



# Energy Market Investigation – notice of possible remedies

## *The Children's Society response*

### **Introduction**

The Children's Society is a leading charity committed to improving the lives of thousands of children and young people every year. We work across the country with the most disadvantaged children through our specialist services and children's centres. Our direct work with vulnerable groups including disabled children, children in or leaving care, refugee, migrant and trafficked children, means that we can place the voices of children at the centre of our work.

In 2015 The Children's Society launched 'Show some Warmth' report that found that in the previous winter two million families – with 3.8 million children – were struggling to pay their energy bills. Our research found that nearly one in five families – 1.3 million families, with 2.2 million children – have been in energy debt at some point.

Since the launch of this report, The Children's Society has been working with energy companies to seek to improve their support for families and older children living in energy debt. Our response to this consultation draws on our research, experience of supporting families and children in energy debt and our engagement with energy companies to date.

The Children's Society recommends the opportunity to respond to this consultation and believes it is an important opportunity to re-establish consumer trust in the energy sector and improve support for vulnerable consumers. For the purposes of this consultation, we have chosen to focus on those elements of the consultation that will have a direct impact on children and young people struggling with their energy costs. We have organised this consultation response around themes that could have the greatest impact on children and young people living in energy debt and struggling with the costs of their energy.

### **1. Remedy 4: Possible measures to address barriers to switching by domestic customers - Transparency and Accessibility in switching suppliers**

- 1.1. This section discusses The Children's Society response to Remedy 4a – *measures to address barriers to switching by domestic customers*. When seeking to support customers to switch suppliers it is crucial that information is provided in a transparent and accessible manner for the most vulnerable customers and that support available with energy costs (for example the Warm Home Discount) moves with customers when they move energy supplier.
- 1.2. The way that information is presented by energy companies can act as a significant barrier to switching supplier. Research by Centre Forum<sup>1</sup> has demonstrated that

<sup>1</sup> <http://centreforum.org/index.php/mainpublications/741-reforming-retail-energy-markets>

customers frequently complain about receiving too much information, and having too much choice, rather than too little. Bills are too often complex and customers' ability to make like for like comparisons are difficult

- 1.3. On some occasions vulnerable households on a low-income are encouraged to switch to prepayment meters – in indeed are forced to - in order to help them manage their debt and to budget more effectively. The Children's Society's evidence showed that 30% of families with children have a pre-payment meter in their home<sup>2</sup>. This is a cause for concern for many families as the installation and removal fees that are often associated with prepayment meters come as an additional expense that they can little afford. This is supported by the finding that 49% of families on a pre-payment meter are struggling with their energy bills, compared to 29% of all families overall struggling with their energy payments.
- 1.4. Recent evidence from Ofgem raised concerns that prepayment customers can face particular barriers when trying to access competitively priced deals<sup>3</sup>; notably fewer tariff choices, charges for installing and removing a prepayment meter, and upfront security deposits.

#### **Recommendations:**

- We support Ofgem's recommendation to remove the costs associated with pre-payment meter installation and removal which would help these families – many of whom are likely to be the most vulnerable customers – from falling further into debt.

## **2. Remedy 5: Requirement that energy companies prioritise the roll out of smart meters to domestic customers who currently have a pre-payment meter**

- 2.1. Smart Meter roll out is often proposed as being a remedy to the discrepancy in prices paid between pre-payment and direct debit customers as the roll out can mean that energy companies are in a position to offer more tailored solutions to customers. This is welcomed as customers with pre-payment meters or paying by standard credit still pay around £80 each year more than direct debit customers<sup>4</sup>.
- 2.2. Currently, energy suppliers can deliver the roll out in whatever way suits their customers and business best, as long as they meet the Government's overall timescale and targets. However, there are ways that this can be improved to ensure that the most vulnerable customers benefit from this as soon as possible. For instance, we would recommend that Smart Meters be targeted at fuel poor and indebted households in the first instance to help to alleviate the impact of living in fuel poverty and energy debt and would recommend this as part of Remedy 4a.
- 2.3. Success in addressing fuel poverty and energy debt through the smart meter roll out is conditional on successfully supporting customer behaviour change, and this will require

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<sup>2</sup> [http://www.childrenssociety.org.uk/sites/default/files/Show\\_some\\_warmth\\_full\\_report\\_1.pdf](http://www.childrenssociety.org.uk/sites/default/files/Show_some_warmth_full_report_1.pdf)

<sup>3</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment\\_report\\_june\\_2015\\_finalforpublication.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf)

<sup>4</sup> <https://www.ofgem.gov.uk/press-releases/ofgem-publishes-analysis-price-differences-between-payment-methods>

consistent and long-term interaction between customers and energy companies. This is particularly important for the more vulnerable groups who may face barriers to engagement with their energy provider. We therefore would suggest in response to question 60(b) that vulnerable customers need better information and guidance about the potential benefits of new smart meters. This should be delivered by outreach to services accessed by families and young people, for example in children's centres, youth centres and services supporting children in care in their transition to adulthood.

