

Supplementary appendices to the Consumer Vulnerability Strategy

Supplementary appendices

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Overview:

This Strategy sets out Ofgem's approach to identifying and tackling consumer vulnerability in the energy market. The role of the Strategy is to guide Ofgem's work on vulnerability, as well as guide our expectations of the energy companies.

The Strategy recognises vulnerability is about the situations which consumers are in, rather than about the individual per se. Risk factors stem from personal circumstances as well as from the energy market itself. Also, vulnerability can be transitory as people's circumstances change.

We aim to focus our attention on those consumers who are significantly less able than a typical consumer to protect or represent their interests in the energy market; who are significantly more likely than a typical consumer to suffer detriment, or for whom detriment is likely to be more substantial.

The Strategy establishes an ongoing programme of work to identify and tackle vulnerability. We will work with a range of stakeholders to achieve a work programme that is informed by research and insight, promotes best practice amongst suppliers and distributors, develops targeted and effective regulatory obligations, and promotes innovation in the provision of advice for consumers in vulnerable situations.

Context

Light, power and a warm home are essential services for society.

Ofgem works to make a positive difference for energy consumers. In doing this we recognise that different consumers have different needs or interests. Some consumers are significantly less able to protect or represent their interests in the energy market, they may be significantly more likely to suffer detriment, and that detriment is likely to be more substantial than for other consumers.

The cost of living is increasing for many households in Britain, of which energy prices are a factor, while incomes in many cases are static or have fallen. The recent economic climate has impacted on many consumers' ability to pay for their bills. Vulnerability is not wholly about rising prices, though they can exacerbate problems for consumers. Vulnerability in the energy market can also be struggling to access and choose the best tariffs or living in a cold, damp home.

Ofgem is already active in working to protect vulnerable consumers. In 2005 we established a Social Action Strategy. We want to build on this work by establishing a new Consumer Vulnerability Strategy and programme of work to identify and support consumers in vulnerable situations in the energy market.

Associated documents

Proposals for a new Consumer Vulnerability Strategy, Ofgem, September 2012
www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=73&refer=Sustainability/SocAction

Energy Affordability: helping develop Ofgem's Vulnerable Consumer Strategy, Ofgem March 2012
www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=54&refer=Sustainability/SocAction

Statutory consultation on the Standards of Conduct, Ofgem, May 2013
www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR%20Domestic%20Statutory%20Consultation_SOC_online.pdf

The Retail Market Review – Statutory consultation on the RMR domestic proposals, Ofgem, June 2013
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=521&refer=MARKETS/RETMKTS/RMR>

Strategy decision for the RIIO-ED1 electricity distribution price control, Ofgem, March 2013
<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/riio-ed1/consultations/Documents1/RIIOED1DecOverview.pdf>



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Appendix 3 – Consultation responses

3.1. Responses to the consultation were received from the following organisations:

- ➔ Consumer groups and other NGOs: Citizen’s Advice, Consumer Focus, Age UK, National Energy Action, Scottish Federation of Housing Associations, Scottish Fuel Poverty Forum, Toynbee Hall, Step Change Debt Charity.
- ➔ Distribution companies: SP Energy Networks, Western Power Distribution, UK Power Networks, Northern Powergrid, Electricity North West Limited and National Grid.
- ➔ Suppliers: British Gas, Ecotricity, EDF Energy, EON, npower, SSE, ScottishPower. Trade body Energy UK submitted two responses.
- ➔ Other organisations: Carillion Energy Services, the Trading Standards Institute and the Ombudsman Services.

3.2. The responses are published on our website. Below we summarise the responses to the consultation and set out – *in italics* - our subsequent views and approach.

Question 1 - Do our proposed Strategy themes provide an accurate reflection of the work Ofgem should be doing to help protect consumers in vulnerable positions?

3.3. Overall all respondents generally supported the themes. Some suppliers asked for clarity on how they will be implemented. It was noted that policy work needs to be based on robust impact assessments and evidence. We also need to avoid duplication/conflicting policies. Some stressed the importance of being conscious of wider environment such as the Retail Market Review and of government policy. An additional theme suggested was to consider how it could better leverage its position as an independent voice with consumers and third parties to help rebuild trust in the industry and raise awareness of the support already on offer.

3.4. Some distribution companies suggested we highlight the differences between obligations and voluntary/best practice initiatives. It was noted that new obligations may increase costs. Links need to be made with the timing and development of the Electricity Distribution price control business plans. It was suggested that the competitive aspects of regulatory regime can discourage sharing of best practice. Some respondents called for regulation to encourage joint working and sharing best practice.

3.5. Other respondents noted that they support us promoting best practice and are also keen to see effective monitoring systems and enforcement action. It was

suggested that there is a need for vulnerability to be considered at every stage of policy development with targeted research and closer links to other organisations. While some respondents thought that advice and support from third parties is important, they noted it does not take responsibility away from Ofgem or the suppliers.

3.6. Additional themes were suggested: Improving inclusivity of suppliers systems and ensuring communication between suppliers and customers is clear and enables individuals to make choices that are in their best interest.

3.7. In light of these responses, Ofgem has kept the themes broadly the same as proposed. Alongside the themes we have clarified the scope and role of the Strategy as well as creating an overarching objective for the energy market to understand and identify the causes of vulnerable situations in the energy market and reduce the likelihood and impact of such situations.

Q2 - Do you agree with our proposed perspective on vulnerability? Are there other risk factors or features of the energy markets that could present issues that we have not covered?

3.8. Consumer organisations agreed with our proposed perspective on vulnerability. They noted that vulnerability can affect anyone at any time and this can be affected by the nature of the market/procedures and policies. Some acknowledged that this requires a change of mindset and culture rather than detailed rules. They called for suppliers' policies to be flexible. Some suggested we should still distinguish between permanent characteristics that predispose to vulnerability and transient phases. Other risk factors were identified such as credit ratings.

