

Consultation Response

Ofgem consultation: Financial protections for vulnerable consumers

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About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. The Age UK network comprises 140+ local Age UKs reaching most of England. We provide information and advice to around 5.9 million people each year, through web-based and written materials and individual enquiries.

About this consultation

In October 2017, Ofgem, the UK's energy regulator, published a consultation on 'financial protections for vulnerable consumers'.¹ To protect those consumers who are unable to engage with the two-tier energy market and so pay much higher prices, Ofgem proposes a 'vulnerable customer safeguard tariff'. This would reduce prices for a group of eligible customers, and be in place until December 2019.

Key points and recommendations

1. Despite progress in recent years, many older people live in, or on the edge of poverty. For example, 21 per cent of people aged 85+ are in poverty.
2. Many older people live with health conditions that mean they have higher required energy costs.
3. Many older people are unable to fully engage with the energy market, due to barriers such as digital exclusion, health conditions and physical impairments.
4. For these reasons, many older people are unable to adequately heat their home. Therefore, we strongly support Ofgem's proposal for a 'vulnerable customer safeguard tariff', and intention to act quickly.
5. Given that some older people do not claim support they are entitled to, we welcome the proposal that protection should apply automatically.
6. We welcome Ofgem's recognition that information remedies have had limited impact to date on the most disengaged customers.
7. We support the proposal to apply the safeguard tariff to Warm Home Discount recipients. However, we recognise this will not successfully target all the customers who need protection, so in the longer-term there is a need to target customers in a range of ages and circumstances.
8. Ofgem should monitor and mitigate risks that come with implementation, including that providers seek to recoup the cost by charging non-eligible customers higher prices.
9. While the safeguard tariff is intended as a temporary measure until December 2019, we recommend Ofgem keep open the possibility of continuing it, depending on if and how successfully the broader price cap comes to fruition.

Support for the safeguard tariff

We strongly agree with Ofgem that the two-tier energy market means there is an urgent need for financial protections for customers in vulnerable circumstances. As we show below, many older people live in vulnerable circumstances that make it difficult for them to engage in the energy market, and mean they suffer financial, health and social harms.

Older consumers: harmed by high prices

Ofgem identifies the severe impact of high prices on consumers on low incomes. Despite progress tackling pensioner poverty, the number of pensioners in poverty rose to 1.9 million (16%) in 2016. There are an additional 1.1 million people with incomes just above the poverty line.² 'Older old' people are even more likely to be in financial difficulty; 19 per

cent of people 80-84 and 21 per cent of those aged 85+ are in poverty. Single pensioners are more likely to be in poverty (20%) compared to couples (13%).³

In this context, the fact that the average price difference between 'Big Six' SVTs and the cheapest tariff on the market is £300 is alarming. Further, this is an average differential; we have heard of cases where those who have not switched for many years have been paying up to £700 more.

Cold homes also harm older people's health. Older people are particularly at risk, partly as they are more likely to have existing medical conditions.⁴ Cold temperatures not only increases their risk of heart attacks, strokes and respiratory problems, but also of depression, worsening arthritis, complications with diabetes and other chronic conditions, and increased accidents at home (caused by loss of strength and dexterity in the hands).⁵ See the case study below, from Age UK's information and advice services, which illustrates how some older people need help to pay for the extra costs of energy arising from their health conditions or disabilities.

Case study

A caller contacted Age UK for information on how to help their parents, who were both aged around 90 and living with various health conditions.

Their mother was on medication and always feels cold, so their central heating is on constantly. They received a large bill for hundreds of pounds.

The client wanted to know if there was a tariff their parents could be put on, given their circumstances, that would bring the bill down to a more reasonable level?

These impacts on older people's lives are often severe, and show the need for a fast and effective intervention in the market.

Older people: barriers to engaging

We fully agree that many older people are among those consumers in vulnerable circumstances who face barriers to engaging with the market and therefore pay higher prices. Elsewhere we have argued that many older people face a number of barriers to engaging in the energy market.⁶ These include:

- Digital exclusion
- Health conditions and physical or sensory impairments
- Fear of disrupted supply during the switching process
- Feeling that comparing/switching is a hassle or too complex
- Lack of awareness of switching

Ofgem highlights older people, people with a disability and those who don't use the internet as being less likely to have recently switched supplier. Despite growth in older people using the internet, 64% of people 75+ are still non-internet users, compared to 11% of all adults.⁷ Ofcom data (table 1) shows that internet use declines both with age and socio-economic background.

