

Rachel Fletcher
Senior Partner, Consumers & Competition
Ofgem
9 Millbank
London
SW1P 3GE

By email only, for the attention of
Jemma Baker: vulnerability@ofgem.gov.uk

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Dear Rachel,

We are grateful to Ofgem for the opportunity to respond to its Statutory Consultation for a Vulnerable Customer Safeguard Tariff, as outlined in your letter dated 11 October 2017.

We have followed with interest, developments within the Industry that have sought to highlight the need for fair treatment toward customers. The recent changes to the Standards of Conduct (SoC) will stand as the embodiment of the fundamental approach that suppliers should take to treating customers fairly by putting them at the heart of their Business. Whilst the SoC are highly visible to suppliers, they are less so to the customer unless they are brought alive by the Supplier.

The more prescriptive requirements sitting alongside the SoC require a wealth of information to be made available by suppliers to customers so that they have the means to take control of their energy costs and usage. We agree, however, that the same challenges persist in the Industry: too little engagement; too many customers remaining on Standard Variable Tariffs (SVT's) that are more expensive than alternative tariffs signposted to them by their Supplier; and too many of those customers already suffering a greater impact due to their Vulnerability.

We acknowledge the comments made by Dermot Nolan recently when he addressed the Energy UK annual conference. We agree with Ofgem's assessment that the Energy market is not working for all consumers, particularly those who are vulnerable and who remain on SVT's.

At the same time, we are concerned that despite the efforts that *have* been made by Suppliers to overcome these challenges (under guidance and direction from Ofgem) the perception of Suppliers held by customers (and perpetuated by the media) continues to have a damaging impact on the future of the Supply Industry.

Ofgem has proposed that Vulnerable consumers in particular are in urgent need of protection. We agree in principle with any reasonable and proportionate measures designed to protect the interests of vulnerable customers. To that extent, we are supportive of the proposal to introduce a safeguard tariff to protect those who are most vulnerable.

Notwithstanding that these are, effectively, emergency measures, and that it may not be possible (nor desirable) to achieve a level of sophistication comparable to an eventual Price Cap, we would urge Ofgem to consider any alternative solutions that might be available. Whatever is decided at this stage has the potential to help many customers. If opportunities are missed, however, it may do little to instil clarity and confidence amongst consumers when it seems all previous efforts to engage with the customer, to the necessary extent, have failed. If the Industry is now at a tipping point, Ofgem's proposals must seek to ensure that assistance is deployed where it is needed most, and in a way that will gain consumer buy-in, leading to sustained customer engagement. It is an opportunity for the Industry to try new things in keeping with the spirit of Innovation it seeks from Suppliers. It is against that backdrop that we would ask Ofgem to consider the following observations.

The proposed eligibility does not help those customers most in need

In seeking to help those customers on SVT's who receive the Warm Home Discount (WHD), we would query whether this really provides support to the group of customers that are most in need. We agree that use of the WHD eligibility criteria (either the Broad Group or the Core Group) will afford protection to a subset of customers on low income. We are mindful, however, that these customers represent just a proportion of those who are likely to be financially vulnerable. The Broader Group of the WHD is administered by suppliers on a first come first served basis. There are many customers that will have applied for WHD but not been paid it because they were not accepted on the scheme for that year. There are likely to be many more eligible customers (some of whom may be in more dire financial circumstances) that will simply not have applied. By providing customers who have received a WHD with a safeguard tariff the regulation will effectively provide those customers with a double benefit, while ignoring those customers who were eligible for WHD but who applied too late, or who did not (or could not) apply for the WHD.

Eligibility under the Core Group represents a stable methodology for identifying customers who would benefit. Eligibility under the Broader Group, however, is more transient by nature of the flexibility given to suppliers to define the eligibility criteria. Whilst the emphasis should be on customers at risk of fuel poverty, it is possible that eligibility will differ between suppliers, and in a much less stable way depending on a customer's circumstances at any one time. A customer eligible for the tariff with their current supplier, may be *ineligible* if they were with a different supplier. And yet their circumstances do not

spontaneously change as they move between suppliers. Similarly, in the case of customers who are eligible with their supplier in the current year, it is possible (albeit unlikely) that through a change of criteria, a customer may no longer be eligible, notwithstanding that their circumstances had not changed. In the case of those customers whose circumstances *do* change between scheme years, we would ask for clarity on the point at which eligibility is determined. We would also ask Ofgem to consider the impact on those customers who are moved *from* the safeguard tariff to a higher rate through ineligibility.

While we understand the principles and aims of the safe guard tariff we believe its implementation and customer targeting requires further consideration.

