



The poor pay more

Prepayment meters and
self-disconnection

christians
against
poverty

CAP



The poor pay more

Winter 2016/17 progress report

One year on:

Prepayment meters, internet access and self-disconnection.

Energy use is essential for health and wellbeing. For those who cannot afford it, there is no adequate substitute – they will sit in cold, dark homes, without hot food or water. It is a desperate situation, of which CAP’s home-visiting service provides a snapshot. This is the stark reality in which hundreds of thousands of households find themselves across the UK and it is just a glimpse of the hardship that, for many, extends over several years, until they get the help they need.

Published in December 2015, *The poor pay more: Prepayment meters (PPM) and self-disconnection* revealed the distressingly high scale of self-disconnection taking place¹. There have been many positive developments in energy policy and energy suppliers’ practices over 2016 and into 2017 (p4). This briefing aims to help inform discussions that continue to take place, providing an update from a follow-up survey of 938 clients conducted over Autumn 2016.

This new data shows that self-disconnection remains a pressing issue, affecting one in two (53%) PPM users in financial difficulty (p2). PPM users also continued to be significantly more likely to restrict their energy use than those on other payment methods. Those with at least one key support issue were more likely to be severely restricting their energy use compared to other PPM users (p3). This survey also explores the extent to which digital exclusion acts as a barrier to increasing the engagement level amongst PPM users in the energy market (p3).



Client story: Christine

‘I had a PPM put in for the electricity and gas, but I couldn’t always afford to top them up. There were quite a few times when I couldn’t put the gas on in the winter. We sat in jumpers and blankets with no heating or hot water.

One time, my daughter needed the toilet and she told me the water in the toilet was frozen! That winter it was really bad. I would miss being able to have the gas on but I needed to scrape together enough to have electricity for cooking, even though we could only afford to eat beans on toast’



70%

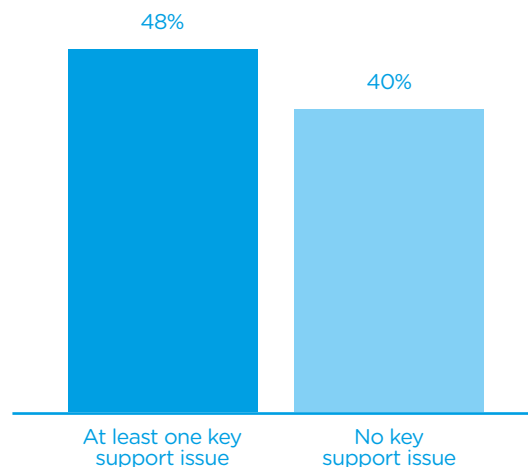
Seven in ten respondents with a learning disability or who are housebound use a PPM.

Where we are:

The figures

Consistent with the original research, around two in five (44%) of the sample used a PPM, and those reporting one or more key support issues suggestive of vulnerability were 20% more likely to use a PPM than those without a key support issue.

Proportion of PPM users with key support issues²



1 | CAP’s full *The poor pay more: Prepayment meters and self-disconnection* report is available at capuk.org/poorpaymore.

2 | Key support issues include being housebound, having a learning disability, mental ill health, physical disability, serious or terminal illness and being temporarily or permanently unable to work.

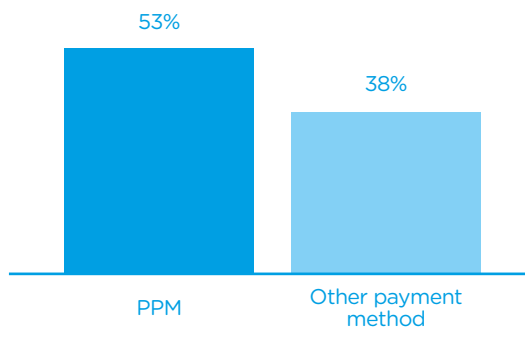
Self-disconnection

At just over half (53%), there was also no improvement in the level of self-disconnection reported amongst PPM users.³ PPM users remained significantly more likely to have self-disconnected compared to those paying by other payment methods, with PPM users 40% more likely to report having gone without heating for a week or more in winter months.

Examining the dynamics of coping strategies and responses to being unable to top-up gives a clearer picture of the extent of hardship. For instance, it is important to note that, despite 47% using their heating for the whole month, these respondents were self-rationing in other ways. Seven in ten (67%) reported they had sacrificed meals as a result of their financial difficulty. This shows that self-disconnection expressed in cutting back in a variety of ways is experienced more widely than energy use suggests in isolation.

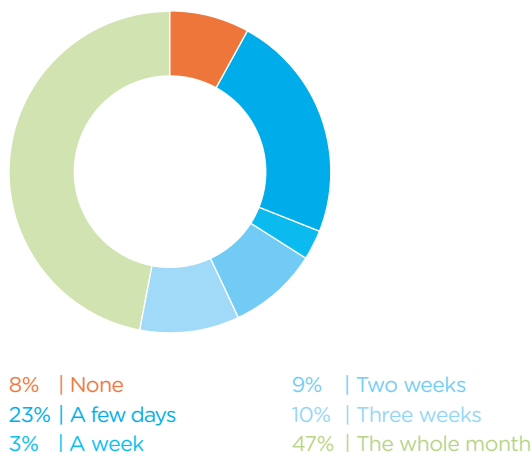
Although self-disconnection is more prevalent amongst PPM users, it is also worth noting that nearly four in ten (38%) respondents using other payment methods were also unable to heat their homes over winter without disruption. It is important to recognise that policy is needed to address energy affordability more generally, but that those on PPMs need particular attention due to the nature of their payment method meaning they are typically off the radar.

Proportion self-disconnecting by payment method



Winter heating usage by PPM users

How many days in a month did you use your heating?



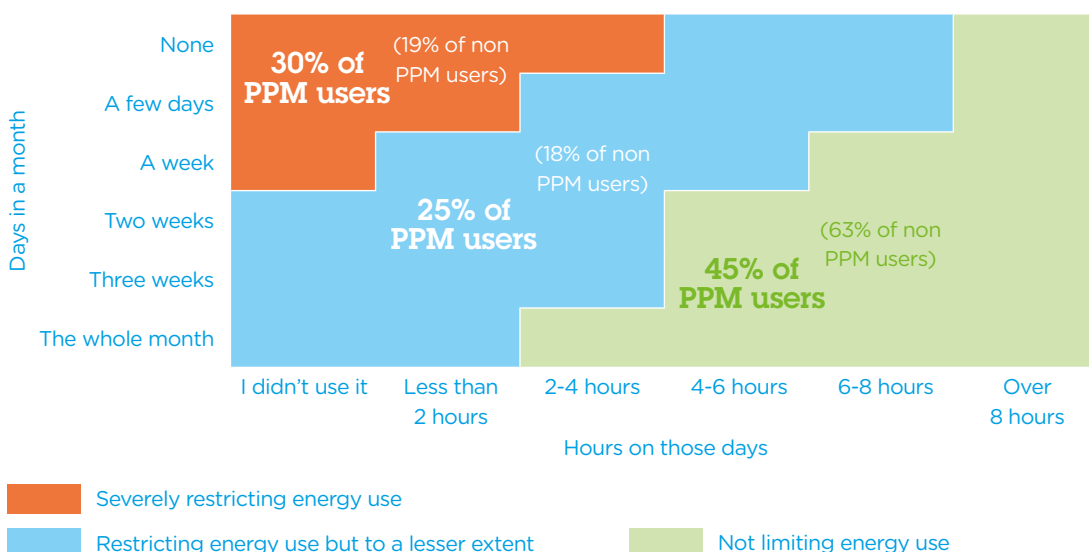
50%

One in two PPM users had gone without heating for at least one week over winter.

8%

8% of PPM users had not used their heating at all over the winter.

Winter heating usage by days and hours



³ Self-disconnection occurs when a consumer using a PPM experiences an interruption to their energy supply due to the card or key not being

charged. Going without heating for one week or more over winter due to financial difficulty has been used as a proxy for self-disconnection.



The poor pay more

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A full picture of self-disconnection

In practice, a combination of self-disconnection and self-rationing takes place. The graph at the bottom of page 2 contrasts the number of days a month with the hours heating was used on those days, and reveals PPM users were 50% more likely to be limiting their energy use compared to other payment methods (55% restricted their energy use compared to 37% of non-PPM users). The largest difference is the proportion severely restricting their energy use (30% compared to 19%).

From this data, there is also a clear cluster of respondents (21%) who used their heating for less than four hours a few days a month. These respondents display a pattern of 'partial-disconnection', typical of those who top-up a small amount each week but not enough to provide uninterrupted supply. It is this group who are under the radar based on current self-disconnection monitoring criteria.

Looking in more detail at PPM users also reporting one or more key support issues suggestive of vulnerability finds that, while this group of respondents was not more likely to be limiting their energy use than other PPM users, the extent to which they did so was more likely to be severe. 36% of this group compared to 23% of the respondents using a PPM were severely limiting their energy use, making them 57% more likely to be doing so.