- 2.4. Care leavers face significant challenges when moving into independent living and more should be done to mitigate the chances of care leavers falling into debt as they begin to manage their own finances. Care leavers should therefore be a priority group for the smart meter roll out through engagement and partnership with local authorities.

#### **Recommendations:**

- Smart meter roll out should be accompanied by outreach engagement and workshops in services accessed by children and young people and their families, for example children's centres.
- Smart meter roll out should prioritise fuel poor and indebted households in the first instance to help alleviate the additional costs associated for the most vulnerable families when they are placed on pre-payment meters.
- Care leavers should be a recognised priority group for the roll out of smart meters to mitigate the chances of care leavers falling into debt as they move into independent living and begin to manage their own finances.

### **3. s39 (b) Market Opening Measures - Warm Home Discount**

- 3.1. The Warm Home Discount is a crucial form of support, providing a £140 discount on energy bills for struggling families. One family who received the discount told us:

*"The Warm Home Discount was a lifeline for me and my family. It meant my quarterly winter bill was under £300, instead of over £400. I had more to buy food for my family and I could keep the heating on for longer."*

- 3.2. However, our Behind Cold Doors report identified that in 2013/14 nearly 2 million children living in poverty were living in families that missed out on the Warm Home Discount.
- 3.3. The Children's Society strongly believe that core group eligibility discount provided for low-income pensioners should be extended to low income families with children. This would help to address problems caused by lack of knowledge of the Warm Home Discount rebate and problems associate with switching suppliers and losing the Warm Home Discount.
- 3.4. Evidence from families The Children's Society work with suggests that knowledge of the rebate is alarmingly low, with only three out of the 11 families interviewed having heard of the discount scheme. Only two families had received a Warm Home Discount. Another had been told they would receive the rebate, but as they changed energy supplier before the award was made, they were subsequently told they would no longer

qualify for support. The family did not reapply as they had missed the deadline for applications and they did not meet the Warm Home Discount eligibility criteria of their new energy supplier.

- 3.5. One family who received the Warm Home Discount only applied to her energy supplier after hearing about the scheme through a friend on Facebook. Nearly all of the families we spoke to said energy companies should do more to promote the Warm Home Discount to low-income families.
- 3.6. Accessibility of the Warm Home Discount is a key issue for many families and therefore we welcome the government's decision to create standard eligibility criteria for suppliers<sup>5</sup>, that was extended to include low-income working families in receipt of in-work benefits with either a child under 5 or a disabled child.
- 3.7. However, energy customers in the Broader Group still need to apply to their supplier, while low-income pensioners in the scheme's Core Group automatically get the rebate credited to their bill. The current system can still leave disadvantaged customers missing out on this vital form of support, if they fall outside of the government's new standardised Broader Group criteria as several of the energy companies providing the Warm Home Discount exclude low-income families who are in work. Yet two-thirds of children living in poverty are now in working households.

#### **Recommendations:**

- Low-income families should be moved into the core group for the Warm Home Discount to ensure that families don't miss out on this vital form of support.
- The Warm Home Discount is only secured for 2015/16. We recommend that the CSR this autumn should be used to secure funding for the duration of this Parliament.

## **4. Remedy 6: Ofgem to provide an independent price comparison service for domestic customers - Energy Company obligations and choice for customers**

- 4.1. There are a wide range of tariffs available to the market, offering a series of options that are tailored to suit as broad a set of requirements as possible and support those customers that change providers to secure a better deal with their energy. However, there are barriers to accessing these deals – particularly for the most vulnerable - that need to be addressed in order to make sure the process is as equal as possible. This should include offering a range of different means of discovering and signing up for different deals ranging from delivering community outreach, to support in accessing online services such as price comparison websites for those who are not technologically literate, to offering more proactive support to vulnerable families with children.

