



*Action for Warm Homes*

## **NATIONAL ENERGY ACTION (NEA) RESPONSE TO OFGEM CONSULTATION ON PROVIDING FINANCIAL PROTECTION TO MORE VULNERABLE CONSUMERS**

### **ABOUT NEA**

NEA works to end fuel poverty and tackle exclusion in the energy market locally and nationally. To achieve this our work encompasses campaigning and advocacy, research and analysis, along with project delivery in local communities. We aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.<sup>1</sup> NEA also provides the secretariat for the All Party Parliamentary Fuel Poverty and Energy Efficiency Group to raise awareness of the problem of fuel poverty and the policies needed to eradicate it.<sup>2</sup>

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<sup>1</sup> Throughout 2016-17, NEA awarded £18 million of grants to support new and innovative approaches to tackling fuel poverty in local communities; helping to deliver 44 projects in 2,166 households. We have also trained 5,325 people who will cascade their knowledge to an estimated 1.34 million people. NEA's subsidiary Warm Zones CIC has also delivered energy efficiency measures to 4,303 households. For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

<sup>2</sup> For more information visit: [www.nea.org.uk/fpeeg/about-fpeeg/](http://www.nea.org.uk/fpeeg/about-fpeeg/).

## BACKGROUND TO THIS RESPONSE

Low wages and sluggish growth mean many of the poorest UK households are in-work but still struggle to afford the increasing cost of living, including heating and powering their homes.<sup>3</sup> Fuel poverty mirrors this trend with 47% of fuel poor households in full or part-time work.<sup>4</sup> A weaker Pound following the EU referendum has also caused inflation to rise and the subsequent increase in the cost of consumer goods and services has outstripped rises in average earnings. As such, both wages and living standards are falling in real terms for millions of hard pressed, hard working UK households.<sup>5</sup> As well as the impact of low household income and general inflation, higher energy prices also continue to badly impact the economy; curtailing growth and further increasing inflation. This squeezes spending on other essential goods and services,<sup>6</sup> pushing many into further debt<sup>7</sup> and increasing the risk of self-disconnection. Sadly, the greatest impacts of rising energy costs are disproportionately felt by some of the most vulnerable people in our society. Within this context, NEA has welcomed Ofgem's efforts to financially protect vulnerable energy consumers. This includes the prepayment meter price cap, more recently the vulnerable safeguard tariff and now the proposals outlined in this consultation.<sup>8</sup>

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<sup>3</sup> NEA estimates that some families in fuel poverty are facing an income shortfall of up to £9,331 per year (£778 per month) to cover basic essentials, including energy. NEA also warns that many low income households could miss out on energy rebates and Ofgem's vulnerable customer safeguard tariff. These findings are included as part of our *Bridging the Gap* report which highlights the scale of the impossible choices families will be making this winter. The report also illustrates the catastrophic impact Universal Credit could have on these families who have no savings to insulate them from falling into debt, going hungry and not heating their homes over the current 5 week waiting period.

<sup>4</sup> Across the UK, 22% of individuals (14 million people) are in relative poverty after housing costs (they have a household income below 60% of the median). Net disposal income after housing costs of a low income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposal weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.

<sup>5</sup> The impact of Brexit on UK consumers can be characterised through four 'Ps'. The fall in Pound sterling since the EU membership referendum in June 2016 has increased import costs for UK businesses; impacting Profits. Businesses have in turn passed Price rises onto consumers in the form of a.) more expensive household goods and services (inflation), or b.) products that cost the same but have reduced in size (shrinkflation). This inflationary trend hurts the UK Population and threatens to drive up that fifth 'P': Poverty. Households below and at the margins of the poverty line can ill afford to pay more for their essential goods and services.

<sup>6</sup> Independent commentators like the Institute for Fiscal Studies have highlighted how low income households are disproportionately impacted by spending a higher percentage of their outgoings on fuel. See: IFS. 2013.