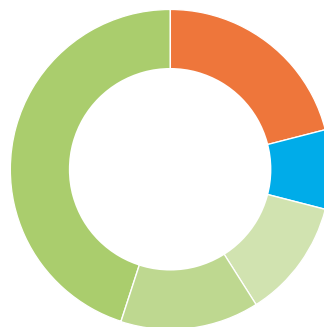
Internet access

Internet access is a key component to getting the best energy deal, yet over a quarter (29%) of respondents with a PPM either had no internet access or limited public access at a local library or similar. This was 17 percentage points higher than Office of National Statistics (ONS) figures, which report that in 2016 just 11% of households lacked internet access.⁴

Considering the strong emphasis on switching, these figures show that there is a significant segment of the market that lacks access and the ability to engage digitally with the energy market. This is pertinent as, regardless of payment method, not being on the best fuel tariff is the largest contributor to the average cost of the poverty premium experienced by low-income households (48%).⁵ To address this poverty premium, it is not enough to bring prepayment tariffs in line with standard variable tariffs (SVTs) for Direct Debit customers. The ability to switch to the cheapest tariff also needs to be factored in to which lack of internet access is a key barrier.

Proportion of PPM users with internet access

Do you have internet access?



- 21% | No
- 8% | Yes - at local library or similar
- 12% | Yes - smartphone only
- 14% | Home and smartphone
- 45% | At home



21%

One in five PPM users do not have internet access.

50%

PPM users were 50% more likely to be limiting their energy use.

4 | ONS (2016) *Internet access - households and individuals: 2016*, available at <http://bit.ly/2kiOQsM>.

5 | Davies, S., Finney, A. and Hartfree, Y. (2016) *Paying to be poor: Uncovering the scale and nature of the poverty premium*, available at <http://bit.ly/2kLNgx9>

Where we are:

Identifying and responding to self-disconnection

Over the course of 2016 and into 2017 there have been many positive developments in energy policy. This has included the Competition and Markets Authority (CMA) introducing a transitory price cap on PPM tariffs ahead of full smart meter roll out. The introduction of Energy UK's improved standards for PPM customers and changes made by Ofgem to improve and promote the Priority Services Register (PSR) and Debt Assignment Protocol (DAP). Despite this progress, there is more to be done to address the hardship experienced by those on PPMs.

Several energy suppliers have also engaged positively with *The poor pay more* findings and taken further steps to improve their offerings for vulnerable customers. A particular area of concern is whether adequate support is offered to PPM users who are self-disconnecting, and part of the challenge is identifying those who fall into this category. These highlights are examples of initiatives from two companies that demonstrate progress in this area. These initiatives could be emulated more widely and built upon to identify and prevent self-disconnection more effectively.

Several energy suppliers have also engaged positively with *The poor pay more* findings and taken further steps to improve their offerings for vulnerable customers.



E.ON was one of the first energy suppliers to offer a smart prepay option. Customers with a smart meter in prepay mode can sign up to receive free text and email alerts when their balance reaches a certain amount, as well as to receive a low balance alert when they go below £2. As customers can top-up by phone, online and through the E.ON app as well as in store, these top-up reminders mean that E.ON knows that those whose balance hits £0 are likely to be in vulnerable circumstances.

In 2016, E.ON set up a process to proactively call customers, whose preferences allow, when their balance hits £0, to see if they need extra support. They have found this process has enabled them to identify more customers in vulnerable circumstances who have self-disconnected. Where this is the case they are able to help get the customer back on supply through adjusting payment arrangements, discretionary top-ups, and offering them the wider support they need through the PSR, energy efficiency advice, the E.ON Energy Fund, and by referring to debt advice. E.ON also has a home-visiting team who can visit customers in exceptionally vulnerable circumstances identified through this process.



In 2014, British Gas set up a process to address self-disconnection. They do this by making proactive contact with customers on the PSR or in financial hardship, who have not topped up their meters for 28 days. An additional process is also in place to contact customers before they run out of energy, in cases where there is potential financial vulnerability and payment data shows signs that the customer is struggling (by topping up significantly less each month). British Gas also notes that the introduction of smart meters, which will bring a near real-time view of customers' consumption patterns, will allow them to form new processes to keep customers safe and on-supply.

British Gas attempts contact by phone and letter, as well as visits where customers are off-supply. If, through these processes, British Gas uncovers customers that need help, they will put them back on supply, whilst also looking to secure an enduring solution. This is through the many schemes and referrals British Gas has in place, including reduction of payment arrangements, discretionary credit, energy efficiency advice, the Warm Home Discount (WHD), British Gas Energy Trust (BGET), and referring to Citizens Advice, amongst others. In 2015/16 British Gas continued to improve and invest in this process, increasing the number of customers benefiting from 149,000 in 2014/15 to over 366,000.



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Christians Against Poverty (CAP) helps thousands of individuals and families struggling with unmanageable debt each year. Through a network of 290 CAP Debt Centres based in local churches, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In 2014, CAP worked with 12,295 households, with 2,534 of these clients becoming debt free in the year.

In addition to this, CAP is the largest provider of face-to-face adult financial education in the UK. There are currently 850 churches providing the CAP Money Course, a three week money management course, equipping over 12,000 people each year to budget, save and spend wisely. CAP has also recently expanded to tackle more causes of poverty. To this end, CAP now operates 145 CAP Job Clubs and is piloting 31 CAP Release Groups to tackle both unemployment and dependencies respectively.



Matt Barlow

Foreword

Most of us give little thought to the energy we use to heat our homes, cook our food and wash our clothes. It is a necessity that we can rely on because we can afford to pay for it. Yet at CAP our clients frequently tell us that they couldn't afford to heat their homes, cook hot food or even wash their clothes. For two fifths of our clients, this is exacerbated because they are on a prepayment meter (PPM).

These clients are forced to pay more for their energy because they are unable to access the same tariffs as those of us paying by credit. In some cases, this costs as much as £250 extra per year. Yet this client group is poorer and more likely to be vulnerable. For instance, astonishingly 65% of all clients with learning disabilities use a PPM to pay for their energy, compared to only 16% of the UK population as a whole and 39% of our client base.¹ The stark reality is that PPM users are turning to sources of high cost credit twice as often as non-PPM users and 36% of them have considered suicide as a way out of their debt problems.

Frequent self-disconnection is widespread amongst this group, with the majority not using their heating for at least one week a month during winter because they cannot afford to top up their PPM. This is further exacerbated for those in arrears, with 10% not using their heating at all. This is not a small problem; we estimate that in the UK there are 266,000 households in arrears on their PPM who are limiting their energy use, with 43,000 going without any heating over winter.

PPM users are forced to make impossible choices. It is not uncommon for clients to have gone without heating for several years due to financial difficulty. 76% of those on a PPM have sacrificed meals before CAP's help. In several cases, this meant only eating two days a week, or begging for their neighbours to let them borrow a potato.

As the number of PPM installations continues to rise, it is imperative that more is done to protect these consumers. While we welcome the introduction of smart meters, full roll out is not expected for another five years and with an estimated 176,000 people in the UK in arrears on their PPM considering suicide, more needs to be done to address the injustice of PPMs.