3.9. Some suppliers were broadly supportive of the perspective, others were not. Concerns were raised regarding the complexity of the perspective and how it would be implemented or enforced. Many consider that they already take a broader perspective to identifying vulnerability, yet are concerned about being obliged to do it or assessed on it. They questioned how a risk-based approach could work alongside Ofgem's statutory duties. There were concerns that large numbers of customers will be classed as vulnerable which may dilute help available. Questions were asked about the impact of the Strategy on other policies such as the Warm Home Discount, smart meter roll out or environmental obligations. Some suppliers noted that success depends on an individual's engagement or willingness to be identified as vulnerable. Concerns were voiced about avoiding their staff being put in difficult situations by asking probing questions. Some suppliers questioned whether the Data Protection Act allows them to collect and store sensitive consumer data.

3.10. Distributors were broadly supportive of our proposed perspective though some questioned whether it applies to them. Some noted that their limited contact with customers makes it particularly difficult to identify transitory vulnerability. We need to develop a proportionate response to tackling vulnerability.

3.11. We have considered the views on our perspective on vulnerability. The broader perspective was identified as 'best practice' and was not positioned as a regulatory

requirement. Therefore it does not impact on government schemes such as Warm Home Discount, but it will help to shape our work in relation to the smart meter roll out for example.

3.12. Our approach to considering vulnerability aims to look at issues more deeply, rather than taking a 'broader' perspective. Our aim is not to necessarily to increase the numbers of consumers who are considered vulnerable, but to identify which consumers are the most vulnerable in a situation and identify the root causes of those issues. The final Strategy moves away from using the word 'dynamic' to 'transitory' as dynamic can have positive connotations. It also suggests rapid change. Consumers can quickly become vulnerable, but it may take some time to fully recover from that situation. We believe that energy companies can identify vulnerability without asking probing questions and the correct training can empower their staff.

3.13. With regard to cost benefit analysis, we do not think it is necessary to conduct such an exercise for the overarching strategy; instead we will conduct such analysis on an individual project basis. We agree that our work needs to be evidence based and we will continue to gather insight such as commissioning research.

Question 3 - What is your view on whether the British Standard Institute (BSI) Standard 18477 on Inclusive Services¹ could provide a practical approach to adopting our perspective on vulnerability?

3.14. Consumer organisations generally welcomed the use of the BSI Standard, though some suggested Ofgem evaluates each company's procedures before recommending it. It was highlighted that any standard should be flexible and reviewed at regular intervals. Adopting the standard on a self regulatory basis should be complemented by ongoing regulatory guidance.

3.15. Many of the supply companies did not agree with using the standard as a benchmark though others were happy to adopt some elements of it voluntarily. Suppliers pointed out that they are already doing a lot for vulnerable customers and questioned whether the standard is needed, especially as it isn't specific to the energy industry. There were concerns that adopting the standard could add to complexity and cost. Suppliers asked for clarification on exactly they are expected to introduce the standard, how will benchmarking work and how will we monitor compliance. It was suggested that we liaise with Information Commissioners Office to explore concerns regarding recording and sharing data. Suppliers asked for clarity on how the standard relates to the Standards of Conduct.

3.16. Distributors were generally happy to consider adopting some elements of the BSI Standard. Some suggested that the Standard may not apply given their limited customer contact.

¹ British Standard Institute, BS 18477: 2010, Inclusive Service Provision – requirements for identifying and responding to consumer vulnerability.

3.17. *Ofgem believes that the BSI Standard 18477 on inclusive services is a useful tool to help companies – both suppliers and distributors - review and develop their services for consumers in vulnerable situations. We are not planning to require companies to sign up to it. We do encourage suppliers to consider whether and how it applies to their business or to consider what other routes they can use to provide assurances about their processes for identifying and responding to vulnerability.*

3.18 *As part of Ofgem's Retail Market Review (RMR), Standards of Conduct (SOC) are being introduced, which oblige all energy suppliers (and their representatives) to treat customers fairly. Each supplier will be required to embed the SOC in all aspects of their engagement with consumers, and ensure they have management and business systems as well as processes to achieve this. In practice, in order to treat customers fairly they may need to be treated differently, according to their needs or circumstance. Establishing principles-based regulation puts an emphasis on the outcomes for consumers and allows suppliers some flexibility regarding how they meet these needs. This means the SOC are able to accommodate changes in technology and allow for innovation. We have developed a bespoke approach to enforcing the SOC. A breach of the SOC may occur in relation to systematic issues as well as issues arising from the unfair treatment of individual consumers. We will take a proportionate approach to enforcement and we see a role for the Ombudsman in relation to individual cases.*

Question 4 - What are your views on other approaches suppliers and distributors could take to adopt our proposed perspective on vulnerability in practice?

3.19. Consumer organisations suggested a range of others approaches including identifying and sharing best practice, referring customers to advice services and using credit referencing positively to identify vulnerability. Some suggested that industry should develop a more joined up approach to help for vulnerable customers for example establishing common branding or eligibility criteria.

3.20. One supplier suggested that other approaches to adopting the perspective could include evaluating working practices based on customer feedback and constantly seeking to improve. It was suggested that the remit of the Energy UK Safety Net be reviewed to incorporate distribution companies and the proposed approach to vulnerability. Some suppliers noted that the proposed approached could not be implemented through regulation and would be better suited to guidance. Other ideas included partnership working (pooling resources and funding streams), facilitating data sharing, and a common Priority Service Register (PSR).

3.12. Some distributors noted the benefit of having a shared definition of vulnerability between suppliers and distributors, or even for all providers of essential services. Collaboration and information sharing was seen as important to achieve this. Pooling resources and funding could help to deliver holistic packages of assistance. Vulnerability could be included as part of the stakeholder engagement component of broad measure of their electricity distribution price control.

