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Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

1. This is the British Gas response to Ofgem's discussion document *Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy*. We welcome the publication of this document and the opportunity it provides to contribute and shape Ofgem's strategy at this early stage before a more formal consultation is issued later this year.
2. Ofgem's statutory duties include a duty to protect the interests of present and future gas and electricity consumers, including having regard to the interests of vulnerable consumers. In addition, Ofgem must have regard to guidance issued by the Secretary of State on social and environmental matters which includes helping Government achieve its targets to eradicate fuel poverty.
3. Much has changed since Ofgem constructed its Social Action Strategy in 2005. It is therefore appropriate to undertake a fundamental review of this area and consider whether it remains fit for purpose or should be altered.
4. Below we provide answers to the questions posed in Ofgem's discussion document.

Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?

5. As we state above, Ofgem's main statutory duty is to protect the interests of present and future gas and electricity consumers, while it must also have regard to vulnerable consumers. It is clear then that it requires some form of Vulnerable Consumers' Strategy. However, there is a lack of clarity over the appropriate role for a regulator to play, and how this can complement rather than confuse or contradict the policies pursued by the responsible Government Department. Recognising this issue, Government has previously provided Social and Environmental Guidance to GEMA¹ - and while this is potentially helpful it must be noted that the recent DECC Review of Ofgem found that it fell somewhat short and that:

*"as a priority, the Review should look at the clarity of the role of the regulator and, in particular, how that role should relate to that of Government. The increasing importance of social and environmental policy in the energy sector, on top of the regulator's remit to ensure economic efficiency, had caused a blurring of responsibilities and some erosion of the regulatory certainty that independent regulation had been designed to provide."*²

6. One of the Review's conclusions was that a new statutory 'Strategy and Policy Statement' be established as soon as Parliamentary time allows. This Statement:

¹http://www.decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20markets/regulation/1_20100121172046_e_@@_guidancegaselecmarkets.pdf

²<http://www.decc.gov.uk/assets/decc/11/meeting-energy-demand/energy-markets/2151-ofgem-review-final-report.pdf>, Para 48

*"will set out the Government's policy goals for the gas and electricity markets; describe the roles and responsibilities of Government, Ofgem, and other relevant bodies; and define policy outcomes that Government considers Ofgem to have a particularly important role in delivering."*³

7. We note that the recently published draft Energy Bill announced in the Queen's Speech includes a section which sets out the framework for introducing an Energy Strategy and Policy Statement. Understandably, at this stage it does not cover what might be included within this Statement, which will be for DECC to consider subsequently. **However, it is difficult to provide a definitive view of Ofgem's Vulnerable Consumers' Strategy without some greater understanding of the role that the Department of Energy and Climate Change (DECC) expects it to perform in this area and how this differs from the role played by Government.**
8. Similarly, when considering its Vulnerable Consumers' Strategy we would urge Ofgem to consider where the boundary should be drawn between its own activities and those of the statutory consumer champion, be it Consumer Focus as at present or the Regulated Industries Unit (RIU) from 2013.
9. As well as understanding better the links and differing roles and responsibilities of DECC, Ofgem and the statutory consumer champion, **there is also a need for Ofgem's work on its Vulnerable Consumers' Strategy to be aligned with other Government initiatives on vulnerability.** This should include initiatives undertaken by the Department of Health, the Department for Work and Pensions, the Department for Communities and Local Government and potentially others since many of the vulnerable customers experiencing affordability problems in paying for their energy or issues caused or exacerbated by their vulnerability may well also experience difficulties in other areas and be the target of a range of other interventions. Considering wider initiatives would enable Ofgem to better understand possible crossovers and synergies in its work on vulnerability, and to seek to replicate good practice that is deployed in other areas.
10. Building on this, we would also suggest that **Ofgem's strategy should also seek to link with other energy industry initiatives, where appropriate** – for example on the definition of vulnerability. The question of which consumers should be deemed to be vulnerable is one that has generated considerable discussion. While Ofgem's statutory duties suggest that it should have regard to the interests of certain customers, such as individuals who are disabled or chronically sick, of pensionable age, with low incomes or living in rural areas, we note that Ofgem's consultation document suggests that it also seeks to encourage energy companies to adopt a broad understanding of the issues that put consumers in vulnerable positions. This is something that British Gas already seeks to do. For example, we have adopted a very wide definition of vulnerability which includes customers suffering from severe financial insecurity, households with members aged 60 or over or children under 16 years old, those suffering from a long-term illness or mental health problems. We have embedded this throughout the organisation via vulnerability training that has been provided to all frontline staff. **We suggest that Ofgem should encourage all energy suppliers to follow our lead in order to ensure that all vulnerable customers receive a consistent level of support and protection irrespective of which supplier they are with.**
11. In our opinion, the four topics which currently comprise Ofgem's Vulnerable Consumers' Strategy (Securing compliance with regulatory obligations, monitoring and reporting; Encouraging best practice among energy suppliers and research; Using our knowledge to inform the debate; and Informing consumers about ways to lower their energy bills) continue to remain appropriate and are sufficiently broad in scope to allow a range of topics to be dealt with.
12. An alternative approach, however, could seek to mainstream consideration of vulnerable consumers' interests by considering the 'vulnerable consumer impact' of any policy, and could

³ ibid

help to highlight issues of concern arising from policies at an early stage (e.g. potentially unintended consequences for vulnerable customers from some of the proposals contained in the Retail Market Review or the costs which would be added to vulnerable consumers' bills through certain regulatory initiatives). In this sense, the consideration of issues affecting vulnerable consumers could become an intrinsic part of the policy-making or regulatory process, rather than as a separate after-thought or bolt-on.