Table 1. Non-internet users, by age and socio-economic background

% NON-INTERNET USERS	All	16-24	25-34	35-44	45-54	55-64	65-74	75+
AB	5%	0%	0%	1%	0%	4%	12%	35%
C1	8%	2%	0%	3%	6%	6%	22%	58%
C2	20%	0%	4%	8%	3%	26%	46%	80%
DE	22%	7%	6%	16%	15%	32%	35%	81%
All	13%	3%	3%	6%	6%	16%	29%	64%

(Source: Ofcom, 2016.⁴)

Ofgem also describes older consumers as likely to be ‘Contented Conformers who specifically lack confidence in engaging with the energy market, are largely satisfied with their current supplier and lack an incentive to face the perceived challenge and hassle of comparing tariffs or changing deal.’⁸

While many people in this segment may *feel* largely satisfied and trusting of their supplier – often due to familiarity with a ‘trusted’ brand – they may not realise that they are paying a much higher price and so see no incentive to act. Further, the *perceived* challenge and hassle or comparing and switching is very real and *practical* for many people. Local Age UKs providing energy-related support to older people report challenges such as physical and mental health conditions – heart disease, arthritis, depression – as well as sensory impairments (e.g. visual, hearing), memory problems and loneliness, bereavement and isolation, all of which can combine to make it unrealistic or impossible for people to navigate the switching process.

We support Ofgem’s proposal to apply the vulnerable customer safeguard tariff to Warm Home Discount (Core and Broader Group) recipients.

However, we also recognise this will not successfully target all the customers who in vulnerable circumstances, and that it is a pragmatic step to implement the protection as quickly as possible. Ofgem in future will need a way of identifying a broader group of customers, in a variety of ages and circumstances, who should be eligible for support in subsequent winters. Ofgem should consider giving suppliers some freedom to identify customers for protection, including those with energy debt or living with severe physical or mental health conditions.

We welcome the proposal that protection should apply automatically for eligible consumers, rather than requiring customer them to request it. We know some older people do not claim what they are entitled to due to perceptions of dependency; nearly two out of five (38%) pensioners entitled to Pension Credit have not claimed it.⁹

Intervention options

We agree with Ofgem that the ‘do nothing’ option is unacceptable, given the financial and health detriment many older (and other) customers currently experience, as outlined above. We also agree that the safeguard tariff option is the best of the options considered.

Informational remedies have a key role to play in the longer-term; we support efforts to develop these and think they will improve engagement with the market among some older people, including those who use the internet. However, many older people face significant

barriers to engaging, as outlined above. We are therefore pleased that Ofgem recognises the limited impact they have had to date on the most disengaged consumers in intractable circumstances, and those with low internet use.

We agree with Ofgem's point that increasing complexity in the market – such as through smart meters and time-of-use tariffs – could make it even more difficult in future to get vulnerable consumers engaged.

Risks, monitoring

We encourage Ofgem in its stated aim to monitor how suppliers treat vulnerable consumers following implementation, given that a number of risks may emerge. We share concerns that consumers who are disengaged but ineligible for protection may pay more. We appreciate there is no simple solution but look forward to hearing how Ofgem can mitigate this risk through safeguard tariff design and monitoring of the marketplace.

Timeframe

We support Ofgem's sense of urgency, taking action to protect customers now. We understand that the safeguard tariff is intended as a temporary measure to be discontinued no later than December 2019, by which time the Government should have implemented its plans for a broader price cap intervention. We do not object to this, but recommend Ofgem keep open the possibility of continuing the safeguard tariff depending on if and how the broader cap comes to fruition.

¹ https://www.ofgem.gov.uk/system/files/docs/2017/10/financial_protections_for_vulnerable_consumers_-_technical_document.pdf

² https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/rb_aug17_later_life_uk_factsheet.pdf

³ https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/rb_aug17_later_life_uk_factsheet.pdf

⁴ https://www.foe.co.uk/sites/default/files/downloads/cold_homes_health.pdf

⁵ The Marmot Review Team (2011), *The Health Impacts of Cold Homes and Fuel Poverty*, London: Friends of the Earth.

⁶ https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/safe-at-home/crs_april16_cms_energy_market_investigation.pdf; https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/safe-at-home/crs_dec15_bis_switching_principles.pdf;

⁷ <https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2017>

⁸ https://www.ofgem.gov.uk/system/files/docs/2017/10/financial_protections_for_vulnerable_consumers_-_technical_document.pdf, p.15

⁹ Income-related benefits: estimates of take-up: financial year 2014/15 (tables PC1, PC2, HB1, HB2), DWP 2016