

Providing financial protection to more vulnerable customers

Energy UK response

31 January 2018

Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

These high-level principles underpin Energy UK's response to Ofgem's consultation on providing financial protection to more vulnerable customers. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Executive summary

Energy UK has a wide range of membership including larger, medium and smaller suppliers, with differing views on the proposed cap. We do not, therefore have a view on the principle of extending the safeguard tariff. Nonetheless, we have sought to comment on the proposals put forward by Ofgem in the consultation document.

With Ofgem's previous extension of the Prepayment Meter (PPM) price cap, we recognised the time pressures Ofgem was operating under and the impacts this had on the final policy design. As Ofgem is now looking to extend safeguard protections further, it is increasingly vital for both consumers and suppliers that the process and models adopted by Ofgem are robust and well considered.

If Ofgem proceeds with any extension, only via a fully data-matched safeguard tariff protection could Ofgem ensure that all suppliers take a fair and equitable role in supporting vulnerable customers. Within a cap context, it would be the only way Ofgem could ensure that all eligible vulnerable customers receive protection automatically, regardless of their supplier.

In addition, as noted in our response to the statutory consultation for a vulnerable customer safeguard tariff, the accuracy of the level of any cap becomes increasingly important the wider group of customers it impacts. Energy UK would, therefore, support Ofgem reviewing and updating the PPM cap methodology, to ensure it is adequate for suppliers to finance their activities.

Furthermore, while the consultation proposes that the safeguard tariff would fall away with a market-wide cap, there is no sun-set provision for the scenario whereby the cap isn't introduced. We would welcome clarification of Ofgem's thinking in this area.

Where appropriate, we would be happy to work with Ofgem to help facilitate further discussions with suppliers as Ofgem's thinking develops.

Our detailed responses to the specific questions set out in the consultation can be found below.

Detailed response

Q1. What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data-matching?

A: Energy UK believes data-matching would be an essential pre-condition of any extension. As set out in our response to Q2, we do not believe the backstop option is a suitable or appropriate approach. If Ofgem proceeds with any extension, it should be focused on working with Government (BEIS and Cabinet Office) to facilitate the required data sharing, including securing any required changes to Digital Economy Act 2017 as soon as possible.

If Ofgem proceeds with any extension, it must also engage closely with the Department of Work and Pensions (DWP) to ensure they can support the required volumes of data sharing and that any eligibility criteria used for data matching align with Ofgem's Consumer Vulnerability Strategy. DWP's approach to charging must also be reasonable, especially for smaller suppliers.

Q2. What are your views on our backstop option that requires suppliers to use the information they hold (such as Priority Services Register and debt information) to identify vulnerable consumers?

A: Energy UK does not support Ofgem's proposed backstop option and do not believe it should be considered any further by Ofgem.

We do not believe it is possible to move forwards with the proposed backstop option in a manner which would be fair across customers or suppliers. As noted in our response to Q1, if Ofgem proceeds with any extension, it should be focused on working with Government (BEIS and Cabinet Office) to ensure the required data sharing, including securing any required changes to Digital Economy Act 2017, is possible.

In particular we are concerned that the backstop option is reliant on a suppliers' wider practices in relation to debt and vulnerability. Ofgem's most recent vulnerability report highlights that there are currently significant differences in processes and practices across suppliers. A customer's access to the safeguard tariff protections will, therefore, be directly dependent on their suppliers' processes, rather than their need. We also note that the use of proxies like debt or the PSR may create perverse incentives for both suppliers and customers. For example, suppliers with less of a focus on identifying and protecting vulnerable customers will as a result have fewer customers eligible for any safeguard tariff. This is not fair for customers or suppliers who take their responsibilities seriously.

We also note that PSR is a register of customers which customers have to consent to being on. This requires customers to have engaged with their supplier. We do not believe this is consistent with Ofgem's desire that any protection apply automatically for eligible consumers.

Q3. Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?

A: Energy UK is not aware of any other methods for identifying vulnerable customers that Ofgem should consider.

If Ofgem proceeds with any extension, only via a fully data-matched safeguard tariff protection could Ofgem ensure that all suppliers take a fair and equitable role in supporting vulnerable customers. Ofgem took steps last year to introduce the Warm Home Discount Safeguard Tariff protections from February 2018 as an interim option, to give itself time to fully consider a robust and accurate wider safeguard tariff. This should be Ofgem's focus, not further 'sticking plasters' like the proposed backstop option.

Q4. What are your views on our proposal for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers? Please provide evidence to support your views.

A: As a point of principle, Energy UK believes that all suppliers should take a fair and equitable role in supporting vulnerable customers. Unless Ofgem has a robust evidence base to demonstrate that providing the safeguard tariff protections would be disproportionate for a group of suppliers, we agree that should Ofgem move ahead with an extension, all suppliers should be required to provide the safeguard tariff protections.

Q5. What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

A: If Ofgem proceeds with any extension, Energy UK would agree that the proposals should apply to all default tariff and meter types. We request further clarification from Ofgem on how it proposes to define default tariffs, in particular how it intends to treat Standard Variable Tariffs where a customer has made a proactive decision to be on such a product.

Q6. Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

A: As noted in our response to the statutory consultation for a vulnerable customer safeguard tariff, the accuracy of the level of any cap becomes increasingly important the wider group of customers it impacts. It is important that any cap is set at a sufficient level to allow suppliers to recover efficiently incurred costs. Any cap should also be set at such a level as not to unintentionally undermine competition across the market.

Should Ofgem, therefore, seek to widen any price protection, Energy UK would support Ofgem reviewing and updating the PPM cap methodology to ensure it is appropriate (see response to Q7 below). We believe the basket of market tariffs option would be highly unpredictable and could potentially be open to significant gaming by market participants.

Question 7: Do you have any comments on the design issues for either of our two options?

A: We expect members to respond in detail to this question.

If Ofgem intends to develop the CMA's prepayment cap model we would, however, encourage Ofgem to focus resource on making amendments to key elements which are most material to improving the accuracy of any cap and that are achievable within the constrained timeframes, for example:

- Include smart metering costs – The smart rollout is a significant and growing cost for suppliers and their customers.
- Allow for updates to the base period data, where data becomes available. e.g. FIT costs.
- As a minimum, ensure that EII exemption and ECO costs continue to offset each other. Ideally, we would support Ofgem considering both costs independently.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2965 or at daniel.alchin@energy-uk.org.uk.