[Household Energy Use in Britain: A Distributional Analysis.](#)

<sup>7</sup> Ofgem. 2017. [Vulnerable consumers in the retail energy market: 2017.](#)

<sup>8</sup> See: NEA. 2017. [National Energy Action Response to Ofgem Statutory Consultation for a Vulnerable Customer Safeguard Tariff](#) and <http://www.nea.org.uk/media/news/nea-comment-on-cmas-proposal-for-a-price-cap-for-prepayment-meter-customers/>

## SUMMARY OF OUR RESPONSE

NEA thanks the regulator for the opportunity to input into the proposed approach for providing financial protection to more vulnerable consumers. Our responses to the questions are provided below but we draw Ofgem's attention to the following key points:

- I. NEA supports data matching as the preferred approach to identify vulnerable customers but highlights that a number of low income households (in particular the working poor) fall outside the benefits system. As noted above, 47% of fuel poor households are in full or part-time work and many of these will not be claiming a DWP benefit. To address this issue, we believe data matching should be used *in combination* with other identification methods (such as debt), not the either/or approach currently proposed.
- II. It is imperative the necessary legislation to allow the data matching to take place is ready in time for winter 2018-19. We urge the regulator to continue to work proactively with DWP and BEIS to meet this deadline and state clearly within the response to this consultation when this targeted approach will come into force.
- III. NEA strongly disagrees with Ofgem's proposal to limit data matching to the larger suppliers only. Data matching is one of the most cost-efficient as well as effective methods to identify vulnerability and government itself has previously stated (with regard to the Warm Home Discount (WHD)) that identifying customers through data matching should lead to reductions in supplier participation thresholds.<sup>9</sup>
- IV. If excluded from data matching, Ofgem risks reinforcing the two-tier market: where the vulnerable are incentivised or advised to stay with larger suppliers offering gold class protection and the savvy switch to smaller suppliers offering better deals. This will undermine efforts to increase consumer engagement and switching amongst traditionally disengaged groups and risks sending a message that vulnerability is the remit of the large supply companies only.
- V. NEA stresses that *any* supplier who enters the market to provide an essential service should have the means to identify and serve their vulnerable customers and we believe that data matching is an effective, appropriate and proportionate method to do so. We therefore ask Ofgem to obligate all suppliers over 50,000 customers to apply data matching. The regulator taking the lead in this area could in turn lead to data matching being used to automate and guarantee access to a WHD rebate for all

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<sup>9</sup> DECC. 2016. [Warm Home Discount Scheme](#).

Broader Group customers across the large and small supplier base. This is a core issue for NEA and a range of other charities and a change we have long called for.

- VI.** NEA supports cross-matching Priority Services Register (PSR) and energy debt data to identify vulnerable customers but we do have reservations about relying solely on the PSR with no overlay of debt data to identify customers for price protection. We note the PSR is designed to target vulnerable customers for receipt of non-financial services and therefore question whether the cross-industry needs codes that have been developed to identify and register customers for the PSR are currently fit-for-purpose to identify financial vulnerability. We have a concern that customers on the lowest incomes who fall outside of the benefits system and do not have need for an existing PSR service will subsidise other customers while continuing to miss out on vulnerability and fuel poverty services (Energy Company Obligation, WHD and now safeguard tariffs).
- VII.** NEA is concerned about Ofgem's stated intention to withdraw the tariff or not introduce it should the Government's price cap be in place before winter 2018-19. There is currently much uncertainty about the design and coverage of this market-wide price cap and we therefore believe there is merit in introducing the vulnerable tariff irrespective of the passage of the price cap legislation. Above all, NEA wants assurances that vulnerable customers will not lose out under a market-wide price cap compared to Ofgem's targeted protection outlined in this consultation.
- VIII.** While price protection is welcome, it will not address the entirety of the fuel poverty gap (over £300 on average) and it will offer scant protection for the fuel poor relying on off-gas solutions to heat their homes in unregulated markets (such as oil). More broadly, without adequate support to improve the fabric and heating systems of homes, price protection for fuel poor customers will be a band aid solution.