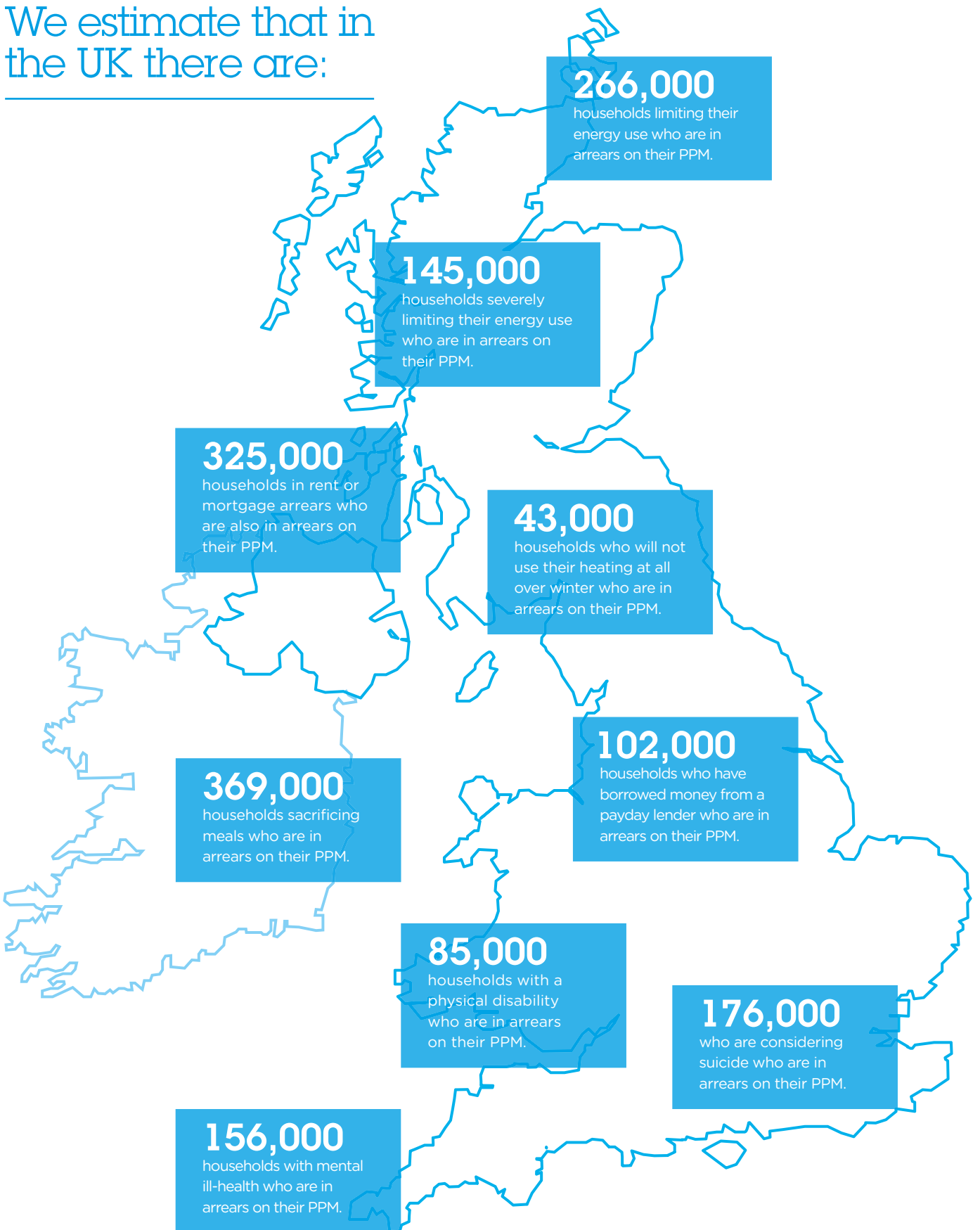
Many energy suppliers have already taken action to combat fuel poverty and there is an appetite to do more to improve the situation for PPM users. However, the energy industry alone cannot address the poverty associated with PPMs. We need government action to set the precedent for change and put in place accountability structures to make sure it happens.

CAP is recommending something simple – the poor should not have to pay more. We would invite you to read our findings and join us in working towards a better deal for PPM users.

Matt Barlow
UK Chief Executive

¹ | 39% of CAP clients pay for their energy by PPM and a further 5% have done so in the past.

We estimate that in the UK there are:



We recommend

While prepayment is the right payment method for some consumers, those with additional needs or who are not in a position to access better deals should not be penalised by the associated problems highlighted in this report. As well as supporting Citizens Advice Bureau's *Consumer Demand: Fair play for prepay*, CAP would make the following recommendations:

The poor should

1 The poor should not pay more

Ensure the same tariffs are available to PPM users as to monthly DD customers, before and after full smart meter roll out.

2 Monitor and require action on self-disconnection

Put in place accountability structures to ensure energy suppliers monitor and take action to help consumers who are self-disconnecting due to being unable to afford to top up their PPM, particularly as smart meters are rolled out.

and not pay more

3 Raise awareness about standing charges

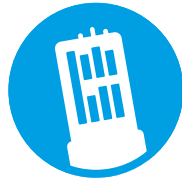
Ensure consumers understand the potential for arrears to accumulate when not topping up their PPM, and encourage suppliers to take into account the difficulties these cause for struggling consumers when setting tariffs.

4 Prioritise PPM users in smart meter roll out

As long as there are appropriate protections for vulnerable consumers and those in financial difficulty, priority should be given to those who stand to gain the most from smart meters, such as PPM users. Although action may be required to ensure cost savings are passed onto consumers.

These recommendations are supported by the findings contained in this report. Please see page 10 for details of self-disconnection, page 18 for standing charges, page 14 for the vulnerability of PPM users and page 25 for price differentials. For more information about the wider context for these recommendations, especially in relation to smart meters, please see page 22.

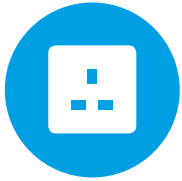
PPM users: the stats



39%
of CAP clients
use a PPM



57%
are limiting their
energy use, 29%
doing so severely



54%
of PPM users are
self-disconnecting



8%
did not use their
heating at all
over winter



56%
inherited the
PPM when they
moved into their
property



57%
fell behind with
their rent or
mortgage



76%
sacrificed meals
before CAP's
services



33%
couldn't cook
hot food



x2
They are twice
as likely to have
borrowed from
some sort of
high cost credit



£250
Those on PPMs
pay up to £250
extra per year
compared to
monthly DD
customers with
the same supplier



22%
They are 22%
more likely
to have fallen
behind with
energy bills



28%
of PPM users are
lone parents



29%
of PPM users
have mental
ill-health



63%
have at least one
key support issue



36%
of PPM users
thought about
or attempted
suicide as a way
out of their debt
problems



65%
of those
with learning
disabilities use
a PPM

Executive summary

It is estimated that 10.8 million people live in households that pay for their energy by prepayment meter (PPM).² The practical and technical problems these users experience are widely documented, but despite these, many users appreciate the feeling of control it gives them over their energy use and debt repayments.³ However, for others PPMs intensify their financial stress through higher tariffs, standing charges and arrear deductions.

Worryingly, our research shows that there is widespread self-disconnection and self-rationing amongst PPM users. Six in ten PPM users limited their energy use over winter months, with three in ten doing so severely. There is also evidence of this group self-rationing in other ways, with a higher proportion sacrificing meals before CAP's help, falling behind with other essential bills and borrowing from sources of high cost credit.

Over half of those surveyed had inherited their PPM when they moved into the property.⁴ In addition, our research shows that as a whole, PPM users are a more vulnerable group of consumers. The incidence of lone parenthood, mental ill-health, terminal illness and learning disabilities is substantially higher for this group of consumers. These factors mean that PPM users are more susceptible to consumer detriment, but also find it more difficult to engage effectively with the energy market and switch to the best tariff. Higher tariffs are not just a penalty for those who are in arrears with their energy bills, but affect thousands who are unable to engage effectively with the energy market to benefit from cheaper tariffs.

Despite being poorer, our research finds that on average they are paying £82.73 per year more than monthly Direct Debit (DD) customers pay with the same supplier, but this can be as much as £249.72 per year. Not only do PPM users have fewer tariffs to choose between, they only stand to save half the amount that monthly DD customers can save by switching to a fixed tariff deal. Ofgem estimate that PPM users pay an extra £300 compared to the cheapest tariff on the market, however PPM users face significant barriers that prevent them from switching to more competitively priced deals, such as charges for installation or removal of a PPM, credit checks and security deposits.⁵

With the number of PPMs installed each year continuing to increase and full smart meter roll out not for another five years, it is imperative to address the injustice that the poor are paying more for their energy.⁶

The findings presented in this report are from CAP's *2015 Client Survey* of 1,672 clients working with CAP to resolve their financial difficulty.

2 | CAB (2014) *Topping-up or dropping-out: self-disconnection among prepayment meter users*.

3 | Consumer Focus (2010) *Cutting back, cutting down, cutting off: Self-disconnection among prepayment meter users*.

4 | 56% of CAP clients on a PPM surveyed had inherited their PPM when they moved into the property.

5 | Ofgem (2015) *Prepayment review: understanding supplier charging practices and barriers to switching*.

6 | Ofgem (2015) *Domestic Suppliers' Social Obligations 2014*, annual report.



Self-disconnection

Energy suppliers are required to report to Ofgem on a quarterly basis the number of households they disconnect due to non-payment of debt. Official disconnection figures are very low, with only 192 instances reported in 2014.⁷ There are protections in place for vulnerable consumers and there were no disconnections recorded in Q1 of 2014 over the coldest winter months.⁸

These figures hide the true extent of the issue. In most cases, energy suppliers install a PPM instead of disconnecting the supply, and consumers who then cannot afford to top up their meter self-disconnect. In 2014, this amounted to approximately 300,000 new electricity and 320,000 new gas PPMs installed.⁹

Self-disconnection is much harder to monitor, but estimates by Consumer Focus suggest that one in six PPM users are self-disconnecting.¹⁰ In some cases, this is due to forgetting to top up or technical issues.¹¹ While these instances are essentially avoidable, our research focuses only on those who are self-disconnecting because they cannot afford to top up their PPM.



Client story: Kev

'When I met Lisa (from CAP), I was living in a terrace house but I couldn't afford gas so I didn't have any heating. It was that cold, I was sat there with all my clothes on, dressing gown and a bobble hat.

