



Campaigning for Warm Homes

Consultation on Ofgem's Vulnerable Consumers' Strategy

Comments from National Energy Action (NEA)

Background

NEA is a national charity working to ensure affordable energy for disadvantaged energy consumers. NEA seeks to promote this objective through a wide range of activities including:

- Policy analysis and development to inform NEA's campaigning work
- Rational and constructive dialogue with decision-makers including regulatory and consumer protection bodies, relevant Government Departments, the energy industry and local government
- Practical initiatives to test and demonstrate the type of energy efficiency programmes required to deliver affordable warmth
- Training and educational initiatives to improve knowledge and understanding of domestic energy efficiency among consumers and to ensure a skilled workforce across the energy efficiency industry.

Since fuel poverty results from a combination of inadequate heating and insulation standards, low household income and high energy costs NEA seeks to advance policy across all of these areas. NEA recognises and values the role of Ofgem in these areas whether through action to eradicate consumer detriment and promote the interests of disadvantaged consumers as appropriate in the competitive market, or in regulatory oversight of Government-mandated policies to improve heating and insulation standards or targeted reductions in energy costs.

However, NEA believes that the authority and influence of the regulator can be used in a much more proactive manner to secure benefits for financially

disadvantaged energy consumers and this view will inform our comments in response to this consultation.

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?

NEA Comment: It is genuinely difficult to identify areas where Ofgem does not take account of factors relevant to vulnerable consumers since evolution of regulatory practice has meant that issues of concern and relevance to disadvantaged households have all been addressed to some extent. The existing themes of Ofgem's Social Action Strategy incorporate, at least in theory, all of the elements that might ensure protection of disadvantaged energy consumers in minimising their detriment and delivering some practical benefit.

In this context, NEA is less concerned with adding to Ofgem's role than with the need to ensure that in exercising its duties and responsibilities the regulator should be more vigilant and proactive in identifying problems and promoting solutions. The main issue then is not the adequacy of the extent of regulatory oversight but the adequacy of constructive interventionist input in relation to vulnerable and financially disadvantaged consumers.

Securing compliance with regulatory obligations and effective monitoring and reporting by the companies

NEA Comment: We have regularly noted the value of Ofgem's collation and publication of monitoring data as a means of identifying issues of concern to vulnerable consumers and as indicators of supplier compliance with regulatory requirements.

However, we have also previously noted some evident anomalies in supplier reporting on social obligations that raise some concerns about energy supplier practice and/or the validity of some of the data. For example, when the data regularly show debt recovery timescales of 52 weeks in the case of some suppliers we wonder whether this represents ability to pay or whether it represents time-based recovery practice. Similarly, when the data show average supplier debt to range from £517 (highest) to £172 (lowest) we wonder which if any of these represents best practice and what the regulator might do to achieve

greater consistency. We also note some instances where debt recovery rates appear to be set below the level set by reference to Third Party Deductions and wonder if this is actually the case. Finally, comment on this aspect is limited to the data submitted by the major energy suppliers since we recognise that information from smaller suppliers might be subject to significant distortion; however, we do not believe that publishing figures purporting to show that one small supplier¹ recovers debt in excess of almost £6,000 through a prepayment meter and over a period in excess of ten years, does anything for the credibility of these statistics.

More constructively, it does appear that there is increasing convergence in debt recovery practice across the major suppliers in terms of weekly amounts and the period over which debts are repaid.

Influencing the debate about measures to help tackle fuel poverty, working with other stakeholders, helping to promote a joined up and holistic approach.

It is unclear here whether the 'joined up and holistic approach' relates to achieving an informed stakeholder consensus on the most appropriate measures to address fuel poverty, or whether it refers to the 'road map' model advocated by a wide range of commentators on fuel poverty issues.

In this latter context, NEA believes that the argument has been put most forcefully by the Energy and Climate Change Committee² in its 2010 Report on Fuel Poverty: *'We are unconvinced by the Minister's arguments against the establishment of a road map for tackling fuel poverty. We accept that, as a result of the complex interaction of incomes, prices and energy efficiency, reducing fuel poverty is a difficult task; but that simply strengthens the case for a road map. Greater clarity is needed on: the range of actions necessary for tackling fuel poverty; how they interact together; who owns each action; the milestones towards 2016; what is going to happen if those milestones are not reached; and funding. We accept that large price increases have made it very difficult to hit the 2010 target, but the absence of a road map towards that target has been a contributory factor. The Government should not repeat that mistake with the 2016 target and must produce a road map as soon as possible.'*

¹ Monitoring company performance – quarterly reporting, September 2011.

² Fuel Poverty, House of Commons Energy and Climate Change Committee, 2010.

In fact the road map approach was first conceived and advocated by the Government's Fuel Poverty Advisory Group in its 7th Annual Report (July 2009) since when it has been widely seen as an essential strategic element in achieving fuel poverty targets. In terms of influencing the fuel poverty debate and engaging constructively with stakeholders, NEA would suggest that Ofgem should strongly endorse the road map model in representations to Government.

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

The Hills Review of the definition of fuel poverty and fuel poverty targets has concluded. The next phase of the debate will involve a further consultation exercise undertaken by the Department of Energy and Climate Change in the summer of this year. As and when the debate on the definition of fuel poverty is finally resolved, the focus should shift to policies and programmes and this will present an opportunity for the regulator to adopt a much more proactive approach in helping address affordability concerns.

