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By email to: CDconsultations@ofgem.gov.uk

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Dear Jemma

Providing financial protection to more vulnerable customers

First Utility welcomes the opportunity to respond to this consultation. We were one of the first suppliers to back price protection for the vulnerable, and we continue to support targeted intervention in this area.

We agree with Ofgem's headline proposal to extend the Safeguard Tariff (**Tariff**) to more customers, based upon the detriment suffered by those most in need. In order to effectively tackle this detriment, we likewise agree it is essential that the Tariff is both appropriately targeted (in terms of eligibility and using data matching) and costed (by building a "bottom up" cost stack). Without such an approach, there is an unacceptable risk of inconsistency and adverse consequences between different groups of customers and suppliers.

Question 1 – What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data-matching?

We support Ofgem's preferred approach. However, all suppliers, small as well as large, should use this approach to identify vulnerable customers. Otherwise, some vulnerable consumers will lose out, and competition will be distorted.

Question 2 – 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?

We do not support Ofgem's backstop option to use the PSR or other proxies if data matching regulations are not passed in good time, or for the smaller suppliers even once regulations are passed.

Although more people in absolute terms will be offered the Safeguard Tariff under the backstop option (an additional 2.6m, as opposed to 2m via data matching), these may not all be the right people, as the PSR continues to be relatively self-selecting: without benefits data, it is difficult for suppliers to identify financially vulnerable customers, meaning the most in need could lose out.

In addition, households on the PSR may be vulnerable in some ways but not others, e.g. the PSR will contain both wealthier pensioners and wealthy families with children under the age of 5 who will not be in need of financial protection. There will also be a category of customers which fall somewhat in the middle. For example, some customers may have physical vulnerabilities which make it harder but not impossible to engage in the energy market.

The net result is that, without data-matching, suppliers will need to exercise significant discretion over which customers receive the Safeguard Tariff and which do not. This will see similar groups of customers being treated differently by different suppliers, further eroding trust in the energy market.

In addition, the PSR proposal would lead to a significant competitive distortion, whereby the most responsible suppliers (i.e. those who put the most effort into identifying vulnerable customers) would suffer the greatest financial penalty (as they would see more customers capped).

The opportunity to game this proposal, to significant customer and competitive detriment, is clear, and especially heightened should Ofgem adopt the "basket of tariffs" approach (see our answer to Question 7).

Question 3 – Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?

No, only data matching will ensure consistency across suppliers and customer groups.

Question 4 – 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.

Yes, the Tariff must be applied consistently across the market, for the reasons outlined in Question 2 and Question 7 regarding fairness to customers plus the risk of market distortions.

We do not believe the implementation costs of data-matching are significant.

Sending and receiving data - whether by FTP or uploading/downloading from a secure website - should be straightforward for any supplier, large or small.

Regarding matching the data, it depends in what form it comes and what matching attributes are provided. For example, a supplier may use cells for address-line1, address-line2, address-line3 etc. in their billing system. But they then need match to addresses using the more typical Post Office format (**PAF**) of house-number, street, area, town etc. And the correlation of the two formats can vary from one record to another. And even if both address sets used the same format, there is no guarantee that "house" in one system doesn't store "19, Acacia Ave", whilst another uses two fields, whilst another uses "19 Acacia Avenue" etc.

In other words, it is not technically difficult to do this trial and error approach for data matching: the only resource necessary is a few days of analyst time. Given the detriment suffered by vulnerable customers, this commitment from smaller suppliers does not feel disproportionate.

One further option would be for Ofgem to conduct a one off data cleansing process for all energy suppliers, requiring each supplier to clean up its own meter and endpoint address databases in order to standardise them all on the Post Office PAF file, and also requiring Government to send customer names and addresses in this format. Data matching would then be trivial, saving the entire industry time and expense.

Question 5 – What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

We have no comment on this question

Question 6: Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

We do not support either option, as both proposals have significant design flaws (see Question 7) which will be unacceptably magnified given the increased cohort of 3 million households.

We do not accept the argument that *"a bottom-up cost assessment...would not be possible in the time available. This is due to the additional policy development, data collection and analysis necessary to develop these novel and complex methodologies."* When it comes to data collection, much of these data was submitted by larger suppliers to the CMA a few years ago and could easily be updated. In addition, we would expect Ofgem to be collecting much of this data in order to inform the Government's wider SVT price cap. Indeed, it is essential that this process is commenced now for that purpose to avoid the situation of having to further adapt the sub-optimal PPM model at this stage.

We likewise do not accept the argument that *"if rapid implementation of the safeguard tariff was not one of our main objectives, we would give further consideration to the full range of approaches. But, given the need to extend the safeguard tariff to a wider group of vulnerable consumers by winter next year, we are limited to options we can feasibly implement in the time available."* This is not appropriate given the potential for adverse impacts on cutomers and suppliers. Whilst we understand the aim to achieve protection for those most in need as speedily as possible, time criterion cannot be over-weighted such that sub-optimal or disproportionate options are actively considered and other options are discounted.

