

# Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy

## Discussion paper

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### Overview:

Upward pressure on gas and electricity bills is having a significant impact on consumers' ability to afford their fuel bills.

This document outlines our intention to develop a new Vulnerable Consumers' Strategy and seeks views on the themes of the current Social Action Strategy and the need for different emphases for the future. In order to help respondents provide their views the document sets out the measures Ofgem is already taking to contribute to tackling affordability, in particular to help vulnerable consumers.

We will be hosting a roundtable with key stakeholders on 10 May 2012 to complement this consultation and assist with the development of our strategy.

## Context

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There are increasing concerns about rising energy prices and the consequent impacts on the ability of consumers to afford their energy bills. This is a particular concern for those consumers that are already in vulnerable positions.

In line with our principal objective to protect the interests of current and future gas and electricity consumers and our duty to have regard to the interests of vulnerable consumers, Ofgem committed in its 2011-2016 Corporate Strategy and Plan to publish a discussion document on affordable energy. We are also reviewing our strategy for vulnerable consumers.

This discussion document outlines what Ofgem is already doing towards making energy bills more affordable and is intended to prompt debate on what we can do differently. The overall aim is to help us develop our new Vulnerable Consumers' Strategy.

## Associated documents and links

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Retail Market Review – Findings and Initial Proposals, March 2011

[http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR\\_FINAL.pdf](http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR_FINAL.pdf)

Retail Market Review – Domestic Proposals, December 2011

<http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR%20Domestic%20Consultation%20December%202011.pdf>

Promoting Smarter Energy Markets – consultation, December 2011

<http://www.ofgem.gov.uk/Markets/sm/strategy/Documents1/Smarter%20Markets%20Strategy%20-%20Consultation%20document.pdf>

Centre for sustainable Energy: High use, low income customers

[http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/High%20use%20low%20income%20energy%20consumers\\_Final%20Report%20Nov%202010.pdf](http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/High%20use%20low%20income%20energy%20consumers_Final%20Report%20Nov%202010.pdf)

RIIO approach to regulating networks page

<http://www.ofgem.gov.uk/NETWORKS/PRICECONTROLS/Pages/PriceControls.aspx>

Ofgem Corporate strategy page

<http://www.ofgem.gov.uk/About%20us/CorpPlan/Pages/CrprtPinning.aspx>

Social Action Strategy page

<http://www.ofgem.gov.uk/Sustainability/SocAction/Pages/SocAction.aspx>

# Contents

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<b>Executive Summary</b>	<b>4</b>
<b>1. Introduction</b>	<b>6</b>
Background	6
Structure of the document	6
<b>2. The Policy Context</b>	<b>8</b>
Fuel poverty	9
European developments	11
Attributing the cost of environmental and social measures	13
<b>3. Ofgem’s work</b>	<b>16</b>
Review of Ofgem’s strategy for vulnerable consumers	16
Ofgem’s recent work	17
<i>Retail Market Review</i>	18
<i>Smarter markets</i>	19
<i>Regulating networks</i>	19
<i>Securing compliance with social obligations</i>	21
Encouraging best practice and research	24
Knowledge and influence	25
Information for consumers	26
<b>4. Next Steps</b>	<b>28</b>
<b>Appendices</b>	<b>29</b>
<b>Appendix 1 - Consultation Response and Questions</b>	<b>30</b>
<b>Appendix 2 – Government’s fuel poverty policies</b>	<b>32</b>
Fuel poverty policies	32
Warm Front, Nest and Energy Assistance Package Scheme	32
<b>Appendix 3 - Glossary</b>	<b>35</b>
<b>Appendix 4 - Feedback Questionnaire</b>	<b>38</b>

## Executive Summary

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Rising global energy costs and measures to meet low carbon targets, combat fuel poverty and ensure secure and sustainable energy supplies are all pushing up energy bills. This raises important concerns about consumer affordability particularly where consumers are in vulnerable positions.

With these concerns in mind, this paper outlines the measures Ofgem is already taking to contribute to tackling affordability and seeks to prompt debate on what we can do differently in particular to help vulnerable consumers. Responses to this question and others will help inform the development of a Vulnerable Consumers' Strategy which we aim to consult on in the summer.

The principle policy drivers to address affordability for vulnerable consumers, such as price support and the structure of environmental and social initiatives rest with Government. The scale of this support is clearly a matter for Government though we continue to favour the distribution of the costs of these schemes, across consumers, on the basis of consumption as a more progressive approach.

Ofgem's chief role is to protect the interests of present and future gas and electricity consumers and have regard to vulnerable consumers in performing our duties. Consistent with our statutory duties, our approach is to protect consumers through promoting competition, regulating where this is not sufficient and price regulating monopoly networks. In so doing we will ensure to the fullest extent we can that prices are no higher than is necessary. Via Ofgem E-serve, we also perform a vital administrative role monitoring the delivery of DECC's environmental and social programmes, including more recently, the Warm Homes Discount (WHD) scheme. We also continue to work closely with organisations in Europe, particularly in relation to the European Commission's work on its recent consumer strategy which includes a vulnerable consumers' theme.