I had £72 a week on JSA but they were taking £20 for deductions – poll tax and that. This left me £52 a week for two years. I couldn't afford gas and electricity. I was skipping meals nearly every other day; sometimes I went days without eating. I bought what I could, lived on beans and potatoes. I had no gas so couldn't cook. I lived off a microwave and George Foreman, that was my means of cooking. Once I did a whole Christmas dinner on a George Foreman!



Self-disconnection occurs when a consumer using a PPM experiences an interruption to their energy supply due to the card or key for the PPM not being charged.

Self-rationing occurs when consumers reduce their energy use or spending on other essentials, such as food, to save money so they are able to keep their PPM topped up.

7 | Ofgem (2015) *Domestic Suppliers' Social Obligations 2014*, annual report.

8 | Ofgem (2015) *Social Obligations Reporting – Number of disconnections for non-payment of debt*.

9 | These figures also include PPMs installed due to customer request. Ofgem (2015) *Domestic Suppliers' Social Obligations 2014*, annual report.

10 | Consumer Focus (2010) *Cutting back, cutting down, cutting off: self-disconnection among prepayment meter users*.

11 | CAB (2014) *Topping-up or dropping out: self-disconnection among prepayment meter users*.

Going without heat

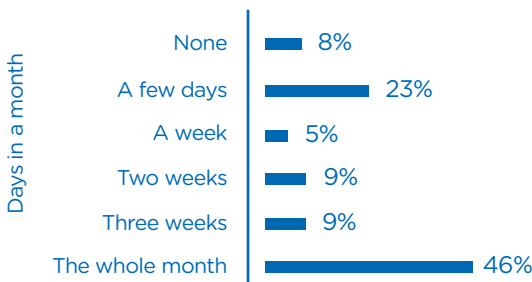
Q 'We sat in jumpers and blankets with no heating or hot water. On one occasion, my partner needed the toilet, but the water in the toilet was frozen! That winter was really tough.'

U We estimate that there are: **259,000** households self-disconnecting who are in arrears on their PPM.

43,000 households who will not use their heating at all over winter who are in arrears on their PPM.

O ver half of PPM users reported self-disconnecting to some extent, with 54% not using their heating for at least one week over winter months, increasing to 58% for those who had fallen behind with their energy bills. Two thirds of PPM users who reported self-disconnection exhibited extreme self-disconnection patterns, only using their heating for a week or less, with 8% not using it at all.¹² From this, we estimate that there are 242,415 households across the UK in arrears on their PPM who are self-disconnecting, excluding the thousands more who will be doing so to avoid getting into arrears. For many clients, this is not a short term adjustment, with several reporting going without heating completely for a couple of years.

Number of days in a month heating was used over winter. Percentage of PPM users:

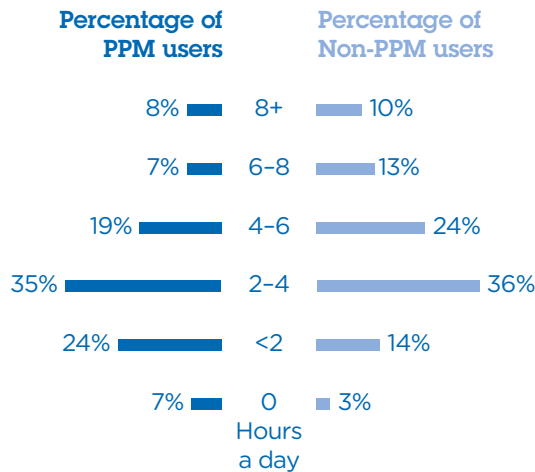


Rationing energy use

Q 'I was paranoid about running too much water and I didn't put gas on in the winter as it was too expensive. All the kids would sleep in the one room which I was able to heat.'

A s well as those who completely self-disconnect themselves, many PPM users will self-ration their energy use, only using a small amount each day to reduce their costs. While it can be difficult to determine how many hours a day constitutes self-rationing, there is a pattern of more rationing amongst PPM users. Our research shows that 2% fewer PPM users had used their heating over eight hours a day, whereas around twice as many had used it for less than two hours a day.¹³

Number of hours a day that heating was used over winter.



54% of PPM users did not use their heating for at least one week a month over winter.

8% of PPM users did not use their heating at all over winter.

12 | 36.12% of the 53.87% of PPM users who reported disconnecting only used their heating for a week, a few days or not at all.

13 | 31% of PPM users used their heating for less than two hours a day over winter, compared to 17% of non-PPM users.

A full picture of self-disconnection



We estimate that there are:

266,000

households limiting their energy use who are in arrears on their PPM.

145,000

households severely limiting their energy use who are in arrears on their PPM.



'I suffer with poor health and we didn't have any heating or gas for two years. It was terrible.'

In practice, a combination of self-rationing and self-disconnection occurs as PPM users struggle to afford to heat their homes properly. Comparing how many days in a month heating was used with how many hours on each day gives a much clearer picture of the severity of self-disconnection taking place. This uncovers those who used their heating everyday but for a very restricted period, who otherwise would appear to not be struggling to heat their home adequately. For instance, 15% of those who reported using their heating for the whole month in fact only used it for less than two hours a day.

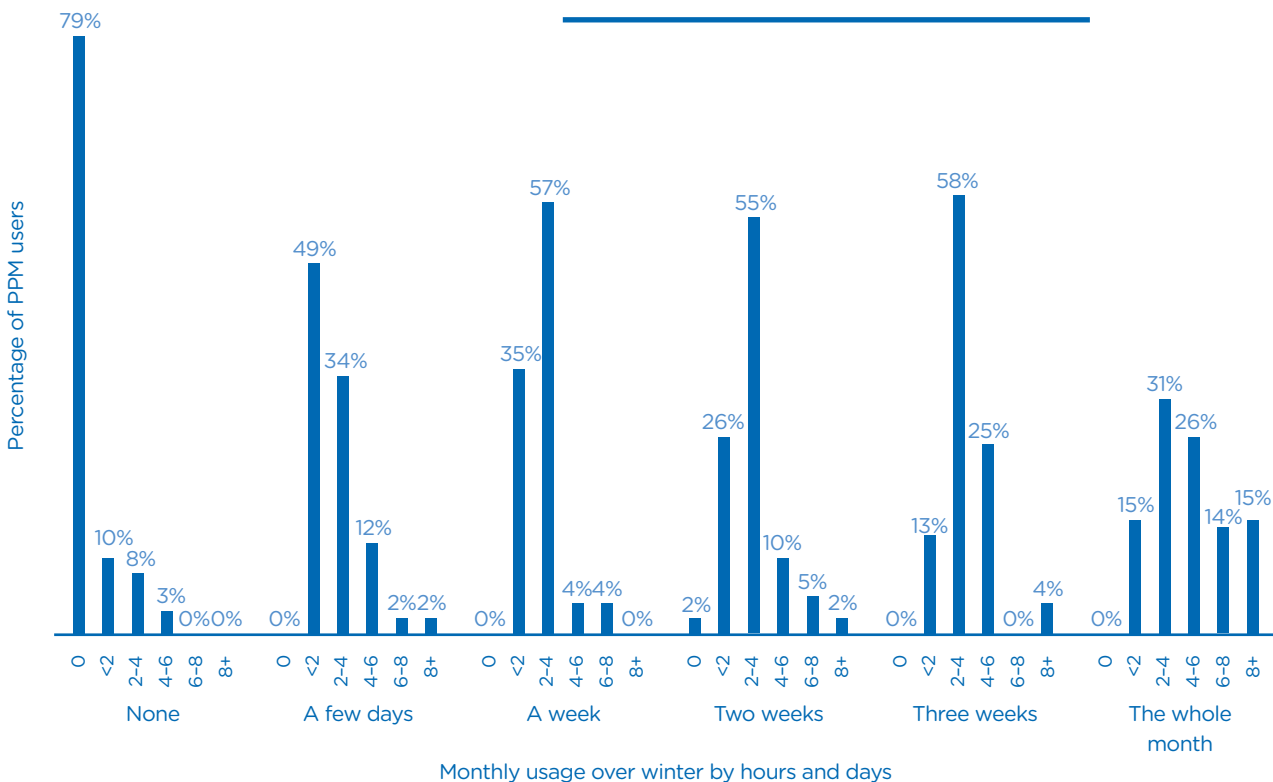
The graph below shows that those who were self-disconnecting were also more likely to be self-rationing the amount of hours they used their heating to a greater extent. For instance, 51% of those who only used their heating a few days a month did so for less than two hours a day, compared to 15% of those who used their heating for the whole month.

There are some discrepancies in these findings due to self-reporting errors, with 2% of PPM users stating that they did not use their heating any days in a month, but then reporting using it some hours on those days. However, overall the findings show that PPM users limit their energy use in a range of ways and it is important to understand these patterns to fully capture those struggling to heat their home.



Self-limiting commonly involves a combination of self-disconnection and self-rationing of energy use by consumers struggling to afford to heat their home properly and pay for other essential expenditure.

