



Action for Warm Homes

CONSULTATION RESPONSE

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National Energy Action response to Ofgem's Forward Work Plan 2021-23

About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Background to this response

Over the last year, NEA, alongside other consumer groups, worked with Ofgem to secure some key improvements in the treatment of domestic customers. In particular, we worked to ensure that low income and vulnerable customers had adequate protections in gas and electricity markets.

Some key achievements include:

- Reaching an agreement³ with the UK Government, Citizens Advice, and all electricity and gas suppliers to:
 - Identify and prioritise customers at risk;
 - Support customers who are impacted financially as a direct or indirect result of COVID-19;
 - Support prepayment meter customers directly or indirectly impacted by COVID-19 to stay on supply.
- New electricity and gas supplier licence conditions⁴ to better protect households with prepayment meters who self-disconnect from their supply.
- A new principles-based licence condition for GDNs to treat their customers fairly⁵ (mirroring SLC0 for energy suppliers) from April 2021, and a commitment for DNOs to have a similar obligation from April 2023.
- Responding to the economic outcomes of the coronavirus pandemic through increasing the amount of funding for GDNs to address consumer vulnerability in their next price control RIIO GD2.⁶

Ofgem has taken positive steps to further help the most vulnerable energy customers over the last year. To continue this momentum, it is vital these key developments are built upon. Our consultation response below

outlines how the proposed plan for the next two years could strengthen support and protection of vulnerable and fuel poor customers.

Our response to this consultation

The proposed forward work plan has a wide-ranging set of priorities for Ofgem to form a work programme in the years ahead, and NEA understands the significant challenge that Ofgem faces in helping the country to achieve its energy objectives. However, one aspect that the plan does not address is consumer vulnerability, an area where Ofgem has made good progress in the past. NEA believes that this momentum should be maintained.

In 2019, Ofgem published its new Consumer Vulnerability Strategy 2025⁷, focussing on 5 key themes: Improving identification of vulnerability and smart use of data; supporting those struggling with bills; driving significant improvements in customer service for vulnerable groups; and encouraging positive and inclusive innovation; working with others to solve issues that cut across multiple sectors. Ofgem also made 5 commitments for the first year of the strategy:

- Create an analytical framework to consistently assess the impact of policies on particular groups of consumers in vulnerable situations.
- Introduce a new licence condition for gas distribution networks so that they must adhere to a vulnerability principle;
- Strengthen rules to protect customers who self-disconnect;
- Update the Ability to Pay principles and include them in the licence conditions to provide targeted support to consumers facing payment difficulty;
- Consult on proposals for the future energy retail market review.

NEA is pleased that Ofgem has followed through on all of these commitments in 2020, even through the difficult conditions created by COVID-19. However, the Consumer Vulnerability Strategy runs up to 2025, and actions should be taken in each and every year of the strategy to ensure progress continues. In this Forward Work Programme, Ofgem should set out its priorities and commitments for the second year of the strategy. Below are the areas that NEA believes Ofgem should focus on during the next year.

Improving the identification of financial vulnerability

With increasing numbers of individual households falling into debt with their essential household bills, both prior to and after Covid-19, it is becoming more challenging for companies to prioritise debt assistance. They also have a limited view of the overall financial situation of a customer and are therefore unable to determine if the customer is 'over-indebted'. NEA recommends that all Ofgem should work with companies to consider how a single definition of 'severe indebtedness' can ensure customers are treated fairly. This will allow suppliers to identify their customers who are most in need of support, and to help them accordingly. Ofgem and energy companies should also work to ensure that financially struggling households are more easily identified through the creation of a financial vulnerability flag or 'needs code' within the Priority Services Registers (PSR).

Additionally, there is no current mechanism to share data across all sectors to provide an indication of financial difficulty. This limits a sectors' ability to respond quickly to need and offer appropriate support. Opportunities for maximising data sharing should be explored, including utilising existing mechanisms, such as building on the Priority Services Register and acting on powers within the Digital Economy Act, to ensure that support is offered to customers moving into financial difficulty at the earliest possible opportunity.

Ensuring that, beyond forbearance, energy debt is addressed by suppliers in a systematic and effective manner

Throughout the pandemic, Ofgem has been relatively successful in ensuring short term relief provision to struggling energy customers through both the supplier agreement, where suppliers agreed to provide credit to their customers to keep them on supply, and through the work on self-disconnection that has resulted in new licence conditions on the ability to pay principles, which will lead to fairer debt collection practices.

