National Energy Action (NEA) response to the Changes to prepayment meter standing charges and other debt costs statutory consultation.

About National Energy Action (NEA)

NEA[1] works across England, Wales, and Northern Ireland to ensure that everyone in the UK[2] can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

NEA

Action for Warm Homes

Background to our response

NEA has consistently advocated for payment premiums to be eliminated in the energy market. Historically, our focus has been on the premium faced by prepayment users, which before the pandemic, was the larger differential. While NEA has and will continue to welcome efforts to reduce this differential through modifications to the price cap methodology (most notably on the allocation of debt costs), this has come at the cost of a widening differential for households that pay by standard credit. Under the October 2023 price cap level, standard credit households will be paying on average £129 more than households that pay by direct debit[3].

Standing charges for prepayment households have increased significantly over the last few years. Because of the build-up of standing charges as debt while out of credit, this significantly impacts prepayment households' ability to maintain energy supply, leading to more instances of self-disconnection and for longer periods, in addition to impacts on consumer physical and mental wellbeing.

NEA is therefore pleased to see that Ofgem has carried forward the proposal for the levelisation of standing charges for prepayment households. We are also pleased to see the proposals regarding levelisation of debt-related costs for standard credit users. These measures have the potential to significantly reduce unfairness in the market.

Summary of our response:

Our response, in summary, focuses on:

- Ending the prepayment premium
- Reducing the debt burden on standard credit households

Each of these areas is discussed in more detail below.

<u>Ending the prepayment premium</u>

NEA supports the proposal to levelise standing charges between prepayment and direct debit households. Households often use alternative payment methods than direct debit because they have some level of financial vulnerability. For example, a household may have been forcibly moved onto a prepayment meter because they cannot afford their bills. Penalising these households, which are financially vulnerable, through price differentials, essentially amounts to adding to their costs as a direct result of their vulnerability.

Prepayment users are more likely to be fuel poor, more likely to have a very low income, and more likely to be disabled, be a single parent, and have multiple vulnerabilities when compared to the average customer.[4]

Additionally, NEA believes that reducing standing charges for prepayment customers is imperative. These charges have the most negative impact for this group due to the prevalence of rationing and self-disconnection. A rationale for reducing standing charges for prepayment users has been set out by Ideal Economics.[5]

NEA is pleased that the UK Government has stepped in to remove the premium paid by households on prepayment meters (PPM) and is keen to ensure the prepayment premium is ended on a permanent basis. NEA expects, in line with the government's policy intentions, that Ofgem will end the premium from April 2024 through this package of work.[6]

Reducing the debt burden on standard credit households

Like prepayment households, households using standard credit are more likely to be fuel poor compared to direct debit households.[7] Standard credit households are more likely to be a single parent, more likely to have a lower income and much more likely to be elderly.[8] In response to the call for evidence on levelisation of payment method differentials and the policy consultation on levelling the cost of standing charges on prepayment meters, we argued that reducing the standard credit premium/differential must be a priority.[9] We also argued that levelisation should only happen across standard credit and direct debit customers only.

We are concerned about the unfairness of how debt-related costs are currently collected. The specific unfairness that comes from the allocation of debt-related costs in the price cap is that debt costs are allocated based on which payment types are most likely to incur them. This is counterproductive. It places a higher cost burden on households that are least able to afford their energy in the first place. Placing an additional burden on the most financially vulnerable households leads to increasing their financial vulnerability and increasing their debt risk.

Households move onto standard credit for a variety of reasons, including because their monthly direct debit is simply unachievable. A household may also be using standard credit because they do not feel comfortable giving control of their bank account to a third party through the direct debit system. The current system penalises both cohorts for little reason. The proposed measures will provide a net benefit for fuel-poor households.

While NEA understands that Ofgem is conscious about the risk of reducing the incentive for customers to pay by direct debit, we do not believe that the proposal to levelise debt-related costs between standard credit and direct debit households would do that. Since 2020 until recently, the payment differential between standard credit has been widening. The differential grew to more than £200 in April 2023, and the differential remains significant, at £129, for the October 2023 cap period. Despite this, the number of households using standard credit has grown in the same time period.[10] This shows that price is not the primary driver in payment method.

NEA is therefore delighted to see that Ofgem has set this out as part of the preferred option. NEA fully supports the levelisation of debt-related allowances between standard credit and direct debit households.

Therefore, **NEA's primary recommendation is that prepayment standing charges and debt-related costs should be levelised with direct debit households.** This would significantly improve the experience of the energy market for many of the most for vulnerable energy consumers.

References and Notes

[1] For more information visit: www.nea.org.uk.

[2] NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

[3] Price Cap for October 2023,, Ofgem, 2023

[4] CMA Energy Market Investigation Appendix 9.9 – Prepayment, CMA, 2016

[5] Reforming standing charges for prepayment customers, Ideal Economics, 2023

[6] Spring Budget 2023, HMT, 2023

[7] English Fuel Poverty Statistics, DESNZ, 2023

[8] CMA Energy Market Investigation Appendix 9.9 – Prepayment, CMA, 2016

[9] NEA response to Ofgem's call for evidence on levelising payment method cost differentials, NEA, 2023

[10] English Fuel Poverty Statistics, DESNZ, 2023