely expected to reduce the costs to serve for prepay. Concerns were raised as to how quickly these benefits will be realised and where transition costs would fall. It was felt by some that Ofgem should monitor the impact of smart metering on price differentials.

Standard credit differentials

A discussion was had as to whether bad debt costs associated with the higher costs to serve of SC, should be borne by the individual late payer rather than spread across all SC customers. Socialising across all SC customers was seen by some as unfair to prompt payers. However, concerns were raised that such a move would penalise those already struggling to pay their bills.

It was recognised that if the costs of bad debt associated with SC, were spread across all payment methods that this was likely to result in greater numbers of fuel poor customers paying more. Ofgem estimated that such an approach would result on average in a £27 decrease for SC customers, but an average increase of £7 for PPM customers and a £13 increase for DD customers. The last two groups of customers together make up around 70% of the fuel poor.[18]

Prepayment differentials

Average PPM payment differentials are now the same as SC. The group discussed the impact of equalising differentials across all payment methods and socialising the costs to serve. Given that around 45% of fuel poor customers in England pay by direct debit,[19] it was recognised that such a move could result in around half of fuel poor households being worse off.

One company said that socialising payment differentials would not be too disruptive from a commercial point of view, however if SC prices were neutralised then it would be unlikely to be a zero-sum game, as the incentive to be on the most efficient payment method would be lost. Levelling prices could make the market less competitive. This was likely to result in increased costs for all consumers.

Some industry participants suggested that competition will always push businesses away from cross-subsidy.

It was recognised that Ofgem's analysis indicated that customers were not being overcharged. However while prices might be 'fair' in the sense of being 'cost-reflective', that did not mean that they were affordable or equitable, so more needed to be done. Many felt it was the role of government, not the regulator, to sanction significant wealth transfers between income groups.

Warnings

There were warnings against talking about the average 'fuel poor', highlighting that vulnerable consumers and fuel poor customers are all very different with different needs. Therefore average figures do not provide a full picture of the impact of energy bills on different customer segments.

The discussion concluded there was a very important question as to whether or not competition can do enough to help the poorest and most vulnerable customers. There was a general interest in exploring alternatives such as social tariffs and back-stop tariffs – recognising there are some groups of customers that competition will not deliver for. One participant noted that EUK's predecessor, the Energy Retail Association, had previously been sympathetic to taking some of the poorest and most vulnerable households out of the energy market to guarantee them access to a competitively priced offer or the market cheapest deal.

[18] DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables England 2012, Low Income High Costs (LIHC) definition, Tables 15 -16, https://www.gov.uk/government/collections/fuel-poverty-statistics.

[19] Based on DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables England 2012, Low Income High Costs (LIHC) definition, Tables 15 -16 https://www.gov.uk/government/collections/fuel-poverty-statistics.

What wider actions might be taken to help low-income SC and PPM access cheaper bills?

Discussion

Attendees considered what wider action might be taken to help low income SC and PPM customers access more affordable energy. The roles of different parties including industry, consumer representatives, Ofgem, government, and consumers were considered. The main issues raised were as follows:

Suggested actions

4. All parties should work together to promote switching by PPM customers – including raising awareness of the Debt Assignment Protocol
5. Suppliers should offer more choice of tariffs to PPM consumers - there should be as much choice of PPM tariffs as for other tariffs
6. Ofgem should review potential barriers to switching payment method
7. Ofgem should monitor the distributional impact of retail market reforms including the impact on PPM and SC customer switching
8. Ofgem and DECC should consider how they can facilitate independent face-to-face switching advice.