## RESPONSE TO CONSULTATION QUESTIONS

**Question 1** – What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data matching?

NEA supports data matching as the preferred approach to identifying vulnerable consumers for receipt of the safeguard tariff. We are pleased to see Ofgem taking action in this area; noting NEA has long called for better use of data to identify vulnerable customers and then guarantee them access to financial and non-financial services. The success of this approach is well proven, in particular the effectiveness of data matching to provide rebates to the Core Group of Warm Home Discount (WHD) customers. By contrast, the approach used for the WHD Broader Group – relying on customers self-identifying for a rebate and then issuing them on a first come first served basis – has a number of well-rehearsed problems. Not least, that over half a million eligible Broader Group households will miss out on £260 of energy bill savings in 2017-18 because they will receive neither a WHD rebate nor be safeguarded under Ofgem’s first iteration of the vulnerable customer tariff (to be introduced this February).<sup>10</sup> As such, we emphasise the importance of suppliers using the proposed data match to apply the tariff protection automatically and are pleased to see Ofgem share our view on this matter. We would also like to see this data being used to automate and guarantee access to a WHD rebate for all Broader Group customers.

With regard to timescales, we call for greater clarity from government and Ofgem on when the necessary secondary legislation will be passed by parliament to ensure this approach can be used as soon as possible and, as a priority, in time for winter 2018-19. We note Ofgem’s CEO, Dermot Nolan, expects the legislation to be finalised by the end of February.<sup>11</sup> We urge the regulator to continue to work proactively with DWP and BEIS to meet this deadline and state clearly within the response to this consultation when this targeted approach will come into force.

In addition, while supporting and welcoming Ofgem’s data matching approach, we highlight the limitations of benefits data as a proxy for identifying financially vulnerable customers. These limitations have been well evidenced by BEIS, which found that 66% of fuel poor

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<sup>10</sup> These half a million 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. For more information see: NEA. 2017. [National Energy Action Response to Ofgem Statutory Consultation for a Vulnerable Customer Safeguard Tariff](#) and NEA. 2017. [Bridging the Gap: Addressing the Cost of Living Facing UK Households this Winter](#).

<sup>11</sup> Business, Energy and Industrial Strategy Committee. 10 January 2018. [Oral Evidence: Pre-legislative Scrutiny of the Draft Domestic Gas and Electricity \(Tariff Cap\) Bill, HC 517](#).

households in England are excluded from the Energy Company Obligation (ECO) scheme under a means-tested benefits eligibility criteria.<sup>12</sup> While Ofgem's proposed price protection is targeting a larger group of financially vulnerable customers and using a wider set of benefits than the ECO Affordable Warmth Group, it remains the case that many low income and fuel poor households will not be protected under an approach that relies solely on benefits data. It is important to note that the combination of a less generous benefits system, chronic low wages and high employment in the UK has seen poverty 'increasingly become an in-work phenomenon'.<sup>13</sup> Indeed, analysis by the Institute for Fiscal Studies (IFS) shows in 2015-16 66% of individuals in relative poverty belonged to a working household.<sup>14</sup> Similarly, Trussell Trust data shows the primary reason for referral to a foodbank is low income and that many people in work (mostly part-time or insecure) attend foodbanks.<sup>15,16</sup> A significant number of these working poor households will not be receiving benefits and therefore stand to suffer a double harm if they do not receive protection under Ofgem's proposed tariff and also see their own energy bill increase if suppliers seek to claw back margins outside of the price cap. To address this issue, we encourage Ofgem to explore using energy debt data and benefits data in combination, and not take the either/or route currently proposed.

**Question 2** – What are your views on our backstop option that requires suppliers to use the information they hold (such as Priority Services Register and debt information) to identify vulnerable consumers?