3.13. These suggestions have been considered in forming Ofgem's work programme under the Strategy. We will look at the potential for data sharing as part of our PSR review. As part of our work programme we plan to increase our efforts to identify and promote best practice in identifying and responding to vulnerability.

Question 5 - What are your views on our plans for developing a Consumer Vulnerability Network and are there additional organisations that we should engage?

3.14. Consumer groups generally thought that a Network could be positive, but would need sufficient resources and time. Others thought our objectives could be hard to achieve. The benefits of increasing the flow of information with grassroots organisations were noted and some suggest we use email and social media to reach organisations. It was suggested that we take advantage of existing networks such as National Energy Action Fuel Poverty Forums and Citizens Advice regional financial capability forums and we engage with the Financial Ombudsman, Citizens Advice Consumer Empowerment Partnerships, Digital UK and the Royal Voluntary Service (formerly the WRVS).

3.15. Suppliers suggested that the role of the Network needs to be clear and that Ofgem engages existing networks rather than replicate existing ones. Some noted that it could be a unique communication channel to drive awareness of energy issues as well as canvas views. Distribution companies generally thought this proposal was worthwhile to assist policy development and help them identify partners. Suggestions for other groups to be included were National Energy Action, the Red Cross and Health and Wellbeing Boards that were recently established across local authorities.

3.16. We plan to establish a Consumer Vulnerability Network of new grassroots stakeholders. We will endeavour to link with relevant existing networks as appropriate. We will keep the role of the Network under review.

Question 6 - What are your views on our proposed annual work plan?

3.17. Consumer organisations identified a number of potential areas of additional work such as exploring data sharing and data protection, and establishing some consistency in definitions of vulnerability – without that leading to a rigid approach. There was support for work on the fuel poor network extensions and encouraging innovation in advice and support. Some organisations suggested we consider vulnerability in context of broader government policy.

3.18. Suppliers welcomed the proposed review of PSR but noted concerns regarding data sharing and ensuring it delivers services to those most in need. It was suggested that Ofgem give sufficient time for the changes to Debt Assignment Protocol to take effect before reviewing it. Concerns were raised regarding differences in eligibility criteria for different obligations to assist vulnerable/fuel poor consumers. Others noted the need to avoid duplicating work by DECC while maintaining close relationships with them and other regulators.

3.19. Distribution companies welcomed the review of the PSR. Some noted that Distribution Network Operators need to be incentivised to help off grid consumers, as Gas Distribution Networks are. Some noted that the regulatory framework needs to allow distributors to share best practice.

3.20. We have created a wide-ranging programme of work for the Strategy. The work programme includes a range of activities, ongoing monitoring (such as the Social Obligations Reporting), continuing areas of work (such as Energy Best Deal) and new pieces of work (such as reviewing the PSR and company practices).

Question 7 - Do you believe that there are other areas that we should be specifically addressing in the work plan for 2013/14?

3.21. Additional suggestions included: highlighting opportunities to address off grid fuel poverty through renewables, encouraging small suppliers to adopt the Safety Net, ensure suppliers are prepared for the introduction of Universal Credit, consider energy reselling and the effects of the length of the switching process, ensure benefits of smart meters are maximised for pre payment consumers. Our perspective on vulnerability needs to be embedded across Ofgem. Suppliers suggested we identify the impact of social and environmental schemes on customers' bills and work to inform government policy.

3.22. Through our ongoing research and analysis and stakeholder engagement we will review progress and identify future priorities for our ongoing work programme.

Appendix 4 – Analysis of vulnerability in the energy market

4.1. This appendix analyses the causes and impacts of vulnerability in the energy market. It identifies risk factors resulting from consumers' personal circumstances and how they interact with the different features and characteristics of the market.

4.2. Detriment for an energy consumer can manifest itself in different ways, it can be financial, non-financial or both. Challenges may include accessing the market (for example, contacting a company to resolve an issue or ability to understand and act upon information), choice (for example, being able to identify and access the best deals), managing bills and energy use (for example living in a cold, inefficient home). These situations can impact on an individual's ability to pay, quality of life, and/or their physical or mental well-being.

Vulnerability can be complex and multidimensional

4.3. We have grouped issues into four broad areas: choice, access, managing bills and energy use. These issues are not distinct, they overlap and interrelate. For example, ability to access the market and make choices can impact on a consumer's ability to manage their bills, or someone's ability to manage their bill may impact on their energy using ranging from adopting efficient behaviour to under-heating their home or, at worse, self-disconnecting their prepayment meter.

4.4. Causes and impacts of vulnerability are often linked and interchangeable – which in turn can increase the complexity of the situation and lead to a greater or longer term impact – even if the situation itself is temporary. For instance, mental health problems can be the result, or the cause, of unemployment. Those individuals providing high levels of care to relations or friends are themselves more likely to be permanently sick or disabled, with an estimated 625,000 suffering mental or physical ill health as a direct consequence of caring.²

4.5. Ofgem commissioned a quantitative survey³ with a representative sample of the population of Great Britain aged 15 years and over. The research identified that of those customers that were either responsible (or jointly responsible) for the electricity or gas bills in their household, one third (34 per cent) who have a long term illness also say they have a disability.

² Too Many Hurdles: information and advice barriers in the Energy market, Mike George, Cosmo Graham and Linda Lennard for Eaga Charitable Trust, November 2011
<http://www2.le.ac.uk/departments/law/research/cces/documents/Too-Many-Hurdles-2011.pdf>

³ Research into the Priority Services Register and non financial support for vulnerable energy consumers, Ipsos Mori, June 2013

Access

4.6. There is a sizable body of research which shows that consumers in vulnerable situations may face a number of challenges and barriers to accessing services or information.