Question 2: What can Ofgem do differently to help address affordability concerns?

13. British Gas recognises that *"The principle [sic] policy drivers to address affordability for vulnerable consumers, such as price support and the structure of environmental and social initiatives rest with Government...."*⁴ Notwithstanding this, there are areas where Ofgem could do things differently in order to help address affordability concerns. For example, it could:

- Quantify the impact of proposed regulatory change on vulnerable customers' bills in order to minimise additional costs;
- foster greater engagement with the energy market among vulnerable customers, through the dissemination of information and promotion of independent advice in order to allow consumers to make decisions that are in their best interests and which may also allow them to reduce their bills. Such activity would be in line with Ofgem's duty to protect the interests of present and future gas and electricity consumers where possible by promoting the benefits of competition;
- engage in thought-leadership around better-targeting of existing resources and schemes in order to ensure that help reaches those vulnerable customers that need it most (for example, only 18% of those receiving the Winter Fuel Payment are in fuel poverty);
- publicly support industry efforts to extend data-matching to ensure that vulnerable households gain the financial support and energy efficiency measures which can help ease affordability concerns.

Question 3: We welcome views on how Ofgem can help stakeholders with their contribution.

14. We consider that Ofgem has an important role to play in helping stakeholders – including industry – with their contribution to tackling vulnerability issues. One way to do so is by playing a more active role in promoting the help that is available and in contributing to industry efforts to better-target existing assistance through more sophisticated techniques such as data matching.

15. We consider that the energy industry does more for its vulnerable customers than any comparable industry, through a mixture of mandatory and voluntary initiatives. These range from services such as the Priority Services Register to the Warm Home Discount scheme, and from the (as was) Energy Retail Association Safety Net for vulnerable customers to the very significant donations to charities and energy trusts.

16. As a company, British Gas already commits significant funds to its activities to support vulnerable members of society and indeed was singled out for praise by Ofgem in its *Monitoring Social Programmes* report (30 Nov 2011) for:

- making the largest contribution to the overall commitment with a total spend of £70.7m (40% of the total), implying a contribution of £4.49 per customer account. In addition, British Gas exceeded its target by £21.7m (44%); and

⁴ *Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy*, Ofgem, March 2012, p.4

- contributing £36.83m through social tariffs and discounted tariffs - the biggest contribution of any supplier..... British Gas' contribution was 40% of the total, which is more than its market share.
17. Since publication of Ofgem's report, our leading performance in this area has continued – for example in Year 1 of the Warm Home Discount scheme we adopted the widest eligibility criteria for the Broader Group and were the only supplier not to place a cap on the number of customers entitled to this assistance.
 18. In addition, British Gas has committed to provide £100k of funding to Citizens Advice each year for the next three years to support its energy Best Deal programme, an initiative that Ofgem is closely involved with and takes a central role in promoting.
 19. While British Gas recognises and takes very seriously its responsibilities to its vulnerable customers, it should be noted that there is a limit to the social goals that commercial organisations can be expected to deliver. The introduction of new initiatives, or the expansion of existing initiatives, must be carefully considered since costs incurred will ultimately have to be recouped from customers' bills. If this is not the case, using this regressive source of funding could result in those who do not stand to benefit or do not apply for programmes funded by energy suppliers being pushed into vulnerability or fuel poverty as a result.
 20. In our opinion **it is incumbent on Ofgem to play a more active role in promoting all the help that is available both to encourage take-up among vulnerable groups, but also to make clear to external commentators that the industry is engaged in a huge amount of worthwhile activities aimed at protecting and helping vulnerable customers.** To expand, Ofgem should do more to promote good practice in this area and should not be afraid of 'naming and faming' suppliers engaged in good practice and, in so doing, disseminating information about innovative and successful initiatives and creating a more competitive environment for suppliers to seek to match or better each others' initiatives.
 21. There is also a role for Ofgem not just in publicising what is already occurring but in facilitating industry's attempts to ensure that its efforts have more impact. Specifically, **it would be helpful for Ofgem to take a central role in promoting the positive impacts that could be delivered by expanded use of data-matching – and this will remain the case even if the definition of fuel poverty is changed following the forthcoming DECC consultation announced in the wake of the publication of the Hills Review of Fuel Poverty.** Indeed, we would welcome Ofgem considering how suppliers might make practical use of whatever definition of fuel poverty is adopted following the consultation in order to assist suppliers in the identification of fuel poor households to maximise the positive impact of suppliers' activities, including through better targeting of energy efficiency initiatives. Providing a strong voice of support could help to convince other stakeholders of the importance of such proposals, thereby helping maximise the impact of expenditure in this area by ensuring that it reached vulnerable customers rather than having to be spent in attempts to identify them.
 22. In addition, **we urge Ofgem to explore other ways to help identify vulnerable consumers - perhaps in collaboration with Consumer Focus and the Citizens Advice service – through the creation of robust referral pathways to energy suppliers from local networks such as GPs, Social Services, local authorities and others** (with the appropriate customer consent or that of their representative). Investing time and effort in this endeavour would be enormously helpful since it could help to ensure that a more cohesive and consistent approach is adopted and that greater numbers of vulnerable customers receive the help to which they are entitled.
 23. Finally, it would also be helpful if Ofgem were to adopt a more dynamic approach to proactively identify and consider newly emerging issues (e.g. collective switching) and to provide timely and clear regulatory guidance on their implications, both in relation to their potential impact on vulnerable customers and indeed more widely.

I hope that you find this response helpful. I would be happy to discuss any of these points in more detail and look forward to contributing further as Ofgem develops its Vulnerable Consumers' Strategy.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Tim Dewhurst', with a stylized, cursive script.

Tim Dewhurst
Director, Regulatory Affairs