On occasion Ofgem has been a positive advocate of innovation (see extracts below on use of EUETS receipts); however, too often the regulator is a passive observer of the issue limiting its engagement to administration of Government-mandated policies.

As an example, Ofgem could have supported the case for increased data sharing and extension of the Warm Home Discount to the most financially disadvantaged and vulnerable non-pensioner households that such data sharing would allow. Similarly, the regulator could be more vocal in supporting the case for additional Treasury funding for fuel poverty programmes and for direct taxation as the most equitable means of raising revenues for this purpose. With a regulatory remit covering Great Britain, Ofgem could also have expressed strong reservations over the demise of the Warm Front programme, in contrast to on-going Government funding for such programmes in the devolved administrations. It appears perverse that Ofgem can refer to this issue at Paragraph 2.22 without registering any concerns over a decision that will be to the clear and significant disadvantage of fuel-poor energy consumers in England.

The regulator could also have lent its authority and influence to strengthen the case for a greater proportion of Energy Company Obligation funding to be allocated to programmes intended to prioritise low-income and vulnerable households. It should be noted that the Hills Review commented that the inherently regressive impact of ECO funded through consumer levies could only be remedied if at least half of ECO funding were directed towards fuel-poor households.

Resources

However fuel poverty is finally officially defined, and whatever approach is adopted in addressing issues of affordability, the fundamental need will be for a level of resources adequate to the task of supporting the required range of programmes to provide support to financially disadvantaged consumers. The regulator has previously been supportive of the case for utilising EUETS revenues to fund fuel poverty programmes, a policy that has been taken up and promoted by a wide range of supporters across all sectors in the form of the Energy Bill Revolution.³ Clearly Ofgem's endorsement of this campaign would represent positive and constructive engagement in the fuel poverty debate and, in fact, the key objectives of that campaign were mooted by the regulator as far back as 2006.

Ofgem comments on resources

Prices for energy are unlikely to fall back to the levels seen in the 1990s given the investment required in new low carbon sources of energy supplies and in renewing and expanding our energy networks. More resources are needed to address the problem of fuel poverty. This funding should come from government and should be focussed on improved income and housing, not social tariffs. Further thought also needs to be given to the best means of delivering this help to ensure that comprehensive solutions are provided and that help is targeted where it is needed most.

The Fuel Poverty Advisory Group estimates that £3.9 billion is needed to meet the 2020 fuel poverty target – a 25-30% increase on current programmes. Our view is that additional funding should come from general taxation and not from

³ [Campaign Website](#)

consumers via fuel bills. The increased prices required could impact hard on those who, while not in fuel poverty, may be struggling to pay their bills.

Given that the cost of environmental measures has been a drive of higher energy costs, there is a case to recycle some of the funds raised through these measures to help tackle fuel poverty. For example, if government were to auction allowances under the EU ETS some of the revenue generated from this could be used to fund further measures to help tackle fuel poverty.

'Our Energy Challenge': Ofgem's response, May 2006.

In view of these pressures on prices the regulator has identified a windfall to the electricity industry arising from the free allocation of tradeable emission permits. This could be used to fund aid for fuel-poor households: those who spend more than 10 per cent of their income on energy.

The energy industry will benefit from a windfall worth £9 billion of tradeable permits under the European Emissions Trading Scheme. This windfall is nothing to do with collusion or anti-competitive behaviour, but stems from the free emission permits given to companies. That is why Ofgem is reviewing its proposal that this windfall could be used to help consumers in fuel poverty, who have been hardest hit by the recent energy price rises.

Market is sound – Ofgem assures Chancellor, Ofgem Press Release, January 16 2008.

Levies

As virtually all fuel poverty campaigners have consistently argued, the most progressive method of funding Government policy objectives is through direct taxation, and the practice of implementing levies to fund these objectives is generally regressive in its impact. We note Ofgem's assertion that: *'From 2008-2011, suppliers have contributed a total of over £335 million through social and discounted tariffs, over £81 million through rebates and around £42 million through Trust Funds'*. NEA does not believe that the implication that energy suppliers (rather than their customers) are the source of this support is accurate or valid and believes that this is a distraction from the debate on consumer-funded social programmes.

NEA recognises that levies are currently an indispensable element of the fuel poverty infrastructure, but also believes that this regressive mechanism should be made as equitable as possible. Whilst not ideal (and with some adverse consequences) consumption-based levies are to be preferred to a per capita model. Ofgem seems to share this view but is not consistent in its endorsement.

This chapter outlines the policy context on vulnerable consumers and affordability. It also sets out our view that the cost of environmental and social initiatives should be structured on a per kWh basis rather than a per customer basis which we believe would be more progressive.

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

As WHD obligations are determined on the basis of market share, a supplier would incur the same increase in WHD costs for each additional customer irrespective of that customer's energy use. As per the discussion on ECO, we consider that there may be merit in such a cost being recovered through a standing charge (which would be the same for all customers on a given tariff) rather than through a consumption based cost.

The Standard Element of Standard Tariffs under the Retail Market Review, February 2012.

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

NEA believes that the most significant role for Ofgem in terms of fuel poverty would involve the regulator assuming a much more constructive role in the debate. Ofgem can best assist stakeholders in fuel poverty by using its authority and expertise to make positive and informed representations in support of a renewed Fuel Poverty Strategy including the need to ensure that the Strategy is sufficiently well resourced, and through equitable means, to enable Government to meet the 2016 target.

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