Risk factors - personal circumstances and characteristics

4.7. Barriers to accessing services can be linked to specific individual circumstances. Almost 2 million people in the UK are living with sight loss⁴, more than 10 million with some form of hearing loss⁵ and over 1 million with learning disabilities.⁶ Two million people in Britain have communication impairment and 2.3 million have a memory/concentration/or learning disability.⁷

4.8. With an ageing population, the proportion of the population with hearing, sight or other age-related difficulties is set to increase. The 85+ age group is the fastest growing demographic segment in the UK.⁸ Office for National Statistics (ONS) data shows that⁹ by 2035 the number of people aged 85 and over is projected to be almost 2.5 times larger than in 2010, reaching 3.5 million and accounting for 5 per cent of the total population. The population aged 65 and over will account for 23 per cent of the total population in 2035. Some degree of dementia affects about 5 per cent of people over 65, increasing to about 20 per cent for those aged 80 and over. The effects of these impairments can fluctuate and change over time.¹⁰

4.9. Consumers with literacy or numeracy difficulties may find it hard to understand information and services or to seek help. They may also feel intimidated by energy companies and less likely to contact them directly with a query. The lack of clarity in energy bills and other written communications can give rise to even greater barriers for people with literacy or numeracy difficulties¹¹.

4.10. For consumers who are sick, the level of distraction and emotional distress associated with the diagnosis and effects of cancer or heart disease may make it more difficult to deal with other aspects of everyday life – not only for the individual

⁴ Royal National Institute of Blind People ket statistics

www.rnib.org.uk/aboutus/research/statistics/Pages/statistics.aspx

⁵ Action on Hearing Loss <http://www.actiononhearingloss.org.uk/your-hearing/about-deafness-and-hearing-loss/statistics.aspx>

⁶ Public Health England

www.improvinghealthandlives.org.uk/publications/1063/People_with_Learning_Disabilities_in_England_2011

⁷ Based on Office of Disability Issues (ODI) most recent estimates (2010/11)

<http://odi.dwp.gov.uk/docs/res/factsheets/disability-prevalence.pdf>

⁸ Age UK research March 2013 [http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Improving%20Later%20Life%](http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Improving%20Later%20Life%20)

⁹ <http://www.statistics.gov.uk/hub/population/ageing/older-people>

¹⁰ [Too-Many-Hurdles-2011.pdf](#)

¹¹ [Too-Many-Hurdles-2011.pdf](#)

but also for others in the household.¹² Mental health issues can include difficulties in coping with everyday necessities, finding employment, coping with complex markets and decision-making. Medication side-effects can make it difficult to get 'on top' of finances, while a mental health condition itself can severely affect motivation.

4.11. Our qualitative research into the Priority Services Register¹³ identified that the need for help is likely to be heightened if a customer suffers from anxiety or depression, or if they live alone. Conversely, needs are lowered if consumers have someone living with them or who helps them deal with household issues, including energy needs. Customers who are in very severe states of vulnerability are likely to already have a full care package in place through other support networks.

Risk factors - the market

4.12. Research commissioned by Ofcom¹⁴ into the needs of disabled people when using communications services showed that difficulty dealing with call centres was a common problem and that similar issues are often raised by disability organisations. Findings of this work were that blind people reported that call centre workers assume that callers can see, and are unable to divert from the script – even when they know that the customer cannot do what they are asking, for example, read a serial number. Deaf people reported that call centres regularly hang up when they call via the text relay service. Hard of hearing people said that requests to speak more slowly are often ignored and people with learning disabilities or who have suffered a head injury said that they find menus and entering numbers (eg their account number) difficult.

4.13. Accessing information and services via the internet can be extremely valuable for many consumers. In the energy market use of the Web is increasingly important as a source of basic consumer information such as supplier contact details, complaint procedures, standards of expected service, and price information. Suppliers are increasingly referring to information that is available on their websites and also recognise the commercial benefit in encouraging consumers to seek online assistance or answers to their query before contacting call centres. Similarly consumers that can manage their energy account online are often eligible for discounts that may not be available to other consumers. Web accessibility means that websites are usable by people of all abilities and disabilities. When websites are correctly designed it means that all consumers with internet access can understand, navigate, and interact with the Web. Web accessibility benefits all users irrespective of their personal circumstances.

The impacts

¹² [Too-Many-Hurdles-2011.pdf](#)

¹³ Vulnerable Consumers and the Priority Services Register, A report prepared for Ofgem by BritainThinks, June 2013 www.ofgem.gov.uk

¹⁴ <http://consumers.ofcom.org.uk/2010/05/disabled-customers-and-call-centres/>

4.14. The impact of not being able to access information can be that some consumers struggle to engage with the market, and to make and satisfactorily deal with queries or complaints. This can create lack of trust in the market.

4.15. One impact may be that consumers are unaware of, or struggle to access help available in the market. This is demonstrated in our quantitative research on the Priority Services Register¹⁵ where around 24% of consumers say they are aware of non-financial support provided by energy companies for vulnerable customers. Importantly, consumers in social grades DE are significantly less likely to be aware of non-financial support (18%), compared to 31% in social grades AB. However, fewer than one in ten (9%) of all energy customers can name at least one PSR service (without being prompted).¹⁶ The remainder of consumers who said they were aware of non-financial support named “energy saving help”, “financial help” or “gas safety checks” which are not PSR services. Only 6% of those eligible for PSR believe they are actually on a PSR. We plan to revisit this awareness once the PSR changes are embedded, to gauge what impact there has been.