Discussion points raised:

- More suppliers are offering PPM deals than ever before. But PPM and SC customers still have fewer tariff choices than those using DD and fewer fixed term deals. There need to be more attractive offers.
- PPM customers are now switching at comparable rates to SC customers but are over represented among customers that have never switched. Neither PPM nor SC switching as much as DD.[20]
- Low income and vulnerable customers are disproportionately 'sticky' for a range of reasons.
- Under the RMR reforms and the Ofgem Be an Energy Shopper campaign it is easier for consumers to check whether they are on the best deals.
- More visibility is needed as to the impact of reforms on different customer segments, including PPM. Also a better understanding of switching tariffs within the same supplier.
- Customers should switch to cheaper payment options but there are challenges associated with this.
- There should be a diverse range of third parties engaging with consumers, particularly to help those who can't access or don't feel comfortable using online switching sites. Third parties suggested included Money Advice Trust, food banks, CAB and local authorities.
- Some customers may feel 'locked into' PPM or SC if they are in debt to their energy company.
- Some choose not to switch because they value the control prepayment or SC give them.
- Since the widespread withdrawal of doorstep sales there has been less face to face (F2F) engagement to help customers switch. Though there was little evidence as to whether customers switched to a better deal, historically F2F contact has been an important trigger for low income groups to switch. F2F engagement is important for consumers who are not connected to or do not use the internet.
- There is a lack of awareness that PPM customers with a debt up to £500 per fuel can switch using the Debt Assignment Protocol. This process does not currently work as well as it might. This is something Ofgem is already addressing.

[20] Consumer Engagement Tracking Survey 2014, Ipsos Mori for Ofgem, https://www.ofgem.gov.uk/publications-and-updates/customer-engagement-energy-market-tracking-survey-2014.

- Consumers can be put off from switching payment method if they have to pay for the PPM to be removed or are asked to pay an upfront security deposit.
- Not having a bank account and hence being unable to pay by DD is an issue for some consumers. Government efforts to increase use of bank accounts may help.

Social support

Suggested actions

9. Data sharing between government (esp. DWP) and suppliers responsible for delivering social and environmental schemes should be extended
10. Steps should be taken to ensure customers are aware if they might lose the WHD when they switch

There were a number of points raised around the provision of financial support for low income customers:

- Industry provide a wide range of support for low income customers and those with vulnerabilities. Questions were raised regarding where the social role of supplier ends and the State should take over.
- Some felt social levies on bills are regressive. WHD should be tax payer funded rather than a levy on bills.
- Customers are not always aware that they might lose the WHD if they switch and that in some instances this could leave them worse off.
- Some felt the WHD affects switching rates because people are not sure whether they will get it with their new supplier.
- Better targeting of WHD is needed – some felt that many customers who get it are not in fuel poverty.
- Greater data sharing between government (local and national) and energy companies could help target support more effectively and efficiently at those in need of assistance.
- There could be a role for suppliers in better communicating case studies of where consumers facing difficultly have received help from their supplier.
- Some felt that Ofgem's website could be a potential source of information in helping to communicate the information on offer from suppliers.

Information provision and self-disconnection

Suggested actions

11. Suppliers should increase the frequency of their communications with PPM customers and be more innovative in how they engage householders
12. Further work is needed to understand the causes and extent of PPM self-disconnection and how standing charge build-up can be prevented
13. Suppliers and consumer groups should target their information campaigns at tenants/landlords

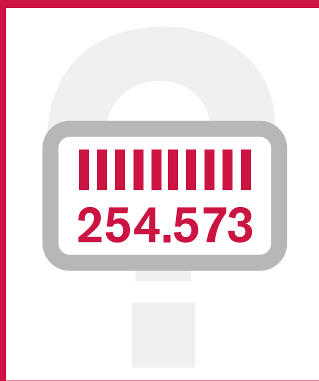
The following issues were raised:

- Disconnections for SC and DD are low, but there is a lack of data about the number of PPM customers who may be self-disconnecting.
- Customers can have low levels of understanding as to how to use their prepayment meter. In particular, they do not know how to access or understand information on debt repayment rates and standing charges.
- Suppliers generally do not know when there has been a change of tenancy unless the tenant contacts them.
- There can be problems with standing charges building up over the summer when customers are not using energy. This can mean that when they first top up their meter afterwards, all or a substantial proportion of their money can be deducted to repay standing charge debt.
- PPM customers have less contact with their energy suppliers, unless something goes wrong. They do not generally receive regular bills, only an annual statement.
- Suppliers find PPM householders harder to engage with as they tend to be more transient, changing tenancy more often.
- Under the Smart Metering Installation Code of Practice suppliers have to demonstrate the prepayment system, including showing customers how to access key information – when they install a smart meter.