These developments were welcome but focus on delaying debt repayment. This forbearance, for many households will not be enough, and more must be done to address energy debt more directly. The pandemic has led to the single biggest hit on our economy for 41 years⁸. It is expected that the affordability of energy will become much harder for many more people over the coming years, and Citizens Advice estimate⁹ that 24% of consumers - equivalent to almost 7 million households - expect to struggle to pay their energy bills.

Energy debt has built up over the crisis and is expected to surge over winter. Whilst existing debt write-off schemes and debt advice are welcome, it is unlikely to be sufficient to address the impacts on customers' or companies' financial viability. In general, households have ended up using more energy than expected, and for many households, income has reduced. Consequentially, energy debt is likely to have been built up before winter and the way in which this is dealt will have a significant impact on the extent to which households ration their energy over the winter. This year, Ofgem must investigate ways that suppliers can help their customers to realistically reduce their debt. This could include prompting suppliers to refer customers towards benefits entitlement checks to increase their income or working with Government to create payment matching schemes with suppliers.¹⁰

Improving the accessibility and awareness of existing support schemes

While Ofgem and BEIS should be commended for their early actions in setting up the supplier agreement last year, it has unfortunately become clear that for too many customers this support is not accessible, and many households are not aware of what is on offer. Our Fuel Poverty Monitor 2019/2020¹¹ found that there were many challenges to accessing support, especially where households did not feel comfortable contacting their energy supplier for help. Several groups of households, especially those who are digitally excluded and those that speak English as an additional language, demonstrated very low or confused awareness of the support that could be provided by their supplier during the crisis. Large variations in support creates confusion for householders and those supporting them. As lockdowns continue, to remedy this, Ofgem should plan to improve the accessibility and awareness of existing support. We recommend that Ofgem:

- Ensure that energy suppliers have detailed plans for mobilising additional call centre support and/or ensuring call centre staff can work effectively from home.
- Work with suppliers to set out what criteria they are adopting for 'emergency' calls and their call triage methodology/protocols for prioritising customer queries.
- Have regard to how companies have used different communication channels to see how non-digital consumers have missed out on support/advice during COVID-19.
- Ensure that utilities have plans in place to provide information on emergency support in different languages and formats, including Braille, BSL, and languages such as Polish, Punjabi and Urdu.

Maximising network companies' role in tackling fuel poverty

NEA has supported Ofgem's intention to introduce new licence conditions for how GDNs and DNOs treat their customers in vulnerable circumstances. In addition, NEA is pleased that the final determinations for RIIO GD2 includes an increase in the Vulnerability and Carbon Monoxide Allowance (VCMA) alongside a change in the guidelines for this allowance to permit funding to repair or replace condemned boilers. We are also pleased that Ofgem intend to create a new vulnerability licence condition for DNOs in ED2, alongside a new Vulnerability ODI and a new licence obligation to promote the uptake of energy efficiency measures where the network requires reinforcement. Alongside following through with these commitments, in this forward work plan Ofgem must commit to building on them by:

- For GDNs:
 - Using the reputational ODI for FPNES connections to fully hold GDNs to account on progress towards their targets. The CEGs may have a role to play in successfully achieving this.
 - Ensuring that GDN's plans for the VCMA is focussed on helping the most vulnerable customers.
 - Ensuring that carbon monoxide projects within the VCMA are limited to those that address the acute risks of faulty and inefficient heating appliances.
- For DNOs:
 - Further action to enhance procedures for power outages.
 - Helping low-income customers upgrade their connection in the context of moving to low carbon electrical heating, akin to the funding provided by FPNES.
 - Allowing networks to prioritise flexibility projects with direct positive social and environmental outcomes when they assess bids into their flexibility markets to address reinforcement needs.
 - Allowing investment in new, energy efficient appliances in the households of vulnerable customers in order to reduce total system electrical losses.
 - Ensuring that innovation funds are deliberately targeted at supporting low income and vulnerable customers transition to net zero.

NEA continues to have a desire to work collaboratively with Ofgem and DNOs to influence this strategic outlook and expand existing collaborative projects. Some further suggested priority areas are also noted below.