Pattern of energy use by PPM users over winter



The comparison grid below allows us to identify the proportion of PPMs users who are self-limiting their energy through a combination of self-disconnection and self-rationing. This includes PPM users who range from using their heating for the whole month but for less than two hours a day and those not using their heating at all. It also captures PPM users who use their heating for a few hours on a few days but cannot consistently afford to heat their home. A distinction has been made between those who display some self-limiting of their energy use, and those who are doing so severely, using it for very few days and hours or not at all.

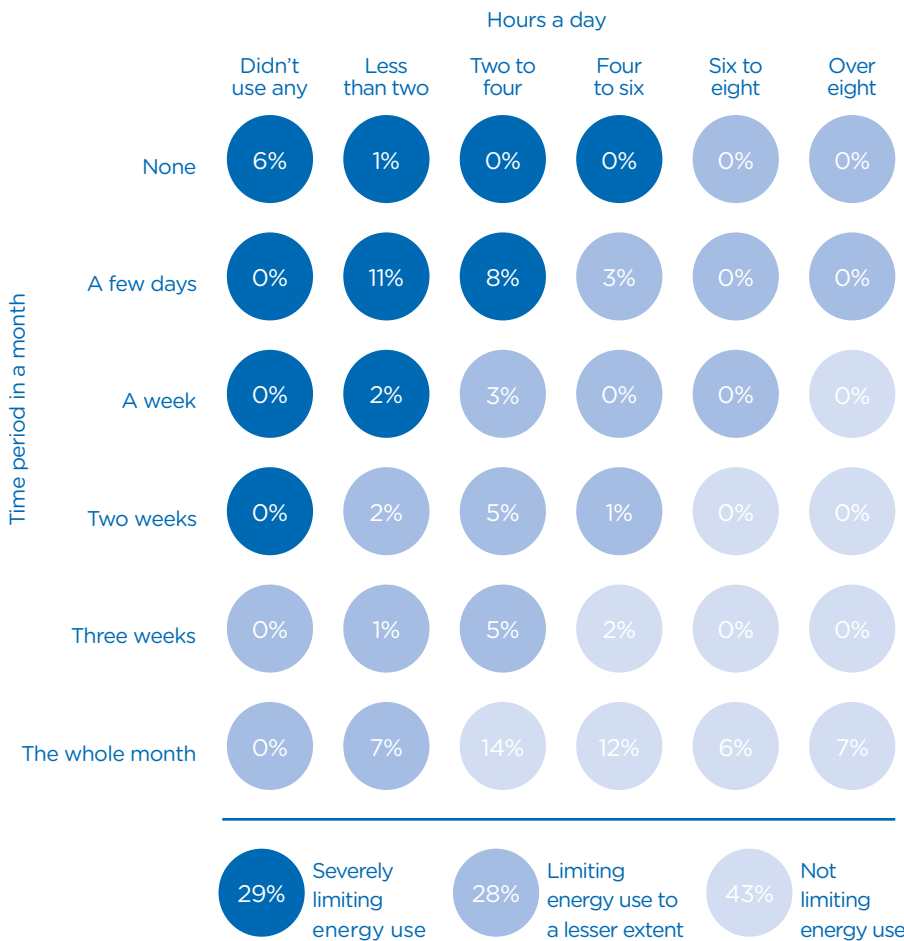
From this analysis, six in ten PPM users appear to have limited their energy use to some extent, with three in ten doing so severely.¹⁴ However, it is worth noting that this may still underestimate self-disconnection as it does not capture those who restricted their heating perhaps to one room in an attempt to limit energy use.

!

57%
of PPM users limited their energy use over winter.

29%
did so severely

Percentage of PPM users self-limiting their energy use over winter



14 | 57% of PPM users limited their energy use, with 29% doing so severely.



Vulnerability of PPM users



We estimate that there are:

144,000

lone parents who are in arrears on their PPM.

156,000

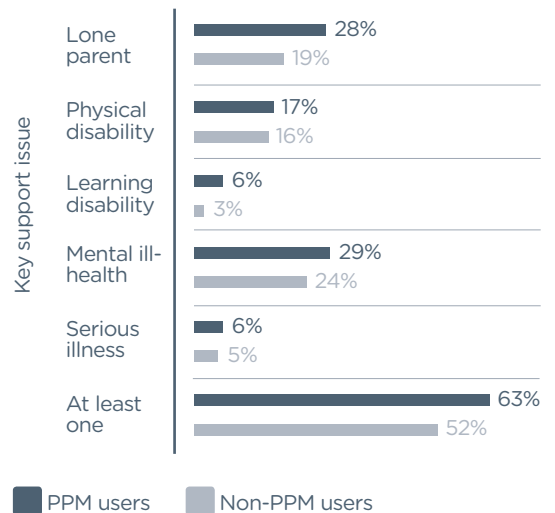
households with mental ill-health who are in arrears on their PPM.

85,000

households with a physical disability who are in arrears on their PPM.

Previous research has shown that PPM users are predominately lower income households, with unemployment and long term disability commonly present as well.¹⁵ Building on this existing knowledge, our research shows that two thirds of PPM users have at least one key support issue, and they are 21% more likely to be in this group than non-PPM users.¹⁶ In particular, a substantial proportion of PPM users are lone parents, with PPM users 47% more likely to be in this group than non-PPM users.¹⁷ Nearly a third have mental ill-health and PPM users are more likely to have a learning disability.^{18, 19}

Percentage of PPM and non-PPM users with key support issues.

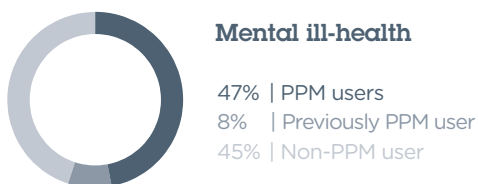
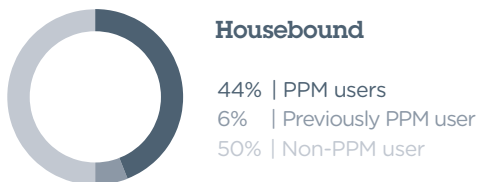
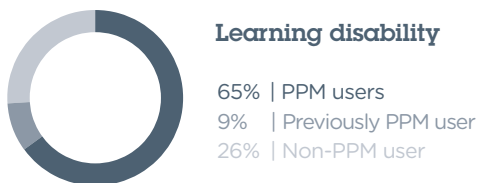
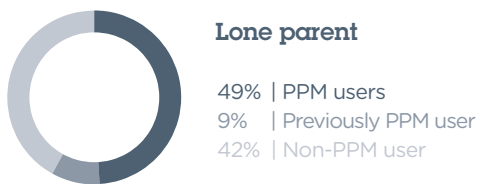


15 | Consumer Focus (2010) *Cutting back, cutting down, cutting off.*
 16 | 63% of CAP clients using a PPM reported having at least one key support issue compared to 52% of those paying for their energy by another method. Key support issues included: lone parent, terminally ill, physical disability, learning disability, mental ill-health, serious illness, pensioner who cannot increase their income, language barrier,

housebound, permanently or temporarily unable to work.
 17 | 28% of PPM users were lone parents compared to 19% of non-PPM users.
 18 | 29% of PPM users have mental ill-health.
 19 | 6% of PPM users having a learning disability compared to 3% of non-PPM users.

PPMs are particularly concentrated amongst vulnerable groups who reported falling behind with their energy bills, with one in two lone parents and those who are housebound using a PPM, and the majority of people with learning disabilities.²⁰

Payment methods for those who fell behind with their energy bills



These factors are indicators that PPM users are more likely to be vulnerable. As a result, they are less likely to be able to contend with the additional challenges that come with paying for energy by PPM. In addition, it also increases the risk of consumer detriment from the severe consequences of financial difficulty and going without heating.



Client story: Joanne

Joanne has brittle bone disease and has suffered thousands of breaks. Four years ago, she had a medical procedure that left her paralysed from the waist down. Joanne has a full time carer as she can do very little for herself and is in constant pain.

‘It was the fuel situation that set it all off, when we had a couple of bad winters one after the other. The gas and electricity were constantly going into the emergency credit and of course I’d have to pay off the emergency debt before I could get any gas or electricity on. The problem is that I need to be kept at a certain temperature otherwise I get into medical difficulties. At the time it was very, very cold and I needed to be kept warm – so most of my money was going on gas and electricity.

It was leaving very little for food and other items, so there was quite a few times where I had to go and ask neighbours if I could actually borrow food from them, a couple of potatoes or an onion. I was so ashamed. It makes you feel dirty, like the scum of the earth, the lowest of the low. It was very, very difficult.’



63% of PPM users reported having at least one key support issue.

65% of those who fell behind on bills and have a learning disability use a PPM.

20 | 49% of lone parents, 65% of those with learning disabilities and 44% of those who are housebound have a PPM.