Choice

4.16. The Retail Market Review (RMR) identified that most consumers are disengaged from the energy market and many find it complex. Engagement with the energy market has been steadily falling. The proportions of consumers who switched supplier in 2012 have fallen for the fourth year in succession for gas consumers (to 11 per cent) and for the fifth year for electricity consumers (to 12 per cent).¹⁷ Our research¹⁸ shows that vulnerable consumers are likely to encounter additional and greater barriers to engagement.

4.17. Even if barriers to engagement can be overcome, consumers in vulnerable situations still often have less choice than typical consumers and they are less able to access the best deals in the market.

Risk factors - personal circumstances and characteristics

4.18. Consumers display a range of behavioural biases that impact on their ability to make choices. While behavioural biases exist across all groups of consumers, the strength of those biases can vary across different groups of consumers such as those in lower socio-economic groups and the elderly.¹⁹ For example, there is evidence that

¹⁵ Research into the Priority Services Register and non financial support for vulnerable energy consumers, Ipsos Mori, June 2013

¹⁶ The 9 per cent figure is based on unprompted awareness of any PSR service. The figure rises to four in ten (41 per cent) who say that they are aware of at least one PSR service when shown a list of PSR services.

¹⁷ Customer Engagement with the Energy Market - Tracking Survey 2013 Report prepared for Ofgem, Ipsos Mori, June 2013 www.ofgem.gov.uk

¹⁸ Research Report on Vulnerable Consumers' Engagement with the Energy Market, March 2011, FDS International www.ofgem.gov.uk

¹⁹ Behavioural Economics and Vulnerable Consumers: A summary of evidence, Dr Pete Lunn

loss aversion may be greater among those with low educational attainment, older people and those with high income or wealth. Consumers with low educational attainment, and or a low income, may discount time more steeply, ie they put greater value on immediate rather than longer-term rewards.

4.19. Switching rates in the energy market are noticeably lower for black and minority ethnic groups, for standard credit and prepayment meter consumers, for those in rented accommodation and for the 65+ age group. Rural consumers are more likely to have switched their electricity supplier in 2012 than urban consumers.²⁰ Some of these consumer groups are more likely to contain vulnerable customers. Ethnicity, for example, could be considered an indicator of vulnerability. A study by the Joseph Rowntree Foundation found higher than average levels of poverty across ethnic minority groups, with the highest rates among Bangladeshis, Pakistanis and Black Africans.²¹

4.20. Internet access is a key facilitator of comparing tariffs and switching. Internet use is linked to various socio-economic and demographic characteristics such as age, sex, disability, geographical location and weekly earnings. At the end of 2012²², 7.42 million adults (15 per cent) had never used the internet. Adults who are less likely to have used the internet include the elderly and the disabled. This represents 33 per cent of people who are disabled and just over half of the 7.42 million adults who had never used the internet.

4.21. Other barriers to engagement identified in our qualitative research for the RMR include limited capacity to engage because of more pressing concerns in a consumer's life, low levels of literacy or numeracy and difficulty trusting anyone they do not know. Our quantitative research into tariff comparability models²³ defined 'vulnerable' respondents as people on low incomes, elderly people in receipt of state benefits, disabled people, and people with low levels of literacy.²⁴ When presented with different tariff options, vulnerable respondents were less able to identify the lowest tariff, took longer to make comparisons and were less likely to rate the options as easy to understand and use. However, within the definition of "vulnerable" there is considerable variation, depending on the type of vulnerability.

and Dr Sean Lyons, Economic and Social Research Unit, December 2010

²⁰ Customer engagement with the energy market – Tracking survey 2013, Ipsos MORI,

²¹ As quoted in SE report - Joseph Rowntree Foundation (Platt, 2007)

<http://www2.le.ac.uk/departments/law/research/cces/publications>

²² http://www.ons.gov.uk/ons/dcp171778_300874.pdf

²³ Consumer reactions to varying tariff comparability models; Quantitative Research conducted for Ofgem, Ipsos MORI, 18 October 2011

²⁴ Consumer reactions to varying tariff comparability models Quantitative Research conducted for Ofgem, Ipsos MORI, 18 October 2011

4.22. The tariffs or payment types suitable for different consumers can depend upon their circumstances. Consumer preference is also important, with elderly consumers often preferring to pay by quarterly cash or cheque rather than direct debit. Prepayment meter customers often choose this method of payment so they can manage better their finances and avoid going into debt.²⁵ Circumstances can also act as a barrier to accessing tariffs for example, consumers without bank accounts, with poor credit ratings or those who are in debt; are unable to access the best deals which tend to be on-line direct debit.

Risk factors - the market

4.23. Consumer participation in a competitive market operates to put pressure on prices which should benefit all consumers. However, for this to happen a sufficient proportion of consumers have to act to identify the best deal for them and actively switch energy supplier.

4.24. There are a number of factors which limit effective consumer engagement in the energy market. The large number of tariffs and their complexity can discourage consumers from exploring alternative deals. Even the more active consumers can find it difficult to make the right choice. A general lack of trust in the industry, arising in part from poor consumer experience, means that many consumers have disengaged altogether because they believe there is little to be gained from considering alternative offers. These factors prevent the market from serving consumer interests as well as it potentially could.

4.25. Much of the tariff proliferation identified by the RMR was in on-line direct debit deals²⁶, with less competition seen for prepayment meter or standard credit customers. The RMR tariff reforms are designed to help avoid this segmentation of consumers.