New innovation and insights:

- Trialling new ways to decarbonise heat whilst delivering network and customer benefits.
- Aggregating and controlling electric storage in tower blocks to offer reductions in residents' charges, offsetting costs using income earned from grid services including fast frequency response.
- Demonstrating the qualitative and quantitative network and customer benefits of innovative combinations of hybrid heat pumps, domestic solar PV, heat and electricity storage technologies.
- Trialling new ways to guide behaviour change in vulnerable households by promoting the efficient use of energy and water and encouraging efficiency improvements in the home.

Collaborative research:

- Exploring how the DSO transition can reduce the cost of, and provide a cornerstone for, a fair transition to a net zero carbon society and economy.

- Helping to consolidate lessons learnt and what has been done so far via innovation funds which has a domestic social dimension.
- Developing new options for DNOs assisting low-income customers to upgrade their connection in the context of moving to low carbon electrical heating.
- Developing options to provide more flexibility within the losses incentive and enhancing share factors to encourage domestic flexibility and demand reduction.
- Developing links with other utilities and the local community.
- Develop new cross-utility approaches to identifying vulnerable customers and more efficient ways of supporting them.

Enforcing the Vulnerability Principle (SLC0) and Ability to Pay Principles

NEA supported adding a broad vulnerability principle to the domestic Standards of Conduct that clarifies to suppliers that to uphold their obligation to treat all domestic customers fairly, and new ones regarding ensuring that repayment plans are suitable for households. Suppliers now need to make an extra effort to identify and respond to the needs of those in vulnerable situations. However, we maintain our concern about the capacity of Ofgem to adequately monitor these requirements, especially given the increasing number of smaller suppliers. There are also concerns about the failure of some suppliers to join up their mandated obligations to improve services for their most vulnerable customers.

Supporting BEIS to deliver fuel poverty commitments

It was disappointing that the work plan did not detail how Ofgem can support the Government to meet its fuel poverty commitments, which have been restated in the new Fuel Poverty Strategy, "Sustainable Warmth"¹². Implementing the strategy will require greater collaboration between BEIS and Ofgem, particularly in the administration of supplier led schemes and ensuring that customers are adequately protected in the market. Ofgem must plan to work with BEIS to deliver the strategy, alongside its own Consumer Vulnerability Strategy, in the period 2021-23.

A specific task that Ofgem could undertake in the immediate term in order to support the delivery of fuel poverty commitments would be to help assess the value of the Warm Home Discount scheme, in particular in relation to the outcomes of the Industry Initiatives part of the scheme. Ofgem currently reports on the spend of industry initiatives and the number of people helped, split by the activity type. There is, however, no indication of the value of different activities (for example, a social return on investment), something that networks have had to do for their similar work that is required within the RIIO GD2 for access to the VCMA fund. Understanding the value of this crucial scheme could have a big impact on Government decisions surrounding the future of Warm Home Discount. The more information that Government has in relation to both the benefits and the costs of the scheme, the better the decision that will be made about the future of it. As E-serve are the administrator of the scheme and have access to a significant amount of data surrounding it, we judge Ofgem as the best placed entity to undertake this work.

Further Addressing Self-Disconnection

NEA continues to be concerned about the scale of self-disconnection that we have seen in recent years. Ofgem's call for evidence on self-disconnection¹³, subsequent proposals¹⁴ and decision¹⁵ are a welcome first step in trying to solve issues surrounding self-disconnection. However, Ofgem should continue to make progress on this issue in order to significantly reduce the number of self-disconnections that occur. NEA proposes that Ofgem should:

- Investigate how half-hourly data from smart meters can help suppliers to identify their customers who ration energy, with a view to integrating this into the licence conditions as initially proposed as part of the self-disconnection work.¹⁶
- Urgently address major anomalies with the current eligibility criteria for the Priority Services Register (PSR), especially surrounding a lack of needs code surrounding financial vulnerability. Ofgem should also aim to enhance monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- Address an unacceptably large variance in efforts to reduce the risk of self-disconnection and self-rationing across different energy suppliers depending on their size and capacity. They should stress its willingness to regulate all licensees if voluntary attempts to encourage greater participation of industry-led protocols like Energy UK's upcoming Vulnerability Charter fail to enhance protections in this area for vulnerable customers.

- Investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low-income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy. Ofgem's work in the targeted charging review must not lead to an increase in standing charges for electricity prepayment customers.
- Make the most of the smart meter rollout for prepayment households (more detail below).