Ofgem's Social Action Strategy has provided the framework for our action to help protect vulnerable consumers. Last reviewed in 2005, the strategy has had four themes:

- Securing compliance with regulatory obligations, monitoring and reporting;
- Encouraging best practice among best energy and research;
- Using our knowledge to inform the debate; and
- Informing consumers about ways to lower their energy bills.

Against these themes, Ofgem has progressed a number of initiatives.

**Regulating and monitoring obligations.** We continue to monitor and enforce suppliers' debt and disconnection practices and we have recently reviewed the final year of suppliers' voluntary social initiatives which have contributed £488.7 million to benefit vulnerable consumers over the life of the scheme from 2008-2011. In 2011 Ofgem's retail market surveillance work led us to conclude, through the Retail Market Review, that consumers are at risk from a number of features in the market that reduce the effectiveness of competition. We are proposing a radical package of measures to make it easier for consumers to engage in the retail energy market leading to greater competition.

The new RIIO framework has modernised network regulation to enable network companies to secure the investment required for a low carbon energy sector while keeping costs as low as possible for consumers. The framework sets new outputs for energy network businesses to deliver which include social and customer service outputs. More specifically, the 2013 gas distribution price control will continue to provide for extension of the gas network to fuel poor communities and we are in the early stages of considering the output requirements for the 2015 electricity distribution price controls. A relevant challenge for these controls is to consider the interactions between them, for example to facilitate the consideration of renewable heat technologies as a cost effective alternative to help fuel poor consumers who are not connected to the gas grid.

**Promoting best practice and undertaking consumer research** continues to be a focus of our work, for example research has played a vital role in informing our findings and proposed remedies for the Retail Market Review. Our work to promote best practice in debt prevention and management has seen improved service standards and new research underway on prepayment consumers' experience of the process for transferring supplier while in debt will help inform a review of current processes later this year.

Ofgem's 2009 Project Discovery is an example of how we have **used our knowledge to inform debate**, in this case by analysing the investment challenge, supply security and cost implications for the electricity wholesale market over the next 10-15 years. In response to a request from DECC, we are currently analysing whether action is needed to ensure that medium to long term gas supplies for consumers remain secure. Last year we also brought together our environmental and social advisory groups to form our SD Advisory Group. The group, convening senior representatives from government, industry, environmental and consumer groups and academia, advises Ofgem on social and environmental issues.

We have continued our successful partnership with Citizens Advice under 'Energy Best Deal' to provide **information to consumers**. The campaign, now in its fourth year, helps front line advisers guide consumers on ways to save on energy bills. Funding to support this work has been boosted by a further £1m following Ofgem's recent decision against EDF Energy for breaches of the marketing licence condition. Ofgem's Retail Market Review proposals also aim to drive further improvements in the information consumers receive from suppliers to promote easier engagement in the market, including for vulnerable consumers.

However, much has changed since we last reviewed our strategy in 2005. Household energy bills have nearly doubled and the number of households in fuel poverty under the current definition has increased. Professor John Hills' independent Fuel Poverty Review has published its final report and the Government has announced that it will undertake a consultation on the definition of fuel poverty in the summer.

These changes mean it is a good time to review our strategy. In addition to our core work promoting competitive retail and wholesale markets and setting price controls, areas of work for the future might include developing and embedding a broader perspective on vulnerability both in the work we do and among suppliers, and assessing the implications of market developments such as collective purchasing and smart metering for vulnerable consumers, including where appropriate the distributional effects.

We welcome views on the current themes of our strategy and the need for new or different emphases for the future. To assist this we will be hosting a roundtable discussion with key stakeholders on 10 May and otherwise are seeking responses to this discussion paper by 25 May 2012.

# 1. Introduction

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## Chapter Summary

This chapter introduces the background to the document and explains its structure.

## Background

1.1. Ofgem's principal objective is to protect the interests of present and future gas and electricity consumers. In performing our duties we must take into account the needs of vulnerable consumers, including (*but not restricted to*) those of pensionable age, disabled, chronically sick, on low incomes and living in rural areas. Consumers' interests include their interests in maintaining secure and affordable energy supplies and the reduction of greenhouse gas emissions caused by the supply and use of gas and electricity.

1.2. Consumers' interests also include their interests in the fulfilment of the general objectives of the Gas and Electricity Directives<sup>1</sup>. These objectives include "ensuring that customers benefit through efficient functioning of their national market, promoting effective competition and helping ensure consumer protection" and "helping to achieve high standards of universal and public service in electricity supply, contributing to the protection of vulnerable customers [...]".