The impacts

4.26. Our Consumer First Panel²⁷ identified that the market is seen as difficult to engage in, either because there is little incentive to switch, as prices are perceived to be similar, or too much choice, as there are too many tariffs which are difficult to compare.²⁸ Where consumers do engage with the market, complex tariff information can mean that consumers often struggle to get the best tariff or decide not to take action, or engage further.²⁹

²⁵ Research Report on Vulnerable Consumers' Engagement with the Energy Market, March 2011, FDS International, www.ofgem.gov.uk

²⁶ The Retail Market Review - Findings and initial proposals, March 2011 www.ofgem.gov.uk

²⁷ Ofgem Consumer First Panel Year 4, Findings from first workshops (held in October and November 2011), Ipsos MORI www.ofgem.gov.uk

²⁸ Ofgem Consumer First Panel Year 4, Findings from first workshops (held in October and November 2011), Ipsos MORI www.ofgem.gov.uk

²⁹ Consumer engagement with the energy market, information needs and perceptions of

4.27. Research commissioned by Consumer Futures' on the 'Poverty Premium'³⁰ notes that consumers on low incomes often pay higher than average utility tariffs for a given amount of consumption, either because of their payment method or being on a 'sub-optimal' deal. Paying higher prices for utilities and credit can raise the cost of a household budget by around 10 per cent.

4.28. Our research shows that consumers often feel that they are paying more by being on prepayment meters³¹ and they perceive this to be unfair, especially as some consumers use prepayment to repay debt or avoid getting into debt in the first place.

4.29. A household is currently said to be in fuel poverty if it needs to spend more than 10 per cent of its income on fuel to maintain a satisfactory heating regime. The government commissioned Professor John Hills to review whether fuel poverty is a distinct problem, how best it can be measured and identify any policy implications for how it is measured. The Hills Fuel Poverty Review calculated that if the households with the lowest three-tenths of incomes had paid the lowest tariffs (the fifth percentile within each payment type and region) then fuel poverty under the current indicator would have been 15 per cent lower in 2009.³² Conversely, if these households had paid the highest tariffs (the ninety-fifth percentile for each group) then fuel poverty would have been 7 per cent higher than officially calculated.

Managing bills

4.30. Ability to access the market, choose the best deal and use energy efficiently can all impact on affordability, that is, a consumer's ability to manage their bills.

Risk factors - personal circumstances and characteristics

4.31. The cost of living is increasing for many households in Britain, and due to the economic situation, incomes have remained static or have fallen in recent years for many people. This means that many consumers are experiencing real terms cuts in their disposable household income. HMRC³³ states that the average individual income

Ofgem, Findings from the Ofgem Consumer First Panel Year 4:second workshops (held in March 2012) www.ofgem.gov.uk

³⁰ Addressing the poverty premium, Approaches to regulation, Donald Hirsch, supported by the Joseph Rowntree Foundation.

³¹ Research Report on Vulnerable Consumers' Engagement with the Energy Market, March 2011, FDS International www.ofgem.gov.uk

³² Getting the measure of fuel poverty, Final report of the fuel poverty review, Professor John Hills, March 2012. The figures quoted are based on comparison with the figures generated where average tariffs are used.

³³ Her Majesty's Revenue and Customs (HMRC), Personal Incomes Statistics 2010-2011,

of UK taxpayers had fallen by £1000 compared with 2009-10. The average UK family had £144 a week of disposable income in December 2012, unchanged from the same month a year before but £10 lower than December 2010.

4.32. Energy prices were a key factor in the rising cost of living in 2012, with all of the 'big six' energy suppliers increasing prices by 6-11 per cent. Research published by uSwitch in January 2013 indicates that the average household annual energy bill has risen five times faster than income to £1,352. This represents a 159 per cent increase on the average 2004 bill figure of £522.³⁴

4.33. In 2010-11, 16 per cent of people (9.8 million) were in households in the UK with incomes below 60 per cent of net disposable household income.³⁵ There is a range of evidence to show that living on a low income is highly likely to increase the risk of disadvantage. Living on a low income is often linked to poor physical or mental health. For example, the charity Scope notes that disabled people are twice as likely to live below the poverty line as the rest of the population.

4.34. There is a positive correlation between income and energy consumption, meaning that those on higher incomes generally use more. Wealthier families spend more on energy than poorer ones, but a smaller fraction of their income.³⁶ The same report calculates that on average, while the poorest 10 per cent spend an average of 8.1 per cent on energy, the wealthiest 10 per cent of households devote just 2.8 per cent of their spending to energy in the home. However there are also a significant number of consumers who are on a low income and high energy users. Ofgem commissioned research³⁷ into this issue it found that 1.22 million low income households have above average combined gas and electricity consumption.

4.35. There are a range of personal circumstances that can impact on income. For example, four in five people living with cancer face an average additional cost of £570 a month.³⁸ This results in 30 per cent of people with cancer experiencing an overall loss of income, averaging £860 a month. Mental health issues can lead, for example through loss of earnings or unemployment, to debt problems. Joint research

December 2012) www.hmrc.gov.uk/statistics/personal-incomes/tables3-1_3-10.pdf

³⁴ uSwitch research January 2013, Rising costs force seven in ten households to go without heating

³⁵ That is, 16 per cent of people (9.8 million) were in households in the UK with incomes below 60 per cent of contemporary median net disposable household income Before Housing Costs (BHC), and 21 per cent (13.0 million) After Housing Costs (AHC). DWP Households Below Average Income An analysis of the income distribution 1994/95 – 2010/11, June 2012 http://research.dwp.gov.uk/asd/hbai/hbai2011/pdf_files/full_hbai12.pdf

³⁶ [DECC Housing Energy Factfile 2012](http://www.decc.gov.uk/assets/decc/energy/energy_factsheets/DECC_Housing_Energy_Factfile_2012.pdf)

³⁷ Understanding 'High Use Low Income' Energy Consumers, Centre for Sustainable Energy, November 2010 www.ofgem.gov.uk