NEA supports the use of debt information to identify financially vulnerable customers. As mentioned, we do not believe this should be a backstop option but used in combination with benefits data to help capture low income households who fall outside of the benefits system. Debt is an excellent indicator of financial vulnerability and therefore need with regard to this tariff. For example, clients seeking help from the charity Christians Against Poverty (CAP) reported an average debt of £14,298; nearly equal to their average annual income of £14,693.<sup>17</sup> Low income was the most frequently cited cause of debt amongst CAP's client base and 92% had no savings to fall back on.<sup>18</sup>

We also note that price protection for indebted customers could help protect them from future price increases that could push them further into debt at the very time they are

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<sup>12</sup> DECC. 2016. [ECO: Help to Heat Consultation](#).

<sup>13</sup> IFS. 2017. [Living Standards, Poverty and Inequality in the UK: 2017](#).

<sup>14</sup> Ibid.

<sup>15</sup> The Trussell Trust. [Latest Stats](#).

<sup>16</sup> Loopstra and Lalor. 2017. [Financial Insecurity, Food Insecurity, and Disability: The Profile of People Receiving Emergency Food Assistance from The Trussell Trust Foodbank Network in Britain](#).

<sup>17</sup> CAP. 2017. [Client Report](#).

<sup>18</sup> Ibid.

working to pay off monies owed. Including this group within the scope of the cap could also provide an incentive for suppliers to work with their customers to tackle debt early before a customer builds up excessive amounts<sup>19</sup> and a formal repayment plan is agreed or Fuel Direct payments are made to service the debt level. However, we emphasise that debt must be used alongside other identification methods given the high numbers of indebted customers forced (or choosing) prepayment meters and therefore the potentially low number of customers reached for tariff protection under this approach.

With regard to using the Priority Services Register (PSR) to identify customers, NEA recognises and has previously outlined to Ofgem the benefits of cross-matching PSR and energy debt data to identify vulnerable customers.<sup>20</sup> This approach could have the benefit of extending coverage of the new cap to those not in receipt of a DWP benefit. NEA does however have reservations about relying solely on the PSR (with no overlap between PSR/debt repayment) to identify customers for price protection. In particular:

- Ofgem took the encouraging step when introducing the vulnerability principle under the Standards of Conduct (SoC) of requiring suppliers to think about vulnerability beyond the traditional remit of the PSR. The regulator noted in its consultation on this matter that the principle is 'a broader obligation [than PSR] that requires suppliers to seek to identify all types of customers in vulnerable situations and treat them fairly'.<sup>21</sup> We therefore believe suppliers should not rely solely on non-financial data to identify financial vulnerability when the licence directs them to have methods in place to identify *all* types of consumers in vulnerable situations. We believe the financial protection proposed in this consultation is an opportunity to apply the vulnerability principle in practice.
- Ofgem has previously stated they want suppliers to take a more proactive approach in identifying customers for the PSR and offering services to address communication, access and safety needs beyond the prescriptive list specified in the licence.<sup>22</sup> This direction toward supplier-led identification and innovation could be undermined if companies have a disincentive to register customers on a database that automatically leads to price protection. Furthermore, to avoid the price cap, suppliers may seek to cleanse their PSR databases aggressively.

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<sup>19</sup> As Ofgem itself has found, many suppliers are taking too long to intervene for customers in debt. See: Ofgem. 2017. [Vulnerable consumers in the retail energy market: 2017](#).

<sup>20</sup> NEA. 2017. Paper for Ofgem: Options for Direct Regulation of Prices for Vulnerable Consumers. Unpublished.

<sup>21</sup> Ofgem. 2017. [Standards of Conduct for Suppliers in the Retail Market: Statutory Consultation](#), p. 26.

<sup>22</sup> Ofgem. 2016. [Priority Services Register Review: Statutory Consultation](#).