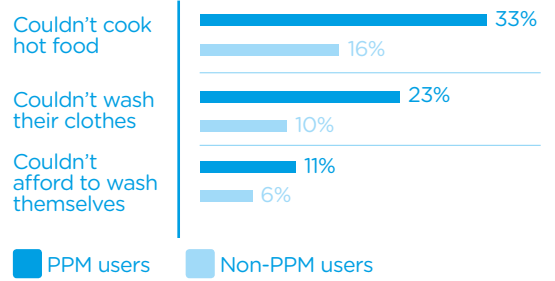
Living on the edge



'If I couldn't afford to put the heating on, I couldn't afford to do the washing! I was always trying to catch up when we did top up the heater, trying to get a mountain of clothes dry on radiators. When we didn't have electricity, we'd just eat sandwiches and rubbish. One time my little boy ate cold beans. I used to eat cold beans but I never wanted my children to have to but he said, 'Mum, I don't want sandwiches.'

Another element of self-rationing is sacrificing other essential expenditure to pay for energy. This is evident in the higher proportion of PPM users that had fallen behind with their priority bills and sacrificed meals, as well as eating only cold food and not washing. Our previous research found that a third of PPM users couldn't afford to cook hot food and a quarter couldn't wash their clothes.²¹

Percentages of PPM and non-PPM users who:



21 | CAP (2015) *The poor pay more*, preliminary report.

Robbing Peter to pay Paul



We estimate that there are:

315,000

households behind with their Council Tax who are in arrears on their PPM.

325,000

households in rent or mortgage arrears who are in arrears on their PPM.

79,000

households who have been threatened with eviction who are in arrears on their PPM.

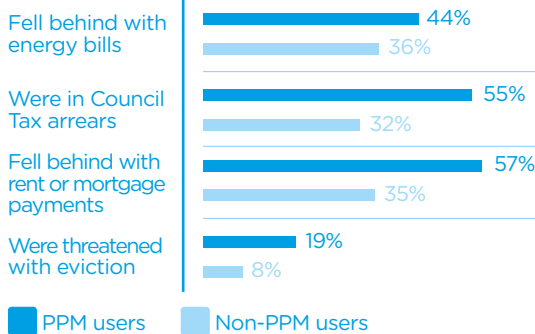


'I was on a meter but going without. It would run up and up. Run out all the time. I owed £80 for gas.'

Amongst PPM users there is widespread struggle to afford the energy required to heat their homes and cook food. Despite extensive self-disconnection, nearly half of this group had fallen behind with their energy bills, and they were 22% more likely to do so than those not on a PPM.²²

This group is also more likely to have fallen behind with other essential bills, putting them at higher risk of the stark implications of debt, such as eviction and enforcement action. Three in five PPM users had fallen behind with their rent, compared to less than two in five of those using other payment methods, and PPM users were more than twice as likely to have been threatened with eviction.²³ Our research also shows that more than half had also been in Council Tax arrears, and they were 72% more likely to have been than those not on a PPM.²⁴

Percentages of PPM and non-PPM users who:



72%

PPM users are 72% more likely to have fallen behind with their Council Tax.

57%

of PPM users fell behind with rent or mortgage payments.

22 | 44% of PPM users fell behind with their energy bills compared to 36% of non-PPM users.

23 | 57% of PPM users had fallen behind with their rent compared to 35% of non-PPM users. 19% of PPM users had been threatened with

eviction, compared to 8% of non-PPM users.

24 | 55% of PPM users had fallen behind with their Council Tax compared to 32% of non-PPM users.

Paying back arrears

In many cases deductions for arrears further intensify these hard choices. For example, one client faced the reality that for every £10 they topped up, £6 was diverted to pay off their arrears. While repayment amounts vary across suppliers, and CAP supports clients to pay back arrears through debt repayment plans where possible, it is worth noting that consumers in arrears on PPMs face particular struggles to heat their homes. In part, this is because high deductions for arrears restrict the amount of energy they receive from any small amount that they are able to top up their PPM with.

Standing charges

For half of the major suppliers the price difference between PPM and monthly DD tariffs is due to the standing charge. Standing charges are particularly problematic for PPM users, as arrears can accrue even when the consumer has self-disconnected and not used any energy. This is also an issue over summer months if PPM users do not appreciate that a standing charge is still being applied, and then later face arrears when they turn on their heating in winter.²⁵ There is a lack of awareness amongst some PPM users about standing charges and this means that debt can result even when the consumer has made a conscious decision to stop using their energy due to being unable to afford it. Recently, some innovative tariffs have emerged without standing charges due to recognition of the difficulty these charges present to such consumers.²⁶



Client story: Simon

Simon's financial struggle started when he severely broke several bones and was unable to work. His only income was JSA of £146.20 per fortnight, and he had built up over £35,000 worth of debt, including £1,200 for gas and electricity arrears. When he called CAP for help, he was living in a small flat and had been unable to afford to pay for gas so had not been topping up his PPM. During this time, the standing charge had built up and his arrears had increased by £60 despite Simon not using any gas.

25 | CAB (2014) *Topping-up or dropping out: self-disconnection among prepayment meter users.*

26 | Ofgem (2015) *Prepayment review: understanding supplier charging practices and barriers to switching.*

Borrowing to stay afloat



We estimate that there are:

102,000

households who have borrowed money from a payday lender who are in arrears on their PPM.

19,000

households who have borrowed money from a loan shark who are in arrears on their PPM.



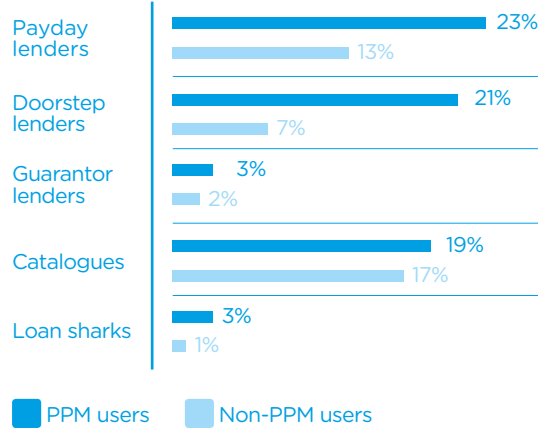
'Before CAP's help we were paying over £150 a week to doorstep lenders, not leaving enough for food, electricity and gas.'



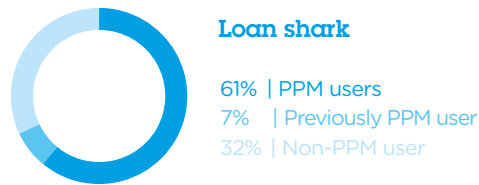
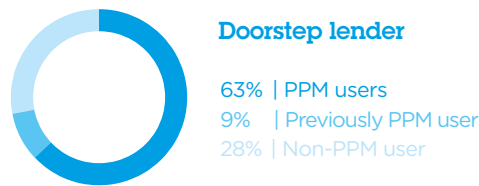
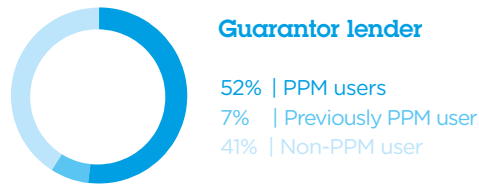
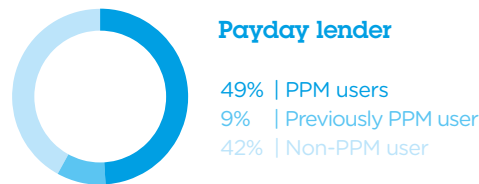
The additional financial stress experienced by PPM users is also evident from the higher proportion of this group that has in the past turned to expensive sources of credit, such as payday lenders. PPM users were almost twice as likely to have borrowed from some form of high cost credit than non-PPM users.²⁷ Previous research showed that half of clients who had taken out a payday loan had done so to pay for their energy bills.²⁸ Therefore, a direct link can be drawn from the greater incidence of PPM users struggling to pay their energy bills to the higher use of high cost credit by this group.²⁹

CAP clients who borrowed from a guarantor, doorstep lender or loan shark were also more likely to be PPM users. As the pie charts show, 52% of those who borrowed from a guarantor lender were PPM users, compared to 39% of all CAP clients. Similarly 63% of those who borrowed from a doorstep lender and 61% of those who had used a loan shark were PPM users.

Percentage of PPM and non-PPM users who borrowed from:



Payment methods for those who borrowed from:



36% of PPM users had borrowed from a source of high cost credit.

63% of those who borrowed from a doorstep lender were PPM users.

27 | 36% of PPM users have borrowed from a payday, doorstep, guarantor lender or loan shark, compared to 18% of non-PPM users.

28 | 52% of CAP clients who had used a payday lender had taken out a

loan to pay energy bills. CAP (2014) *Client Report 2013*.

29 | 23% of PPM users had borrowed from a payday lender, compared to 13% of non-PPM users.



Hard choices



We estimate that there are:

369,000

households sacrificing meals who are in arrears on their PPM.

167,000

doing so regularly who are in arrears on their PPM.