Is smart an answer?

Suggested actions

14. The transition from traditional prepayment meters to smart meters with prepayment facility needs to be managed in a way that does not disadvantage low income and vulnerable customers
15. Ofgem and DECC need to monitor the impact of smart meter rollout on price differentials and prepayment and standard credit customer experience closely
16. Suppliers should offer a choice of top-up methods with smart meter users, such as by text, online, by phone



Discussion points:

- All homes and smaller businesses are expected to get smart meters by 2020.
- There was generally confidence that the introduction of smart meters will result in reduced PPM price differentials. This was because there would no longer be a need for a separate prepayment meter or completely separate payment infrastructure.
- It was noted that at least one supplier was already rolling out smart meters where PPM was their cheapest payment method.
- However, questions were raised as to the cost of transitioning from standard meters to smart meters – notably, where the costs of running two parallel systems would fall and what would happen to those left on traditional PPM towards the end of roll out.
- Some felt there could be an increase in PPM costs, in particular in the short-term.
- It is important to ensure that customers who can't have smart meters, or who won't get them until later in the rollout, are not at a disadvantage.

- Some felt there was uncertainty whether smart meters will help the most vulnerable consumers and most felt it would take them a longer time to get the most out of the technology. This is why Smart Energy GB's role in this area is so important.
- There should be easier switching between payment method. Suppliers should offer greater choice of payment options e.g. top-up by phone, text message, online. This could help to prevent disconnection caused by accident (e.g. when the customer can't leave the home or access a payment outlet) or disconnection that occurs over night when people are sleeping and don't realise they are low on energy.
- Using smart meters may help to reduce bad debt. It may improve understanding of consumption and stabilise bills which can help budgeting and avoid sudden large bills.
- There is potential to use smart data in more innovative ways e.g. better monitoring of self-disconnection. One supplier has trialled setting budget limits with SC customers and texting customers when close to their budget limit to help prevent debt build-up.
- The smart meter installation visit offers a valuable opportunity to explain the prepayment system.

Attendees

Name	Organisation
Fiona O'Donnell	MP - Labour
Maria Allen	Special Advisor to Amber Rudd MP, Conservative
Siobhan Foster	Researcher to John Robertson MP, Labour
Richard Street	Scottish Power
Chris Welby	Good Energy
Phil Levermore	Ebico
Chris Harris	npower
Louise Murphy	SSE
Mark Sommerfield	LoCO2 Energy
Ioannis Vrontos	Daligas
Robert Larkins	Utility Warehouse
Paul Delamare	EdF Energy
Gary Thomas	Ecotricity
Thomas Lowe	British Gas
Rob Labon	E.ON
Nick Kennedy	Community Power
Alun Rees	Energy UK
Jenny Saunders	NEA
Gillian Cooper	Citizens Advice
Pete Moorey	Which?
Teresa Perchard	FPAG
Rachel Crisp	DECC
Andrej Miller	DECC
Rachel Fletcher	Ofgem
Neil Barnes	Ofgem
Adhir Ramdarshan	Ofgem
Zoe McLeod	Ofgem
Bart Schoonbaert	Ofgem
Jibirila Leinyuy	Ofgem

London
9 Millbank
London SW1P 3GE
Tel: 020 7901 7000

Scotland
Cornerstone
107 West Regent Street
Glasgow G2 2BA
Tel: 0141 331 2678

Wales
1 Caspian Point
Cardiff Bay
CF10 4DQ
Tel: 029 2044 4042

www.ofgem.gov.uk