- The explicit and primary purpose of the PSR is to identify customers in need of non-financial services. As already stated, NEA recognises that bringing together the PSR and a supplier's knowledge about those on a debt repayment plan could have the benefit of extending coverage of the new cap to those not in receipt of a DWP benefit. However we remain concerned that using it as the sole proxy to identify customers for a financial service risks confusing suppliers' messaging to customers and their advocates (e.g. advice agencies) about what the PSR is and why customers should register on it.
- As Ofgem will be aware, suppliers and the networks now have a common set of needs codes to identify and then register customers on the PSR (e.g. pensionable age) and they have also recently taken the positive step of agreeing consistent messaging around the PSR (the PSR 'Promise'). Linking the PSR explicitly to a price cap could risk confusing this consistency of messaging across distribution and supply; particularly when it is not clear that any of the current needs codes are fit-for-purpose to identify financial vulnerability. It is also not clear whether a customer registered on their DNO's PSR but not their energy suppliers will automatically receive the price protection (assuming they are on a default tariff). We ask Ofgem to clarify this.

**Question 3** – Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?

As noted, NEA's preferred approach is to use benefits data matching along with debt data and the PSR focusing on the overlap between PSR and debt customers. All suppliers could access this information (should all suppliers be obligated to data match as NEA advocates at Question 4) and therefore the approach to customers is universal and fair. On a voluntary basis however, and to reach customers who may otherwise fall through the gaps of identification, suppliers could consider utilising one or more of the following methods, outlined below. If a supplier were to use such methods this could be an example of good practice to apply the vulnerability principle under SoC.

- Larger suppliers' ECO data, in particular ECO Flexible Eligibility (ECO-Flex). NEA understands suppliers are provided with a list of eligible customers from local authorities under ECO-Flex. These customers (regardless of whether they go on to receive an ECO measure) could be automatically provided with the price protection (if on a default tariff). The type of customers identified on these lists fits very well with



the customer base Ofgem is seeking to help: fuel poor customers (and therefore vulnerable to high energy costs) but who may not be captured by benefits data.

- Gas networks' Fuel Poor Network Extension Scheme (FPNES) data. If data can be shared between networks and suppliers, customers identified as fuel poor by the gas networks for receipt of a free or subsidised gas connection could receive the additional benefit of price protection from their supplier. In turn, benefits data used to identify customers for price protection could potentially be overlaid with other datasets to identify fuel poor off-gas customers for a gas connection through FPNES. This type of data matching and sharing to improve delivery of support schemes aligns with National Audit Office (NAO) recommendations and should be considered by Ofgem to streamline and optimise delivery of FPNES, which the regulator administers.<sup>23</sup> This step would be particularly beneficial given Ofgem recently amended the FPNES eligibility criteria to remove the IMD criterion with the intent of improving targeting of the scheme on the fuel poor. Making use of benefits data would greatly assist networks in finding the fuel poor.
- People attending foodbanks. Currently, vulnerable prepayment meter customers visiting foodbanks can benefit in some areas from fuel voucher schemes. A similar approach could be taken for non-prepayment customers, for example the referral to a foodbank could trigger passporting into price protection if energy vulnerability is identified during the foodbank visit.

**Question 4 –** What are your views on our proposal for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers? Please provide evidence to support your views.

NEA strongly disagrees with Ofgem's proposal to limit the preferred option (identifying customers through benefits data) to the larger suppliers only. We are not convinced by the argument that the smaller suppliers do not have the resource, systems or time to undertake data matching. Data matching is one of the most cost-efficient as well as effective methods to identify vulnerable customers and therefore has benefits for suppliers as well as consumers. Indeed, government itself has stated with regard to the WHD:

*In a scenario where all rebates are delivered through data matching...the composition of a supplier's customer base no longer has a bearing on how difficult it is to meet the*

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<sup>23</sup> NAO. 2017. [Vulnerable Consumers in Regulated Industries](#).