Vulnerability is, quite rightly, no longer confined to neatly-defined categories of individuals. Ofgem has steered the Industry toward an appreciation for the complexity of an individual's circumstances. We acknowledge that Ofgem are seeking to protect those prone to financial vulnerability, and that the WHD is a convenient measure of such. It is not, however, a comprehensive measure which takes account of the personal circumstances which, in themselves, might have an impact on a customer's finances but which fall short of making them eligible for the Warm Home Discount.

Whilst, again, acknowledging that these measures must start somewhere, we would ask Ofgem to consider the perception that they create for those customers who are vulnerable for reasons other than financial hardship. On page two of your Consultation, Ofgem recognise the impact on these other groups in citing research which shows that consumers with vulnerable characteristics – low income, social housing renters, aged 65 or over, living with a disability – find it difficult to engage in the market. These include social housing renters, those aged 65 or over, and those living with a disability. Ofgem also cite evidence that these groups are also more likely to lack confidence, or to be wary of the potential risks of switching tariff or supplier. We would suggest that the correct approach should incorporate efforts that will not necessarily favour one vulnerable group over another.

The Proposal does not help those customers who are least engaged, or more impacted by a lack of engagement

This raises some interesting points on the subject of engagement. Ofgem (at page 4) state that they wish to protect those vulnerable customers who have not engaged with the market. It is proposed that customers on SVT and in receipt of WHD at the relevant time will benefit. The proposals will not apply to customers on non-default fixed term tariffs.

We would suggest that those customers with the required level of sophistication or awareness to have applied for the WHD are likely to have assessed their circumstances and the options available to them. The Broader Group in particular are not likely to represent that proportion of customers who are altogether "disengaged". On the contrary, it is quite possible that many will have made the conscious effort to remain on their existing tariff.

It is conceivable that situations will arise where a customer nearing the end of a fixed term tariff (which may, for some suppliers, have been in excess of two years) will be considerably

more disengaged than a customer who has only recently rolled onto an SVT but is sophisticated enough to have actively engaged by applying for, and receiving the WHD. To that extent we would suggest that the proposals as they stand, whilst beneficial for consumers, and sympathetic to the needs of some financially vulnerable customers, are nevertheless flawed. We would suggest that the Vulnerability Safeguard Tariff would achieve a more focused impact were it to apply to those customers who had been on a SVT for 1 year or more, although we appreciate the challenges this may pose.

The Proposal may dis-incentivise engagement.

We remain of the view that any form of price cap, temporary or otherwise, does not tackle the problem at its source. On the contrary, as it has already been widely observed within the Industry, providing this safety net for customers, whilst clearly offering protection, will do nothing to encourage their active consideration of any better deals that might be available. Indeed, it may simply lead to more complacency and the realisation that consumers do not want or *need* to be engaged. If a vulnerable customer receives protection through the proposed tariff, there is no longer any incentive for them to engage with the market. The very group of customers that Ofgem is seeking to protect then becomes less inclined to actively participate. It is unlikely that such customers look to switch supplier, particularly if that new supplier was not required to participate in the WHD scheme, or the customer would not be eligible under the Broader Scheme as outlined above on page 2.

Rushed Implementation risks confusion and damages consumer confidence.

In its response to the Warm Home Discount Consultation 2016/2017, DECC announced no plans to lower the participation threshold from 250,000 domestic customer accounts. That is not to say that this will not change for the next scheme year. The proposed tariff is referenced against a scheme which has yet to be defined. In the aforementioned Consultation, for example, DECC cited 87% of respondents suggesting a lowering of the threshold to 50,000. It is possible that the scheme will be refined for the coming year. To that extent, we cannot help but sense a degree of urgency in Ofgem's proposals. We hope that Ofgem will avoid taking a reactionary approach in an area that requires more thorough consideration. The Industry cannot offer informed commentary in the absence of that certainty. We would ask Ofgem to consider, for example, what would be required of smaller suppliers who subsequently become obligated by virtue of a lower threshold? Similar considerations apply to the changing circumstances of the customer themselves.

In its current state, we believe that more clarity is required on the practical application and day to day running of the Vulnerability Safeguard Tariff, as set out in the proposed Licence modifications. We would welcome clarification on the following questions in particular:

1. **Identification.** How long does the supplier have to identify an eligible customer? It appears that once a supplier has identified the customer that they have 30 days to transfer the customer to the safeguard tariff but we would welcome a definition of “identify”.
2. **Evidence of WHD for customers who switch.** We refer to the situation in which a supplier gains a customer from a WHD eligible supplier, and, unknown to the new supplier, that customer was paid WHD in the previous year. Would the safeguard tariff apply to that customer and, if so, would the new supplier be required to obtain evidence from the customer that they received WHD in the prior year?