Ofgem's role in making the most of the smart meter rollout

NEA has a long-standing interest in smart meters and their roll-out in Great Britain and Northern Ireland, particularly regarding their impact on vulnerable consumers. Ofgem's role of monitoring and enforcing minimum standards under the Smart Meter Installation Code of Practice (SMICOP) is also fundamental to the success of the roll-out. However, as noted above, concerns are mounting about the capacity Ofgem must monitor these requirements, especially given the increasing number of smaller suppliers.

NEA has previously highlighted our concern that the smart meter rollout is now significantly backloaded, meaning that most households have less opportunity to enjoy the benefits of smart (and any resulting financial savings). We are pleased that Ofgem are asking suppliers to detail their rollout plans on their websites¹⁷, giving the third sector an opportunity to help engage households in order to accelerate the rollout.

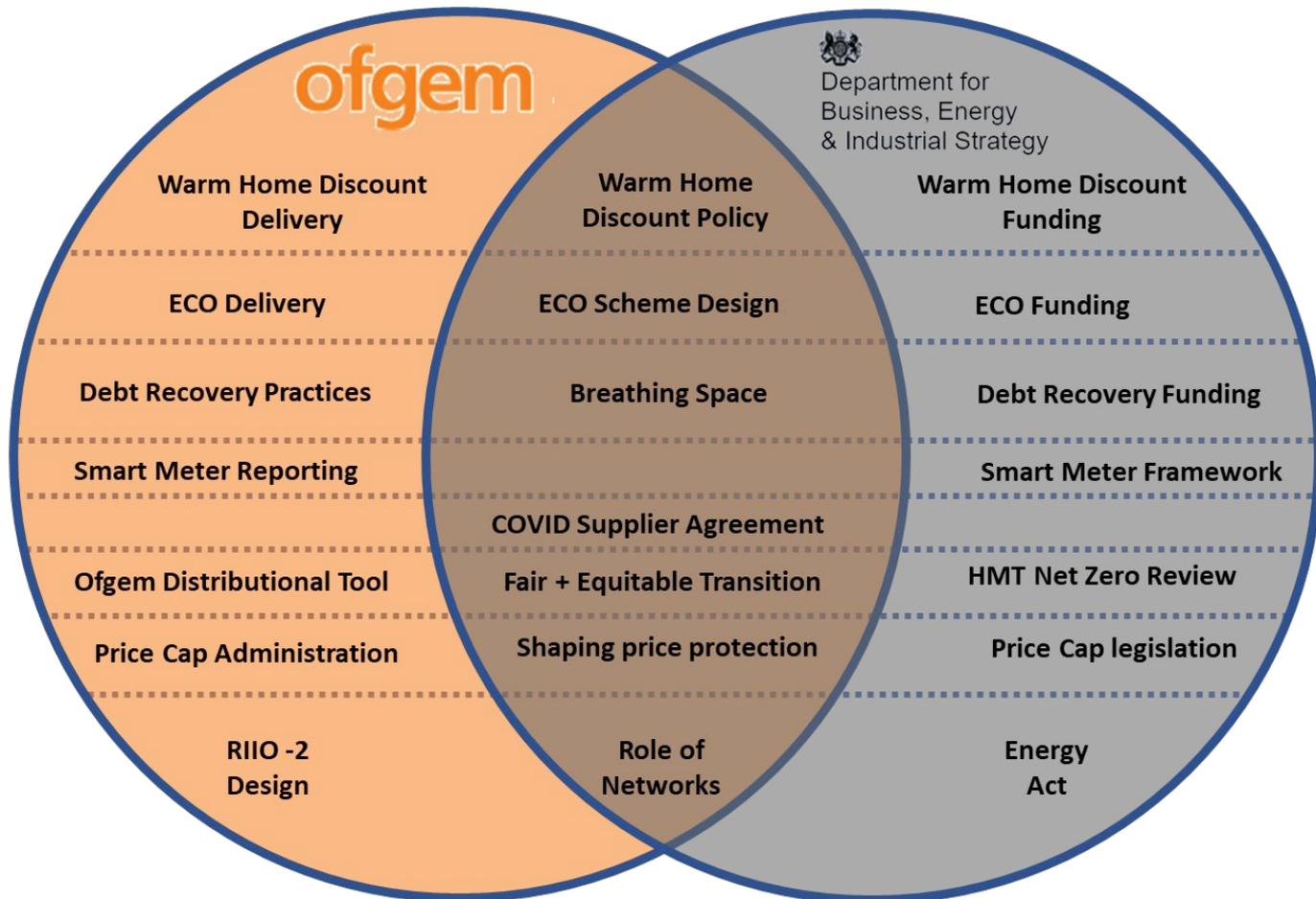
In addition to reporting, NEA believes that Ofgem should have an interest in ensuring that the rollout is being performed in the best interest of vulnerable energy consumers. In our view, an important element of this is ensuring that households with legacy prepayment meters receive a smart meter as a priority, in order to ensure that once the price cap has ended, they do not move back into a market that the CMA identified creates a significant detriment for them. As part of the forward work programme, Ofgem should commit to investigating what they could do to achieve this aim. This would dovetail with the suggested work to build on the self-disconnection protections outlined above.