*obligation. Such changes could create a stronger case for reducing the participation threshold to benefit customers and reduce some of the barriers to switching.*<sup>24</sup>

As such, we ask Ofgem to clarify their rationale for excluding smaller suppliers as this appears to be inconsistent with the Government's position. We also stress that having the means to identify vulnerability (broader than PSR customers) is now part of the supply licence (the vulnerability principle under SoC). By extension, NEA believes suppliers granted a licence should be able to run a data matching process to identify vulnerability that is effective, appropriate and proportionate.

If excluded from data matching, Ofgem risks reinventing but reinforcing the two-tier market: where the vulnerable are incentivised or advised to stay with larger suppliers offering gold class protection and the savvy switch to smaller suppliers offering better deals. This undermines wider efforts by a range of stakeholders (including the NEA-administered Big Energy Saving Network) to increase consumer engagement and switching amongst the currently disengaged. Regardless of how much of the market is served by the proposed list of obligated suppliers (Ofgem states 93%), NEA makes the point that Ofgem must not send a message that serving vulnerability is the remit of the large supply companies. Any supplier who enters the market to provide an essential service should have the means to identify and serve their vulnerable customers. Ofgem have previously stated they expect small and medium suppliers to do more to help their vulnerable customers.<sup>25</sup> NEA agrees and therefore asks that Ofgem consider obligating all suppliers over 50,000 customers to apply the data matching approach. If Ofgem takes the lead in this area, BEIS may in turn be minded to reform the WHD to obligate the smaller suppliers. With regard to timing, Ofgem state suppliers undertaking data matching for the first time generally take six months to do this. To accommodate these suppliers, a backstop date could be introduced – Tariff Live + 6 months. This approach would be similar to the requirement on smaller suppliers to enrol as DCC users for the smart meter roll-out.

Finally, and as previously stated, we do not agree with the positioning of the preferred and backstop options as an either/or and large supplier/small supplier split. Instead, NEA holds the view data matching should be used in combination with other methods to identify as wide a range of vulnerable customers as possible.

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<sup>24</sup> DECC. 2016. [Warm Home Discount Scheme](#).

<sup>25</sup> Ofgem. 2017. [Vulnerable consumers in the retail energy market: 2017](#).

**Question 5** – What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

NEA supports applying the protection to all default tariff types irrespective of how long a vulnerable customer has been on a default tariff. We believe covering all default tariffs is very important to guard against suppliers relabeling standard variable tariffs in an effort to avoid the price cap. We also support Ofgem’s proposal to apply the protection to all meter types and are pleased to see this includes smart meters, unlike the prepayment meter price cap. In this area, NEA continues to have concerns about the exposure of vulnerable smart prepayment customers given more competitive tariffs in this market are not guaranteed. Additionally, if suppliers do not pass savings from a reduced cost to serve onto smart prepayment customers and offer tariffs at a level above the cap then vulnerable customers will have no incentive to switch off traditional prepayment and reap the wider benefits of smart metering.

**Question 6:** Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

No comment.

**Question 7:** Do you have any comments on the design issues for either of our two options?

Ofgem have indicated they will withdraw the tariff or not introduce it should the Government’s price cap be in place before winter 2018-19. NEA is concerned about this approach given existing uncertainty about the design and coverage of the market-wide price cap. For example, will it be set at a higher level than Ofgem’s proposed vulnerable tariff, will it include all default tariffs and meter types as Ofgem is proposing etc.? These are critical issues and we therefore seek assurances that vulnerable customers will not lose out under a market-wide price cap compared to Ofgem’s targeted protection outlined in this consultation. Furthermore, we urge Ofgem to take a cautious approach to removing price protection for vulnerable consumers until they are confident that services designed for this group (ECO, WHD, PSR etc.) are working effectively. It is essential these types of financial and non-financial services are included as indicators of a well-functioning market alongside traditional measures such as switching.

**National Energy Action**

**31 January 2018**