



## *Action for Warm Homes*

### **NATIONAL ENERGY ACTION RESPONSE TO OFGEM STATUTORY CONSULTATION FOR A VULNERABLE CUSTOMER SAFEGUARD TARIFF**

#### **ABOUT NEA**

1.1 National Energy Action (NEA) is the national charity seeking to end fuel poverty and tackle exclusion in the energy market at a local and national level. We work across England, Wales, Northern Ireland and with our sister charity Energy Action Scotland, to ensure that all UK households can afford to live in a warm, dry home.<sup>1</sup>

#### **SUMMARY OF RESPONSE**

2.1 NEA supports the safeguard tariff and welcomes Ofgem's efforts to take immediate action to protect a sub-set of vulnerable energy customers this winter. We estimate however that over half a million eligible households will miss out on £260 of energy bill savings because the energy market and energy policy has failed them. Specifically, because they will not receive a Warm Home Discount (WHD) rebate or be safeguarded under Ofgem's proposed tariff. These households are mostly working-age, fall into the lowest income deciles and are already facing thousand pound gaps between their incomes and the essential cost of living. To protect these households we ask Ofgem to:

1. Push suppliers to do more to identify and prioritise their low income customers. For example, this winter suppliers could voluntarily apply the safeguard tariff to customers on standard variable tariffs not in receipt of WHD but with identified financial vulnerabilities.

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<sup>1</sup> For more information please visit [www.nea.org.uk](http://www.nea.org.uk).

2. Proactively work with the Department of Business, Energy and Industrial Strategy (BEIS) and suppliers to maximise data-sharing powers under the Digital Economy Act and forthcoming regulations to improve identification and targeting of low income households at risk of fuel poverty for the purposes of providing financial and non-financial assistance.
3. Work alongside BEIS to obligate all suppliers over 50,000 customers to deliver the Core Group rebate and until such time as this occurs urge suppliers under the existing 250,000 customer threshold to apply rebates on a voluntary basis.

## **OUR VIEW ON THE ENERGY MARKET**

3.1 NEA thanks Ofgem for the opportunity to respond to its statutory consultation for a vulnerable customer safeguard tariff. We welcome the bill savings for customers who will be covered by the tariff and agree with Ofgem's conclusion that the retail energy market is not working for vulnerable customers. NEA stresses the importance of the regulator and suppliers understanding the logical reasons many low income households and those with vulnerabilities have for not switching either tariff or payment method. These may include digital exclusion, a preference or need for a household to manage their budget on receipt of a bill or in advance using a prepayment meter (PPM), aversion to risk and therefore a reluctance to engage with an unknown supplier and, in some cases, debt and credit checks.

3.2 Acknowledging these reasons also requires acknowledging that relying solely on switching as the tool to reduce the premiums faced by low income and apparently disengaged energy consumers will not suffice. This is because their behaviour is not only about a lack of awareness or perceptions. For example, the perceived 'hassle' of switching. Instead, the tariff and payment method premiums faced by these households actively work to marginalise and penalise their preferences and needs. Because of this, the retail energy market is currently exacerbating and deepening poverty.

## **LIMITATIONS OF THE SAFEGUARD TARIFF**

4.1 NEA supports the safeguard tariff and welcomes Ofgem's efforts to take immediate action to protect a sub-set of vulnerable energy customers this winter. Over the longer term we hope Ofgem will use powers under the Draft Domestic Gas and Electricity (Tariff Cap) Bill to provide benefits to a greater pool of low income and vulnerable households.

4.2 While supporting Ofgem's intentions we stress that many households on the lowest incomes will receive no support to afford their energy this winter. Specifically, NEA estimates 527,637 eligible households will miss out on £260 of energy bill savings because they will not receive either a WHD rebate or be safeguarded under Ofgem's proposed tariff. The energy market and energy policy has failed these customers.

## **NEA'S METHODOLOGY TO CALCULATE THE NUMBER OF UNPROTECTED CUSTOMERS**

- 5.1 NEA used the following methodology for calculating the number of unprotected customers.
- 5.2 In WHD Scheme Year 5 – the baseline Ofgem has used to identify safeguard tariff customers – 836,201 rebates were provided to low income and vulnerable energy consumers through the Broader Group (BG).
- 5.3 As Ofgem is aware, not all energy consumers eligible for WHD through the BG receive a rebate. This is because the number of BG rebates is capped, only larger suppliers are obligated to offer rebates, customers must apply for a BG rebate and applications are considered on a first come first served basis.
- 5.4 The former Department of Energy and Climate Change (DECC) has previously estimated that the BG comprises two million households.<sup>2</sup> Deducting households in receipt of a BG rebate in Scheme Year 5, NEA therefore estimates that approximately 1.2 million eligible households will miss out on both a £140 WHD BG rebate and protection under the safeguard tariff.
- 5.5 Of those 1.2 million households, NEA assumes 35% are PPM customers and therefore already protected under the PPM safeguard tariff. This assumption is in accordance with findings from the CMA investigation into the energy market and the methodology used in Ofgem's own calculations.<sup>3</sup>
- 5.6 Of the remaining 756,469 households, NEA makes two assumptions. 1. 75% are on standard variable tariffs (SVTs), as per the CMA's findings on the proportion of SVT usage among WHD households.<sup>4</sup> 2. 93% of these households are with a WHD obligated supplier, as per Ofgem's calculations.<sup>5</sup>
- 5.7 This leaves over half a million households which NEA estimates are vulnerable to fuel poverty but who will receive no protection this winter in the form of either a £140 WHD rebate or £120 off their energy bill through Ofgem's safeguard tariff (see Table 1). These