³⁸ Money Advice Trust (MAT) cites a report published by Macmillan Cancer Research - Consumer Vulnerability: What's in a Name? (2009 – 4th International Consumer Sciences Research Conference, Queen Margaret University, Edinburgh) www.infohub.moneyadvicetrust.org/resource.asp?pub_id=457&rPath=pub&r_id=930

by the Royal College of Psychiatrists and the Money Advice Trust³⁹ suggests that one in two British adults with problem debt also has a mental health problem (which could be a cause or an effect of debt). There are a range of issues that can be associated with unemployment, including: an increased risk of poor health, especially poor mental health, an increase in relationship conflicts, increased risk of alcohol abuse, and debt and associated problems.⁴⁰ There is also a body of evidence which points to links between unemployment and poorer physical and mental health. Carers are likely to be on low incomes and at greater risk of poor physical or mental health and consumers with literacy or numeracy problems are also likely to be on a low income.⁴¹

4.36. A temporary situation can have a long term impact on affordability. For example if someone is made redundant, that sudden change to their financial circumstances can put that consumer in a vulnerable situation by impacting their ability to pay and mental health. Once the person has a new job these issues may even continue because they may have outstanding debt to repay for some time. This situation may be exacerbated by the fact that the consumer is then prevented from switching to a cheaper energy supplier because of the outstanding debt with their existing supplier.

Risk factors - the market

4.37. Data from the European Commission's Eurostat⁴² shows that average household electricity prices in the EU increased by 6.6 per cent in the second half of 2012 compared to a year earlier. In the UK, average household electricity prices increased by 3.9 per cent year-on-year to €17.9/100kWh. Over the same period, average household gas prices in the UK increased by 1.8 per cent, but were still among the lowest in Europe at €5.8/100kWh. Household gas prices in the EU27 increased by 10.3 per cent between the second half of 2011 and 2012.

4.38. Energy prices are influenced by a range of components including wholesale prices and the costs of energy policy. The costs of government energy policy are increasingly being passed on to consumers via bills, rather than via taxation. Those consumers who benefit directly from energy saving programmes can mitigate this impact.

4.39. The Centre for Sustainable Energy⁴³ identified that low income consumers who rely on electric heating are likely to bear a greater burden from government energy policy. It finds that consumers with electric heating – 11 per cent of all consumers – are likely most affected by Government policies; yet tend to have lower incomes than those with other forms of heating. These consumers pay 19 per cent of the total

³⁹ www.rcpsych.ac.uk/pdf/Debt%20collection%20and%20mental%20health%20report.pdf

⁴⁰ The Cabinet Office Social Exclusion Task Force 2009

⁴¹ <http://www2.le.ac.uk/departments/law/research/cces/documents/Too-Many-Hurdles-2011.pdf>

⁴² Eurostat data, May 2013 europa.eu/rapid/press-release_STAT-13-79_en.htm?locale=en

⁴³ The hardest hit: Going beyond the mean, A report by Centre for Sustainable Energy on the impact of energy policy on consumers' bills, commissioned by Consumer Futures, June 2013

cost of energy policies yet only receive 7 per cent of the benefits. Only 27 per cent of consumers with electric heating receive some form of benefit, compared to 40 per cent of all consumers. Those consumers identified as adversely affected by energy policies are consumers in purpose built flats with electric heating, and those in any type of property with electric heating and with at least one pensioner. This equates to 1.7 million households, 70 per cent of which are in the bottom two fifths of households with respect to expenditure.

The impacts

4.40. Struggling to manage bills can create anxiety for consumers. A survey by DECC⁴⁴ shows that concern about energy bills has been rising over the last year and 59 per cent of UK adults are concerned about rising energy bills.

4.41. Consumers in vulnerable situations are more likely to be on a low income yet are more likely to pay more for their energy than higher income consumers. This can impact on a household's budget and can lead consumers to ration their usage, under heat their homes, or, at worse, self disconnect their prepayment meter (effectively running out of credit on their meters). This can affect both a household's mental and physical well being, especially for someone who is sick, disabled or elderly.

4.42. Consumers who struggle to afford their bills are more likely to go into debt which can impact on the mental well being of that consumer.

4.43. Research by the Centre for Sustainable Energy⁴⁵ identifies a distinct pattern of cost-cutting across the low-income households. Savings were most often made on discretionary items such as holidays, socialising and new clothes but cuts in spending on essential items were also common: 35 percent of low-income households had cut back their spending on food in the year prior to the research and 32 per cent had cut back on heating. Low-income households with highly constrained budgets typically cut back their spending on both food and fuel: 65 per cent of those cutting back their spending on heating were also cutting back on food and 59 per cent of those cutting back their spending on food were also cutting back on heating. The report describes how the "households interviewed described a close and active engagement with the food market: looking for bargains, comparing prices and making their budgets go as far as possible. In contrast, their primary means of reducing heating costs was not to look for better prices but simply to cut back on quantity and turn the heating down or off. The most explicit fuel rationing was pursued by prepayment meter users who could cut back on how much credit they put on their meter and limit their consumption accordingly. However, many low-income households who paid for fuel on direct debit were just as keen to restrict their fuel use, knowing full well that, if

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www.gov.uk/government/uploads/system/uploads/attachment_data/file/193079/Summary_of_Wave_5_findings_of_Public_Attitudes_Tracker.pdf

⁴⁵ "You just have to get by" Coping with low incomes and cold homes, The findings of a study funded by eaga Charitable Trust, Centre for Sustainable Energy, June 2010

they did not, they were likely to face an unwelcome and unmanageable high bill in the future.”