Example: Customer qualifies for WHD in SY6 with Supplier A. They move to Supplier B on a 1 year fixed term tariff. That 1 year fixed tariff expires in the middle of SY7 and the customer is rolled onto Supplier B’s evergreen tariff. Would this customer be protected by the safeguard tariff? If so how would Supplier B know that the customer was paid WHD by Supplier A?

3. **Information to Customers.**
 - a. Where a customer joins a supplier on a fixed tariff which then expires, the customer may roll onto SVT. Should these customers be placed on the safeguard tariff if they qualify for the WHD? If so, could Ofgem offer clarification on whether the Tariff Information Label should be aligned to ensure the rates being provided are that of the safeguard tariff rather than the SVT at the point the contract comes to an end and the 49-42 prior notification notice is sent out to the customer. Which tariff should appear on the Annual Statement when calculating the cheapest comparable or cheapest alternative message?
 - b. The proposal is that suppliers will have 30 days to transfer a customer onto the tariff cap once the customer has been identified as being eligible. We would welcome guidance on how this would work alongside the relevant licence conditions requiring that a customer be given notice at least 30 days in advance of the date on which increase in the Charges for the Supply of Electricity or Disadvantageous Unilateral Variation has effect.
 - c. Ofgem have indicated that there is no hard & fast obligation for when the customer has to be moved *from* the Vulnerability Safeguard Tariff, back to the SVT if they no longer qualify for WHD. We would welcome guidance on how this sits alongside the Licence Obligations which require at least 30 days advance notice of an increase in charges or Disadvantageous Unilateral Variation.
4. We assume that it is Ofgem’s intention that the Vulnerability Safeguard Tariff will not fall within the definition of Cheapest Evergreen Tariff and that Licence modifications will be made accordingly. We would be grateful if Ofgem could clarify.

5. **Avoiding Customer Detriment.** Could Ofgem please provide clarity around its expectations in the following circumstances:
- a. Where the movement of a customer from SVT or fixed-default tariff onto Vulnerability Safeguard Tariff might be considered less advantageous for the customer. In particular, the customer may prefer the security of a fixed term.
 - b. If a supplier's SVT is better for the customer (zero standing charge, high unit rate & low electricity consumption) than the proposed rate on the safeguard tariff. Is it expected that suppliers will increase the customer's rate?

There exist more effective, and as yet unexplored opportunities for engagement

We believe that the Industry should continue to encourage consumers to take control of their energy, but that an approach going beyond supplier signposting is required. We have seen what can be achieved through the power of marketing. For example, the Smart Meter Programme faces considerable challenges if it is to meet its 2020 deadline. The potential benefits to consumers (and to suppliers alike) will be unprecedented - changing the landscape in a way that has not been seen for decades. An awareness of tariff cost and choice is a big part of allowing customers to take control of their energy. It deserves no less of an effort. We believe that there is a great opportunity to benefit from the success of the campaigns run by Smart Energy GB in raising the awareness of the benefits that Smart Meters can bring. We would propose that Ofgem seek out opportunities to extend that more widely to encourage consumer engagement in a more general sense.

There are a number of licence conditions that require suppliers to provide information to consumers with additional information on their options. The conditions have been set to ensure consumers are treated fairly, are provided with accurate information, and more importantly set in an attempt to increase consumer engagement with the industry. This approach has fallen short of its target evidenced by the level of consumers within the Big 6 that remain on a SVT. We believe that another method of consumer engagement that goes beyond providing information on a bill, letter, or internet site should be considered. The Smart Energy GB consumer engagement project provides an ideal option for engaging customers in an entirely different manner and should be considered as a matter of urgency before the opportunity is no longer available.

We have no doubt that there are many other Organisations that are well-placed to spearhead a sustained consumer engagement campaign bringing together such topical issues as vulnerability, energy efficiency, ease of switching, and tariff awareness. We wish to see a time when it can honestly be said that the Industry as a whole (and not just suppliers) has come together and done all it reasonably can to engage with consumers, and that anything left after that is not for want of trying. Whilst more challenging than the imposition of a price cap, we feel that this is a far better place to be and certainly one in which a customer is able to make the informed choices that suppliers should be encouraging.

In Conclusion

We agree with the principle of the safe guard tariff but question its effectiveness in reaching those who are truly vulnerable, and those who have not already received the benefit of the WHD. We also urge Ofgem to consider alternative methods of increasing consumer engagement since those attempted to date don't seem to have had the impact expected or desired.

In general, we would be happy for our response to be published in due course. However, we would be grateful if that future publication is subject to our prior written approval so that we may have the opportunity to determine at that time whether any element of the response merits redactions on the grounds of commercial sensitivity. As such, please treat this response as confidential prior to that further approval for publication.

If you require any further information or clarification, please do not hesitate to contact us.

We look forward to hearing from you.

Yours sincerely,

Richard Shotton-Oza
Regulatory Manager
Extra Energy