Given the market-wide SVT price cap from Government is expected imminently, it seems to make little sense for Ofgem to implement an inappropriately designed Safeguard Tariff for just a few months.

The expanded Safeguard Tariff is now a major policy intervention and a proper "bottom up" evaluation of costs is required.

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

There are significant flaws with both proposals.

Of the two options, the "basket of tariffs" approach is the most problematic, as weighting a basket to create a "competitive benchmark" is far from straightforward.

Designing such a basket requires decisions over tariff length, structure, region, usage, whether green tariffs should be included (given they represent active choices, and therefore form part of the competitive landscape), whether and how bundled tariffs should likewise be included and considered; and how to manage below-cost acquisition tariffs, of which there is a significant percentage. This latter point would require far more than simply excluding the bottom 15 or so cheapest tariffs by region as suggested in the consultation. For example, a snapshot taken by First Utility earlier this month implied that at least 123 out of 274 available tariffs were loss-making.

We therefore do not believe these decisions - or tracking them - will be low risk or low error. Indeed, we note that Ofgem's own evidence to the CMA argued that due to the *"removal of RMR... there are likely to be significantly more tariffs, more innovative tariffs and potentially a more dynamic market. A basket of appropriate tariffs on which to set the relative price could potentially be more difficult to identify in this world."*

Ofgem's evidence to the CMA also noted that *"We are particularly concerned about the risks of gaming"* inherent in a "basket of tariffs" approach, and we agree.

Suppliers with a large percentage of vulnerable customers could introduce more and higher tariffs in order to skew the weighting of the basket and therefore increase their allowance under the cap. By contrast, suppliers with a small percentage of vulnerable customers could drop their tariff prices in order to drive down the cap for larger competitors. The potential for gaming becomes especially heightened given that, under Ofgem's preferred approach, some suppliers will be subject to automatic data matching but others will rely effectively on self regulation.

We have lesser but still substantial concerns with the other proposal, a reform of the PPM competitive benchmark.

The current proposal does not yet address the significant inaccuracies inherent in the current model. These include (but are not limited to):

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- Allowance for some short term trading costs and costs of imbalance within the wholesale cost index

- Review of the electricity peak to baseload ratio: this will differ by time of year

- The recovery of policy costs from a smaller base:

    - Policy costs for the Renewables Obligation (**RO**), Contracts for Difference (**CfDs**), Small Scale Feed in Tariffs (**FiTs**), and the Capacity Market are taken from the OBR's latest forecast in £bn. But that trajectory does not take into account the recovery of costs from a smaller demand base. For example, the impact of the Energy Intensive Industries exemption is to increase domestic RO costs by ~7.5% - £5 per medium usage customer in 2018/19.

    - The consultation claims this increase is offset by changes to the ECO without any numbers behind it. We believe these numbers could be easily derived: BEIS and National Grid have publicly available demand forecasts which could be used to derive this trend. BEIS has published an indication of EII exempt volume. The LCCC produces a 15 month forecast of CfD FITs costs and developed it's demand forecasting capabilities to support this.

- The necessity of pass through categories for new costs:

    - Those Balancing Use of System (**BSUoS**) costs (e.g. Black Start contracts and feasibility studies, incentives, some other contract costs), which are first applied at Final Reconciliation.

    - Additional Smart DCC and Alt HAN costs, which have increased much higher than inflation. A significant portion of the cost is fixed charges which suppliers pay regardless of roll out, and which Ofgem can easily identify as part of their Cost Control.

    - Supplier of Last Resort (**SOLR**) payments, confirmed at £14.04m for GB Energy but not yet included in published distribution charges, and of course other suppliers could also go bankrupt with costs smeared across the industry.

    - Provision for unidentified gas costs, currently volatile and challenging for suppliers to predict.

- Clarification of the treatment of some gas costs:

    - For example, Xoserve is no longer funded by the gas transporters so the associated cost moved out of distribution charges 1 April 2017 and into separate charges, yet an equivalent Xoserve cost has not been included.

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- Inclusion of industry charges faced by all suppliers: AAHEDC, Elexon main and SVA charges.

For over a year suppliers have presented evidence changes to the PPM competitive benchmark are urgently required. As the number of customers captured by the PPM cap almost doubles, from 4 to 7 million, we believe there is now an urgent need to scrap rather than adapt this model.

Ofgem's own evidence to the CMA argued that: *"a cost plus model is likely to be the preferred option"* . We support this view.

Conclusion

First Utility warmly welcomes the active consideration of the means available to continue to expand protection to those most in need. However, as this second Phase of the Safeguard Tariff is a major and market-moving intervention, it must be applied consistently and coherently.

That requires data-matching for all suppliers, and a "bottom up" review of costs when setting the competitive benchmark.

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