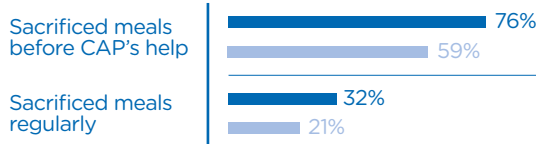


'Food or heat, I couldn't have both. I often only had two days' food a week and at times I was wearing a couple of pairs of socks, jeans, dressing gown. Just trying to survive.'



The majority of those in financial difficulty have sacrificed meals to help pay bills or debts.³⁰ However, due to having to pay for their energy up front, this stark choice is intensified for PPM users. Often this group faces a choice between putting their last £10 onto their PPM meter or buying a meal for their family. Three quarters of PPM users had sacrificed meals before CAP's help, compared to 59% of non-PPM users.³¹ They were also 52% more likely to have done so regularly, with several respondents reporting regularly eating only two days a week.³²

Percentages of PPM and non-PPM users who:



PPM users Non-PPM users

Emotional wellbeing



We estimate that there are:

279,000

who have visited their GP due to debt related illness who are in arrears on their PPM.

176,000

considering suicide who are in arrears on their PPM.

Alongside the financial struggle to heat and eat, debt also puts strain on emotional wellbeing. The high proportion of CAP clients that visit their GP with debt related illnesses and are prescribed medication as a result, typically for depression and anxiety, is evidence of this.³³ This relationship is intensified when focusing only on PPM users, with three in five having visited their GP and two thirds of them having been prescribed medication.³⁴

Percentages of PPM and non-PPM users who:



PPM users Non-PPM users

A third of PPM users had also thought about or attempted suicide as a way out of their debt problems, and this increases to 39% if they had fallen behind with their energy bills, which equates to 176,355 households in the UK.³⁵

30 | 67% of CAP clients had sacrificed meals before CAP's service. CAP (2015) *Client Report 2014*.

31 | 76% of PPM users sacrificed meals before CAP's help.

32 | 32% of PPM users sacrificed meals regularly compared to 21% of non-PPM users.

33 | 65% of all CAP clients had visited their GP due to debt related

illness and 39% of all CAP clients were prescribed medication, CAP (2014) *Client Report 2013*.

34 | 58% of PPM users had visited their GP due to debt related illness and 38% of PPM users had been prescribed medication.

35 | 36% of PPMs thought about or attempted suicide as a way out of their debt problems.

Impacts on the family



We estimate that there are:

43,000

households unable to feed their children who are in arrears on their PPM.

104,000

households unable to adequately clothe their children who are in arrears on their PPM.

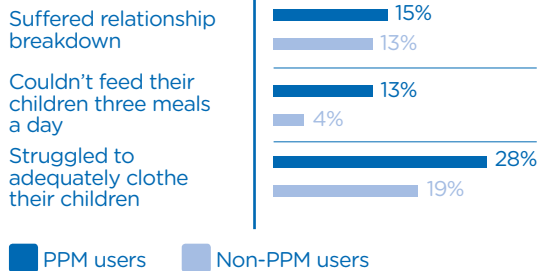


Client story: Mandy

'There were days with not enough to put the electricity on, hot water, really in a desperate state. My husband and I were skipping meals. We wouldn't eat five out of seven days in order for the kids to eat, which wasn't good because of my diabetes. The children couldn't have a bath because of hot water - they were going to school and the kids were telling them they smell. I would say, "Don't worry, we can boil the kettle and you can stand at the sink and have a wash." They were good about it.'

This financial stress also impacts upon relationships, and has consequences for the wellbeing of children in these households. PPM users were 15% more likely to have suffered a relationship breakdown.³⁶ Furthermore, two thirds of households on a PPM contain children, and these parents were three times as likely to report having struggled to feed them three meals a day, as well as 28% of this group having struggled to clothe them adequately.³⁷ This not only has negative impacts on children's health, but also exposes children in these households to bullying and emotional strain as illustrated in Mandy's story.

Percentages of PPM and non-PPM users who:



76%

of PPM users sacrificed meals before CAP's help.

52%

PPM users were 52% more likely to have sacrificed meals regularly

36%

of PPM users had thought about or attempted suicide as a way out of their debt problems.

36 | 15% of PPM users have suffered relationship breakdown as a result of debt compared to 13% of non-PPM users.

37 | 65% of families with a PPM have children. 13% couldn't afford to feed them three meals a day compared to 4% of non-PPM users, before CAP's help.



The way forward

Over the last five years, there have been improvements for PPM users with the introduction of more fixed tariffs, the five key principles, friendly credit and modifications to the Debt Assignment Protocol amongst other initiatives.³⁸ However, whilst price differentials remain, vulnerable consumers continue to be at higher risk of consumer detriment.

Action is also needed to monitor the extent of self-disconnection amongst PPM users. We know from our debt help service that people will not always come forward for the help they need. Nearly half of CAP clients waited over two years before seeking help with their debts, commonly due to shame, fear and not knowing anyone could help.³⁹ Consequently, it is essential that energy suppliers carry out proactive monitoring of and engagement with consumers who are self-disconnecting.

Currently, the majority of suppliers will contact customers who are not known to be vulnerable after 90 days if they have not topped up their PPM.⁴⁰ However, our research shows that self-disconnection is predominantly more intermittent and will not be captured by this. While the technology for more effective monitoring may be limited with current meters, this should be a high priority once smart meters have been rolled out.

Ofgem recognises that 'light, power and a warm home are essential services for our society' in their Consumer Vulnerable Strategy, and they state that consumers on low incomes often pay more due to PPMs.⁴¹ Some suppliers have introduced innovative social and smart tariffs as noted in Ofgem's prepayment review.⁴² This sets a precedent for change, but government action is needed to ensure price differentials are eradicated for the vast majority of PPM users, especially with full smart meter roll out not expected for another five years.

1 The poor should not pay more

Ensure the same tariffs are available to PPM users as to monthly DD customers, before and after full smart meter roll out.

2 Monitor and require action on self-disconnection

Put accountability structures in place to ensure energy suppliers monitor and take action to help consumers who are self-disconnecting due to being unable to afford to top up their PPM, particularly as smart meters are rolled out.

40 | Consumer Focus (2012) *Making progress*, Ofgem (2015) *Decision to make modifications to the gas and electricity supply licences to reform the switching process for indebted prepayment meter customers – the Debt Assignment Protocol*, open letter.

41 | 47% waited over two years before seeking help with their debts. Of those who waited over a year, for 42% this was due to shame, 27% due to fear and

40% did not know anyone could help. CAP (2015) *Client Report 2014*.

42 | CAB (2014) *Topping-up or dropping out: self-disconnection among prepayment meter users*.

43 | Ofgem (2013) *Consumer Vulnerability Strategy*.

44 | Ofgem (2015) *Prepayment review: understanding supplier charging practices and barriers to switching*.

Smart meters

The introduction of smart meters has promised to bring cost reductions for servicing PPMs by eliminating the need for separate payment infrastructures amongst other factors.⁴³ One energy supplier has set their initial smart meter PPM tariff at the same price as that available to monthly DD customers.⁴⁴ However, it remains to be seen whether these cost savings will materialise into equalised tariffs for all consumers. Despite predictions that more people will opt to prepay on smart meters, it is likely that on a whole prepay consumers will remain a more vulnerable, low income consumer group.

If this group continues to contain more vulnerable and disengaged consumers, who are less likely to switch supplier and tariffs, then energy suppliers will have no incentive to reduce their prices, and costs will remain greater due to higher levels of demand on customer service from these consumers.

Smart meters will also allow suppliers to disconnect consumers and switch them to prepay remotely.⁴⁵

By eliminating the necessity for a home visit to do this, the potential for additional safeguarding for vulnerability that has not been picked up previously through written or telephone communications is removed. These factors put vulnerable consumers and those in financial difficulty at increased risk of self-disconnection, and outside of the protections for consumers paying by credit. Although smart meters will reduce accidental self-disconnection through online top up options and easier balance monitoring, more attention needs to be given to self-disconnection by those with insufficient money to top up their prepay smart meter.⁴⁶

Protections need to be put in place to ensure that suppliers make appropriate checks before switching consumers to prepay, as well as continuing to monitor closely energy usage of those on prepay smart meters to pick up consumers in difficulty. Accountability for this monitoring needs to be established. Undoubtedly, smart meters will bring many benefits for consumers, but careful consideration is needed to ensure all consumers share in these.

3 Raise awareness about standing charges

Ensure consumers understand the potential for arrears to accumulate when not topping up their PPM, and encourage suppliers to take into account the difficulties these cause for struggling consumers when setting tariffs.

4 Prioritise PPM users in smart meter roll out

As long as there are appropriate protections for vulnerable consumers and those in financial difficulty, priority should be given to those who stand to gain the most from smart meters, such as PPM users. Although action may be required to ensure cost savings are passed onto consumers.