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/398545/Warm\\_Home\\_Discount\\_Consultation\\_Response\\_-\\_Extension\\_to\\_2015-16\\_-\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398545/Warm_Home_Discount_Consultation_Response_-_Extension_to_2015-16_-_FINAL.pdf)

- 4.2. However, before switching it is critical that customers be made aware that their new choice could limit or stop them receiving wider benefits from their incumbent supplier, for instance missing out on being eligible for the Warm Home Discount, which is currently a risk when switching to a smaller supplier.

#### **Recommendations:**

- All suppliers – including smaller suppliers - are obligated to deliver the core group rebate in any revision on of the scheme from 2016/17. This would ensure customers are aware of their entitlement across all providers and help increase transparency in the scheme.
- Price Comparison Websites (PCWs) should show simply and clearly the energy costs for different providers and tariffs and the websites should also include information on the additional support available from individual suppliers – for example Warm Home Discount criteria and Energy Company Obligations – to support customers to understand the whole picture when moving suppliers.

### **5. Remedy 10: Measures to prompt customers on default tariffs to engage in the market - Additional support and the provision of advice for vulnerable customers**

- 5.1. The provision of advice and support is critical for families and young people struggling with the costs of their energy bills. In difficult, stressful and complex situations, it is important that companies help their customers access the support they need, including from independent advice charities. Therefore, in response to Remedy 9 question (a) we would recommend all energy bills should include contact information for debt advice agencies to ensure this information is accessible to all customers.
- 5.2. Ofgem should be more explicit as to what additional services for the most vulnerable customers could include, and which groups should be eligible for them. We would urge Ofgem to include the following vulnerable groups for additional services, and that Ofgem require energy companies to offer relevant additional services to these groups via their Priority Services Register (PSR):
- 5.3. **Single parent families**
- 5.4. Research that we have co-produced with Gingerbread<sup>6</sup> shows that single parent families are nearly twice as likely to live in poverty as couple families, and many working single parents live below the poverty line – 300,000 children are growing up in poverty in working single parent families. Since these families typically have less support and more time commitments, these groups need more support in difficult circumstances, and their inclusion on the Priority Services Register would support this.
- 5.5. **All families in receipt of Child Tax Credits and with an income of less than £16k**

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[https://www.childrenssociety.org.uk/sites/default/files/tcs/u56/single\\_parents\\_and\\_universal\\_credit\\_singled\\_out\\_final\\_0.pdf](https://www.childrenssociety.org.uk/sites/default/files/tcs/u56/single_parents_and_universal_credit_singled_out_final_0.pdf)

- 5.6. Our research found that last winter two-thirds of families with children, around 5 million families, thought they were likely to turn down their heating over the winter because of the cost<sup>7</sup>. Of these, more than half said that they were worried about their children becoming ill because their home was too cold.

## **6. Remedy 11: A transitional ‘safeguard related tariff’ for disengaged customers - All young people under 18 living independently and care leavers until 25**

- 6.1. We know from our practice base and previous research that this group of young people are particularly vulnerable, as they are moving into circumstances where they will have to manage their life and their household finances independently for the first time, often with little support.
- 6.2. We believe that care leavers and 16 & 17 year olds living independently would benefit from the suggested introduction of prompts to engage with the market. The introduction of a safeguarding tariff (Remedy 11) for disengaged domestic customers is welcomed and should be automatically applied to care leavers moving into independent living arrangements for the first time to ensure they are not disadvantaged by a lack of knowledge of the energy market.
- 6.3. Our research has shown that this cohort of young people are often lacking in experience when it comes to managing their own budgets, and sufficient financial education to make informed choices on products such as energy bills. This means a more proactive approach from energy companies would be of particular benefit.
- 6.4. In response to Remedy 10 question ( e) care leavers until the age of 25 should receive prompts should they be on a default tariff to ensure they are supported to receive better deals on their energy and to encourage them to engage proactively with the energy market when they first move into independent living. They should receive these prompts when they first move into independent living and every subsequent year after until the age of 25 when they are on a default tariff.

### **Recommendations**

- All energy bills should include contact details for independent debt advice charities to support families in accessing advice at an early stage when they fall into difficulty on their energy bills
- Care leavers should receive prompts when they first move into independent living to support their proactive engagement with the energy market and to ensure they are supported to receive the lowest price possible on their energy

For more information please contact David Ayre, Policy Officer on  
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<sup>7</sup> [http://www.childrenssociety.org.uk/sites/default/files/Show some warmth full report 1.pdf](http://www.childrenssociety.org.uk/sites/default/files/Show%20some%20warmth%20full%20report%201.pdf)