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<sup>2</sup> DECC. 2014. [Warm Home Discount Extension: Impact Assessment](#), Table A5.2, p. 31.

<sup>3</sup> Ofgem. 2017. [Financial Protections for Vulnerable Customers](#), Appendix B, p. 53.

<sup>4</sup> CMA. 2016. [Appendix 9.1: CMA Domestic Customer Survey Results](#), Figure 41.

<sup>5</sup> Ofgem. 2017. [Statutory Consultation for a Vulnerable Customer Safeguard Tariff](#), p. 4.

households will therefore be £260 worse off because the energy market and energy policy has failed them.<sup>6</sup>

**Table 1. Estimated number of low income households not protected under Ofgem’s safeguard tariff**

<b>Total WHD BG households</b>	2,000,000
<b>BG households in receipt of 2015-16 WHD rebate</b>	836,201
<b>Eligible BG households not in receipt of rebate</b>	1,163,799
<b>Number already safeguarded under PPM cap</b>	407,330
<b>Remainder on SVTs with WHD obligated supplier who will not benefit from WHD rebate or safeguard tariff</b>	527,637
<b>Lost savings per household</b>	£260
<b>Total lost savings</b>	£137.2 million

## CONCLUSIONS

6.1 NEA has stated our support for Ofgem’s proposed safeguard tariff within this response.

However we underline our concern at the limitations of the tariff and highlight the extreme vulnerability of many households who will miss out. In particular, almost all of the half a million unprotected households will be working-age (as only pensioners receive WHD automatically). Paying £260 more for their energy is an amount of money this group cannot afford. A forthcoming paper by NEA – *Bridging the Gap* – calculates that working-age lone parents in fuel poverty and working-age families with dependent children in fuel poverty face gaps of £9,331 and £6,516 respectively between their incomes and the essential cost of living.<sup>7</sup> These households are currently struggling to get by on low wages which are falling in real terms as consumer price inflation outstrips perpetually weak earnings growth. For households reliant on state support, cuts and freezes to working-age benefits, along with the roll-out of universal credit, are pushing more people into poverty and crisis.

<sup>6</sup> NEA notes that if all suppliers were obligated to deliver the WHD the number of unprotected customers would be even higher – 567,352. Furthermore, we note that the rebate of \$140 has not risen with inflation for a number of years now and, as such, vulnerable customers are losing out as the real value of the rebate is falling.

<sup>7</sup> NEA. Forthcoming. *Bridging the Gap: Addressing the Cost of Living Facing UK Households this Winter*.

6.2 We appreciate that social and energy policy, including the design of the WHD scheme, are not in Ofgem's remit.<sup>8</sup> Nonetheless, NEA raises these points with Ofgem to emphasise that the proposed safeguard tariff, while welcome, will offer no respite to at least half a million households in the lowest income deciles who urgently need support this winter. For these households NEA makes three requests of Ofgem:

1. Push suppliers to do more to identify and prioritise their low income customers. For example, this winter suppliers could voluntarily apply the safeguard tariff to customers on SVTs not in receipt of WHD but with identified financial vulnerabilities.
2. Proactively work with the Department of Business, Energy and Industrial Strategy (BEIS) and suppliers to maximise data-sharing powers under the Digital Economy Act and forthcoming regulations to improve identification and targeting of low income households at risk of fuel poverty for the purposes of providing financial and non-financial assistance.
3. Work alongside BEIS to obligate all suppliers over 50,000 customers to deliver the Core Group rebate and until such time as this occurs urge suppliers under the existing 250,000 customer threshold to apply rebates on a voluntary basis.

6.3 Finally, whilst we restate our support for Ofgem's proposals, it remains NEA's view that price caps and rebates are not a long-term solution to addressing energy affordability. Instead, increased investment in domestic energy efficiency is urgently required to lift households out of fuel poverty and make homes safe and warm. Energy efficiency also contributes toward achieving other UK Government objectives. Namely, a successful industrial strategy, supporting small business growth in the regions, achieving carbon emissions reductions, reducing health and social care costs and providing real benefits to households who are struggling financially.

**13 November 2017**

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<sup>8</sup> NEA is advocating BEIS to reduce the threshold for suppliers to have to deliver WHD to 50,000 customers and for BG rebates to be applied automatically to all eligible customer accounts.