45 | Sustainability First (2007) *Smart meters in Great Britain: the next steps? Social and prepayment meter issues.*

46 | Ofgem (2015) *Energy: the debate - Ofgem Roundtable Report: Payment Differentials.*

47 | Ofgem (2015) *Domestic Suppliers' Social Obligations 2014, annual report.*

48 | Ofgem (2015) *Domestic Suppliers' Social Obligations 2014, annual report.*



Appendix

Why the poor pay more

Under Ofgem's *Supply Licence Condition 27.2A*, energy suppliers are able to charge different tariffs across payment methods, as long these differences can be justified by differential costs associated with the payment method.⁴⁷ An open letter from Ofgem in May 2014 confirmed that the majority of suppliers, including all of the Big Six, do charge higher prices to consumers who do not pay by Direct Debit. However, having surveyed 13 suppliers, Ofgem concluded there was no evidence to suggest these differences breached the supply licence condition.⁴⁸

While it may be true that there are cost differentials, the wider circumstances of the typical PPM user mean this does not justify price differentials. PPMs cost more to service than other payment methods and users tend to contact suppliers more often, but PPM users tend to be a more vulnerable group of consumers, and have lower incomes. They often face significant barriers to move onto another payment method, and due to their profile, tend to be less likely to switch supplier. This means that these consumers are unlikely to be able to switch to the cheapest deal, even if they are in a position to engage with the market in the necessary way to switch. In addition, PPM users commonly face technical issues with their meter, which require them to contact their supplier more often. It is not justifiable that these consumers should pay more for a worse service, especially when this price cannot act as a mechanism to encourage consumers onto less costly payment methods as it is argued they do, because of wider issues.



Client story: Sharon

Sharon suffers from bi-polar and severe back pain. She got into arrears when paying by DD and was put onto a PPM by her supplier. During this transition she was left without gas for several weeks.

'I was without gas for six weeks and five days, which meant no heating, hot water or cooking facilities, with eight year old twins in the lead up to Christmas. I was furious! I don't have the internet at home, nor a landline, so I had to use friends and family to access their website. When I did call they left me waiting for up to an hour or more before answering, only to be pushed from pillar to post by people who had no clue how to assist me in any shape or form. Many times I was cut off and you have to repeat the whole process again! Despite countless calls from myself the school family link worker, my MP and CAB, I was still left in the "welcome cycle" on my gas for over twelve months. My energy supplier made my life hell on earth and I was sick and tired of all the hassle and stress they put my family and myself through.'

47 | Electricity Act 1989, *Standard conditions of electricity supply licence*.

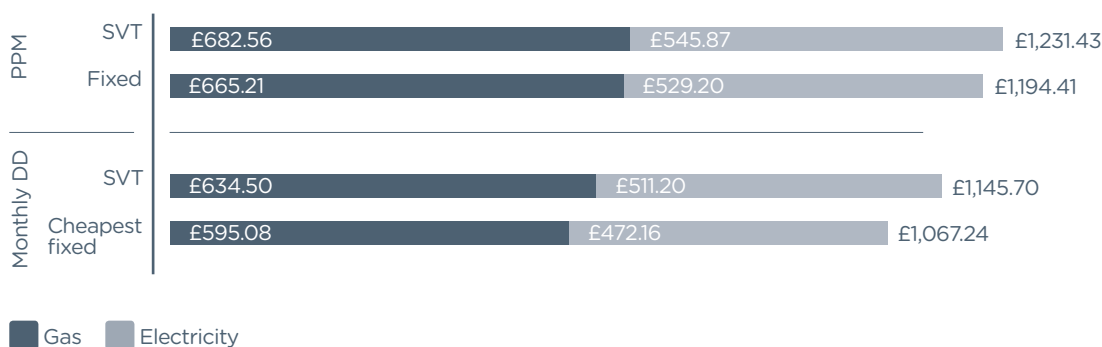
48 | Ofgem (2014) *Price difference between payment methods*, open letter

Analysis of price differentials

The price consumers pay for their energy consists of a price per unit used and a daily standing charge for the cost of supplying energy to their property. A Tariff Comparable Rate (TCR) can be used to give an effective price per utility based on median energy use, factoring in standing charges and discounts.⁴⁹ This is a useful tool to compare the price of energy across suppliers and also payment methods.

On average, PPM users pay an extra £82.73 per year for their energy.⁵⁰ This is based on a comparison of the TCR paid by PPM and monthly DD customers on the Standard Variable Tariff (SVT) of each of the major energy suppliers (often referred to as the Big Six, who supply 90% of domestic energy consumers).⁵¹ It is estimated that 70% of consumers are currently on the SVT.⁵² For one supplier, the tariff offered to PPM users compared to their monthly DD customers on the SVT equates to almost £250 extra per year.⁵³

Average yearly cost based on median household energy use by tariff type and payment method



The cheapest energy deals for all payment methods are fixed tariffs, which guarantee price stability over a certain period, during which time consumers have to pay an exit fee to leave. There are fewer fixed tariffs available to PPM users and while all of the Big Six offer fixed monthly DD tariffs, only two thirds offer fixed PPM tariffs.⁵⁴ Analysis of these tariffs shows that monthly DD customers stand to save twice as much by choosing a fixed deal as PPM users could save. PPM users on average only save £34.02 on a fixed tariff compared to the SVT, but the cheapest fixed monthly DD tariff costs on average £78.47 less than the SVT.

Bringing fixed tariffs into play also widens the average price differential to £127.18 per year when comparing the cheapest fixed tariffs available to monthly DD and PPM users of each supplier. A whole market comparison by Citizens Advice in July 2015 found that taking into account smaller energy suppliers, this average price differential in fact increases to £226 between supplier's tariffs.⁵⁵ Ofgem's *Retail Market Monitoring* also found in May 2015 that price differentials increase substantially to £300 when allowing for PPM users to switch to the cheapest fixed monthly DD tariff across suppliers rather than only comparing price differentials within their existing supplier.⁵⁶

49 | Median household energy use is 3,200 kWhs of electricity and 13,500 kWhs of gas per year.

50 | Average price difference between the estimated annual cost of monthly DD and PPM tariffs for each of the Big Six energy suppliers, based median household energy use TCR tariffs on 29/09/15.

51 | Big Six are British Gas, Npower, E.On, EDF, SSE and Scottish Power according to CMA (2015) *Energy market investigation*, provisional findings report.

52 | CMA (2015) *Energy market investigation: Provisional findings report*.

53 | Estimated annual price difference for one supplier between monthly DD and PPM SVT tariff was £249.72 on 29/09/15.

54 | Number of tariffs available on Big Six energy suppliers websites on 29/09/15.

55 | CAB (2015) *Prepay energy customers paying £226 a year more*, press release.

56 | Ofgem (2015) *Domestic Suppliers' Social Obligations 2014*, annual report.



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Electricity Act 1989, Standard conditions of electricity supply licence

Ofgem (2013) Consumer Vulnerability Strategy

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Ofgem (2014) Price difference between payment methods, **Open letter**

Ofgem (2015) Decision to make modifications to the gas and electricity supply licences to reform the switching process for indebted prepayment meter customers – the Debt Assignment Protocol, **Open letter**

Ofgem (2015) Domestic Suppliers' Social Obligations, 2014 annual report

Ofgem (2015) Energy: the debate – Ofgem Roundtable Report, **Payment Differentials**

Ofgem (2015) Prepayment review: understanding supplier charging practices and barriers to switching

Ofgem (2015) Social Obligations Reporting – Number of disconnections for non-payment of debt

Ofgem (2015) Social Obligations Reporting – Percentage of PPM accounts with a consumer repaying an energy debt

Sustainability First (2007) Smart meters in Great Britain: the next steps? Social and prepayment meter issues



Methodology

This research has been conducted as part of CAP's *Client Survey 2015*, where 1,672 CAP clients who are working to resolve their financial difficulty, completed an online or postal survey.

Clients were asked how they paid for their energy and whether they had previously used a PPM. Those that had been on a PPM have been excluded from the analysis of demographics, self-disconnection and consequences of debt to provide a clear distinction between the two groups for comparison.

The assumption has been made that those surveyed who are on a PPM and also fell behind with their energy bills before seeking help from CAP are representative of the 7% of gas and 10% of electricity PPM users that are in arrears according to Ofgem's *Domestic Suppliers' Social Obligations data*.¹ Ofgem estimates that there are 3.5 million gas and 4.5 million electricity PPM accounts, which means that 245,000 gas and 450,000 electricity PPM accounts are in arrears.²

As it is not clear whether gas PPM users are the same as electricity PPM users, the figures for electricity PPM accounts have been used as a conservative estimate for the number of PPM users in arrears so as to apply the research findings to the wider UK population and estimate the effects of PPMs and self-disconnection.

1 | Ofgem (2015) *Social Obligations Reporting – Percentage of PPM accounts with a consumer repaying an energy debt*.

2 | Ofgem (2015) *Domestic Suppliers' Social Obligations*, 2014 annual report.

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