Set out how the new distributional analysis tool will be used to ensure fair decision making

Last year, Ofgem followed through with the commitment to create a tool to perform distributional analyses on its own policy decisions. This was extremely welcome, and it was good to see it in action with regards to the work on Self Disconnection. NEA asks that in the final forward work programme Ofgem sets out how it will continue to use this tool and how it will ensure that it remains up to date. Without proper funding to use and update it, it is utility will slowly degrade and the progress that has been made may be lost.

The need for clearer join up and links with UK Gov role

As increasingly more work is done to achieve net zero carbon emissions, the line that separates Ofgem as the energy regulator from the UK Government is becoming increasingly more blurred. There are many areas where responsibilities are split between the two organisations, and where there are some shared responsibilities. The Venn diagram below represents our view of this.



Because of the increasing importance of the interaction between Ofgem and Government, NEA expects that the forward work programme should look to address this head on, with specific projects and associated funding to make the links with Government and smooth out decision making in order to avoid “ping pong” between Governments and Ofgem when change is required. Knowing which organisation takes which role, and who leads on what, will be crucial for stakeholders to engage with change processes in a meaningful way.

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

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

³ Published on the 19th March 2020, the supplier agreement was put in place to protect the domestic energy supply of those most in need during the disruption caused by COVID-19. For the agreement visit https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873960/Supplier_Agreement_19.3.2020.pdf

⁴ Self-disconnection and self-rationing: decision, Ofgem, October 2020 <https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-decision>

⁵ The new licence obligation, SSC21, puts an obligation on GDNs to treat their customers fairly, having due regard for their customers in vulnerable situations.

⁶ In their final determination of RIIO GD2 business plans, Ofgem double the Vulnerable Customer and Carbon Monoxide Allowance from £30m to £60m for the 5-year price control.

⁷ Consumer Vulnerability Strategy, Ofgem, October 2019 https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf

⁸ On 30th June 2020, the BBC reported that the impacts of coronavirus had caused the worst contraction of the UK economy in 41 years. For the article, see <https://www.bbc.co.uk/news/business-53231851>

⁹ <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/recovery-or-ruin-the-role-of-accessible-support-in-helping-energy-consumers-through-the-crisis/>

¹⁰ For more information on utility debt, see the NEA report "Surviving the Wilderness", November 2020 <https://www.nea.org.uk/wp-content/uploads/2020/10/Surviving-the-wilderness-final-version.pdf>

¹¹ <https://www.nea.org.uk/wp-content/uploads/2020/07/UK-FPM-2019.pdf>

¹² Sustainable Warmth, BEIS, February 2021 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/960200/CCS207_CCS0221018682-001_CP_391_Sustainable_Warmth_Print.pdf

¹³ <https://www.ofgem.gov.uk/publications-and-updates/prepayment-self-disconnection-and-self-rationing-call-evidence>

¹⁴ <https://www.ofgem.gov.uk/publications-and-updates/proposals-improve-outcomes-consumers-who-experience-self-disconnection-and-self-rationing>

¹⁵ https://www.ofgem.gov.uk/system/files/docs/2020/10/self-disconnection_and_self-rationing_decision.pdf

¹⁶ In the initial proposals to improve self-disconnection and self-rationing, Ofgem proposed requiring suppliers to take all reasonable steps to identify customers who are in vulnerable situations and are self-rationing, applying to both customers on prepayment and credit meters, given self-rationing affects customers paying via all methods.

¹⁷ Decision: Smart meter rollout supplier reporting requirements from 1 July 2021 onwards, Ofgem, December 2020 https://www.ofgem.gov.uk/system/files/docs/2020/12/smart_meter_rollout_supplier_reporting_requirements_from_1_july_2021_onwards_modification_of_the_standard_licence_conditions_of_the_gas_and_electricity_supply_lic.pdf