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## Financial Protections for Vulnerable Consumers

### Summary

Which? welcomes the work that Ofgem is doing to help protect vulnerable consumers in the energy market. We recognise that price caps can sometimes be necessary to provide consumers with protection from excessive prices. However, price caps often have unintended consequences. This is particularly important to remember as the Government and Ofgem consider the merits of a significantly broader price cap following the publication of the draft Domestic Gas and Electricity (Tariff Cap) Bill.

As such, we welcome Ofgem's proposal to introduce a safeguard tariff for vulnerable consumers. However, we think it is essential that Ofgem monitors the impact of this cap, whether it is having unintended consequences, and whether it is delivering the desired outcomes. In particular we consider that Ofgem should pay careful attention to the following:

- **Eligibility:** It is important that Ofgem monitors take up of the safeguard tariff and looks for ways to help those vulnerable consumers who are not covered by this provision if they are negatively affected. Ofgem should monitor the impact on:
  - Those pensioners who are eligible but do not claim the Guarantee Credit element of Pension Credit.
  - Those consumers who are eligible to receive Warm Home Discount (WHD) as part of the Broader Group but do not receive it as a result of the first come first served provision of the rebate.
- **Consumer engagement:** Ofgem must monitor how the safeguard tariff impacts on consumer engagement. A price cap could send a signal to consumers (both those directly covered and those who may think they are covered) that they are *fully* protected. Yet, in reality, they may not be eligible, or they could still get a better deal if they chose to switch.

### Detailed response

Which? welcomes Ofgem's consultation on 'Financial Protections for Vulnerable Consumers'. We agree with Ofgem that it can be particularly difficult for vulnerable consumers to engage in the energy market. As such, it is essential that there are protections in place for those consumers to ensure that they are not overpaying for their energy.

While we agree that sometimes price caps are necessary, it is important to be mindful that they often have unintended consequences.. This is particularly important to remember as the



Government and Ofgem consider the merits of a significantly broader price cap following the publication of the draft Domestic Gas and Electricity (Tariff Cap) Bill.

Which?'s report on 'The Role of Demand Side Remedies in Driving Effective Competition'<sup>1</sup> details how the responses of consumers and suppliers to interventions in the market are hard to predict. Therefore, it is essential that the impact of the safeguard tariff is carefully monitored and evaluated. Ofgem should seek to identify whether the cap is having any unintended consequences, and if it is delivering the desired outcomes. In particular we think that Ofgem should pay careful attention to the following:

- **Eligibility**

Ofgem must carefully monitor the take up and impact of the safeguard tariff. It should look for ways to help vulnerable consumers who are not covered by the safeguard tariff but could be eligible to receive the WHD as part of the Core or Broader Group.

a) Core Group

Ofgem must monitor the impact of the safeguard tariff on those pensioners who would be eligible, but do not claim the Guarantee Credit element of Pension Credit. According to the latest DWP estimates,<sup>2</sup> 860,000 pensioners who are eligible for the Guarantee Credit element of Pension Credit do not claim it. This group is likely to include some of the most vulnerable (the majority of those who do not claim are aged 75 and over<sup>3</sup>).

We are concerned that the safeguard tariff could result in increased prices for unprotected groups as suppliers increase the price of the SVT to offset a decline in revenue as a result of the safeguard tariff. This would mean that some of the most vulnerable could potentially experience higher energy prices. Therefore, Ofgem must monitor the impact of the safeguard tariff and identify ways to help those pensioners who are eligible, but not claiming Guarantee Credit, particularly if they are negatively affected.

b) Broader Group

It is important that Ofgem monitors the impact of the safeguard tariff on those consumers who are eligible to receive WHD as part of the Broader Group but do not receive it as a result of the first come first served nature of the rebate. While the cap will cover 'all those receiving a rebate under the WHD in the current or previous scheme year' it still means that some consumers may be protected under the safeguard tariff one year, but not the next for example. At that point, they will not only miss out on the WHD rebate, but they will also lose out on cheaper energy prices (unless they engage in the market, which, as discussed in the consultation, is unlikely).

<sup>1</sup> The Role of Demand-Side Remedies in Driving Effective Competition' written by Professor Amelia Fletcher for Which?. 7 November 2016. Available at: <https://www.which.co.uk/policy/consumers/335/the-role-of-demand-side-remedies-in-driving-effective-competition>

<sup>2</sup> Department for Work and Pensions statistics on estimates of take-up for income related benefits

<sup>3</sup> DWP Statistics, Financial Year 2015/16. Published 14 September 2017.



Ofgem identifies the Broader Group as being more likely to be in the poorest three income deciles than those in the Core Group. Therefore, it is essential that Ofgem monitors the impact of the safeguard tariff on those vulnerable consumers who are not covered by the safeguard tariff.

Additionally, to receive the WHD as part of the Broader Group, the consumer must engage with the energy company to apply for the WHD. Given that vulnerable consumers are less likely to engage, this may mean that many vulnerable consumers are missing out on even applying for the rebate. The WHD criteria also varies by supplier, meaning that while a consumer may be eligible under one supplier's criteria, under another, it may not. Ofgem should look at ways to increase take up of WHD by those who are eligible in order to ensure these consumers benefit from both the discount itself and the impact of the cap.

- **Impact on consumer engagement**

Ofgem must monitor the impact of the safeguard tariff on consumer engagement. A price cap could send a signal to consumers (both those directly covered and those who may think they are covered) that they are *fully* protected. However, in reality, they may not be eligible, or they could still get a better deal if they chose to switch.

If Ofgem's monitoring indicates that fewer vulnerable consumers switch than at present, or that some consumers are inadvertently paying more because they think they are protected, Ofgem must look for ways to address the issue. Monitoring the impact on consumer engagement could also provide important insights when considering the implementation of the broader cap, particularly when considering how customers react to how the measure is communicated.

### **About Which?**

Which? is the largest consumer organisation in the UK with more than 1.7 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers and funded solely by our commercial ventures. We receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

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