Energy use and keeping warm

4.44. Consumers can be in a vulnerable situation if they struggle to keep their home at a reasonable temperature.

Risk factors – personal circumstances and characteristics

4.45. Low-income households spend proportionately more on energy, and lack resources to improve energy efficiency. Consumers who are home owners and on a low income are less able to invest in energy efficiency improvements where required. Those in social housing often live in more efficient properties (and are likely to have better support networks) whereas homes in the private rented sector are often less efficient.⁴⁶

4.46. 3.4 million⁴⁷ British households do not have access to the gas grid because they live in rural areas or live in electrically-heated flats. Access to the gas grid is less common for those in the low income deciles so they are more likely to rely on electricity for their heating⁴⁸, which is generally more expensive than gas. Conversely, rural consumers using heating oil and LPG often enjoy higher incomes than those using mains gas, though rates of fuel poverty are higher. This is because of higher prices and because these fuels are more commonly used in rural areas where the energy efficiency of houses is typically lower – houses are typically larger detached properties with solid wall construction.⁴⁹

4.47. The ‘Low Income High Costs’ definition of fuel poverty suggested in the Hills Review⁵⁰ finds 2.5 million households in England to be fuel poor in 2010, with a total fuel poverty gap of £1 billion or an average of £405 per household. DECC analysis shows that these are a combination of families, pensioners and single person households, across a range of housing types and tenures. Household and dwelling characteristics that increase the likelihood of a household being fuel poor are low income, old dwellings (pre 1945), larger dwellings, private rented sector, having an old inefficient boiler or no heating system and not having gas heating.

⁴⁶ DECC Housing Fact File 2013

⁴⁷ Off-Grid Energy, An Office of Fair Trading market study, October 2011

⁴⁸ Understanding ‘High Use Low Income’ Energy Consumers, Centre for Sustainable Energy, November 2010 www.ofgem.gov.uk

⁴⁹ Off-grid fuels, An investigation of the off-grid energy market, Consumer Focus, February 2012

⁵⁰ ‘Getting the measure of fuel poverty’, Final Report of the Fuel Poverty Review, John Hills, March 2012

Risk factors - the market

4.48. Britain has some of the oldest and least energy efficient housing stock in Europe. Fuel poverty is caused by a combination of factors - energy prices, income and housing condition. Policy to address fuel poverty often uses a number of proxies to target support which can mean that those most in need may struggle to access support.

The impacts

4.49. A warm home is particularly important to the health and well-being of consumers with limited mobility, those who are ill or those who spend a disproportionate amount of time at home, such as the frail elderly. Living in cold damp homes can exacerbate health conditions, whether respiratory or mobility issues such as asthma or arthritis.

4.50. A report by the Strategic Society Centre⁵¹ identifies that the number of excess winter deaths in England and Wales during 2011-12 was around 24,000. Most of these deaths occurred among those aged 75 and over and were linked to respiratory diseases, circulatory diseases, dementia and Alzheimer's disease.

Archetypes

4.51. Ofgem commissioned the Centre for Sustainable Energy (CSE) to help us improve our understanding of domestic gas and electricity consumption, and what characteristics drive variations in usage. The outcome was a series of pen portraits or 'archetypes'.⁵²

4.52. The archetypes are first differentiated by household heating fuel, being either mains-gas heated or non-mains gas (thus electric or non-metered fuel). The analysis identified twelve archetypes as distinct groups of households, with mains-gas heated households representing over 80 per cent of the households. Each archetype is established because those consumers share some common characteristics. However it is worth noting that some of those characteristics are not necessarily unique to each group. The work identified four groups that predominantly consisted of low income consumers.

4.53. 881,000, or 4 per cent, of British households were identified as **low income, electrically heated**. This archetype mostly consists of single adults without children, retired or not working. Half of the households contain individuals over the

⁵¹ [Cold Enough, Strategic Society Centre, 2013](http://www.strategicsociety.org.uk/wp-content/uploads/2013/03/Cold-Enough-Excess-Winter-Deaths-Winter-Fuel-Payments-and-the-UKs-problem-with-the-cold.pdf) <http://www.strategicsociety.org.uk/wp-content/uploads/2013/03/Cold-Enough-Excess-Winter-Deaths-Winter-Fuel-Payments-and-the-UKs-problem-with-the-cold.pdf>

⁵² Beyond average consumption" Development of a framework for assessing impacts of policy proposals on different consumer groups, Centre for Sustainable Energy, Final report to Ofgem, August 2012

age of 60 and one third over the age of 75, and around 75 per cent of households are in urban areas. Households within this archetype have low annual incomes, typically lower than £11,000. Around 31 per cent use prepayment meters and are less likely to switch energy supplier. Their mean annual electricity consumption is 5,130kWh.

4.54. 548,000, or 2 per cent, of British households were identified as **low-income 'non-metered fuel-heated' households** (ie they don't use gas or electricity for their heating). Households in this archetype are mostly made up of single adults and couples, 65 per cent of whom are over the age of 60. The majority live in medium sized detached and semi detached properties, 65 per cent of which are located in rural areas. Households in this archetype tend to have low to medium incomes with a mean annual household disposable income of £11,000. Over 50 per cent are owner occupiers and so they tend have low incomes but be asset-rich. They are also sticky consumers with a low likelihood of having switched supplier.

4.55. 950,000, or 4 per cent, of British households were identified as **low-income, out of work single adults in rented flats**. Around 82 per cent of households in this archetype are social rented and nearly a third are located in London. The households tend to be young, single adults without children, although 13 per cent are single parents and 34 per cent are retired. They have low incomes with a mean annual household disposable income of £6,500, many of whom are on benefits. Around 42 per cent are not working. Again, they tend to be sticky customers. Their mean annual electricity consumption is 2,018 kWh and gas is 8,553 kWh.

4.56. 1.2 million, or 5 per cent, of British households were identified as **low-income single adults (lone parents or elderly) in social rented houses**. 77 per cent of the households in this archetype consist of single adults, with a third being over 60 years old. Around 42 per cent are not working with another 36 per cent retired. All are renters, with the majority (73 per cent) social rented. They tend to be sticky consumers and around 45 per cent pay through a prepayment meter for their electricity and 43 per cent for their gas. Their mean annual electricity consumption is 2,474 kWh and gas is 11,515 kWh.