1.3. Upward pressure on gas and electricity bills is having a big impact on consumers' ability to meet their fuel bills. Soaring global energy demand and measures to meet low carbon targets, combat fuel poverty and ensure security of supply are all having an impact on prices.

1.4. Ofgem's Project Discovery, published in October 2009, highlighted the likelihood that energy bills will increase further over the next 10-15 years. We estimated that up to £200bn of investment might be required by 2020 alone.

1.5. The potential for further rises in energy bills is a particular issue for vulnerable consumers who can least afford the increases.

## Structure of the document

1.6. This document is structured as follows:

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<sup>1</sup> Directive 2009/73/EC concerning common rules for the internal market in gas; and Directive 2009/72/EC concerning common rules for the internal market in electricity.



## Energy Affordability: developing Ofgem's vulnerable consumers' strategy

- Chapter 2 outlines the policy context. It also sets out our view that the cost of environmental and social initiatives, if they are to be recovered through energy bills, should be structured on a per kWh basis rather than a per customer basis. We believe that this would be more progressive.
- Chapter 3 outlines our intention to review our strategy relating to vulnerable consumers and asks some questions about how the strategy should change and whether we should do anything differently. It also highlights the measures Ofgem is already taking to help alleviate affordability issues.
- Chapter 4 sets out our next steps.

## 2. The Policy Context

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### Chapter Summary

This chapter outlines the policy context on vulnerable consumers and affordability. It also sets out our view that the cost of environmental and social initiatives should be structured on a per kWh basis rather than a per customer basis which we believe would be more progressive.

2.1. Increasing gas and electricity prices are raising significant concerns about the ability of domestic consumers to afford to heat their homes. This is a particular issue for consumers on a low income because they are least able to afford the increases. In some cases these consumers may be in fuel poverty. However, even where this is not the case, consumers on a low income may still struggle to pay their bills and any increase can have an impact.

2.2. Difficulty affording fuel bills can have a number of impacts on households, including having to limit the amount they spend on other essentials such as food and living in a cold home because they fear the cost of putting the heating on. The worry of meeting fuel bills can also have psychological effects. This can be compounded where low income households have other concerns to deal with such as ill health, infirmity and disability, caring responsibilities, poor housing conditions and isolation<sup>2</sup>.

2.3. Difficulty affording fuel bills can also have more extreme consequences. There were approximately 25,700 excess winter deaths in England and Wales during winter 2010/11<sup>3</sup>. Excess winter deaths have a number of causes including, for example, levels of influenza during a particular winter<sup>4</sup>. Estimates therefore vary as to how many of these are related to fuel poverty. The World Health Organisation (WHO) has estimated that around 40% of excess winter deaths relate to inadequate housing leading to cold homes<sup>5</sup> while the Hills interim report<sup>6</sup> recognises that even if it was only 10 per cent that would still be 2,570.

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<sup>2</sup> The following study funded by the eaga Charitable Trust provides more information on the combined effects of living on a low income and in a cold home "You just have to get by": coping with low incomes and cold homes', study funded by the eaga Charitable Trust and undertaken by the Centre for Sustainable Energy and University of Bristol, June 2010 [http://www.cse.org.uk/pdf/you\\_just\\_have\\_to\\_get\\_by.pdf](http://www.cse.org.uk/pdf/you_just_have_to_get_by.pdf)

<sup>3</sup> Information on the number of excess winter deaths can be found at: <http://www.ons.gov.uk/ons/rel/subnational-health2/excess-winter-mortality-in-england-and-wales/2010-11--provisional--and-2009-10--final-/stb-ewm-2010-11.html>

<sup>4</sup> For more information about possible causes of excess winter deaths see: <http://www.ons.gov.uk/ons/rel/subnational-health2/excess-winter-mortality-in-england-and-wales/2010-11--provisional--and-2009-10--final-/stb-ewm-2010-11.html#tab-Causes-of-excess-winter-mortality>

<sup>5</sup> 'Housing, Energy and Thermal Comfort – A review of 10 countries within the WHO European Region' [http://www.euro.who.int/\\_data/assets/pdf\\_file/0008/97091/E89887.pdf](http://www.euro.who.int/_data/assets/pdf_file/0008/97091/E89887.pdf)



## Fuel poverty

2.4. Currently a household is defined as being in fuel poverty if it needs to spend more than 10 per cent of its income on fuel to maintain an adequate level of warmth<sup>7</sup>. In 2009 there were 5.2 million households living in fuel poverty across Great Britain: 4 million of which were in England, 766,000 in Scotland and 400,300 in Wales<sup>8</sup>.

2.5. The three key drivers affecting whether a household is fuel poor are: incomes, fuel prices and fuel consumption. The latter is affected by the characteristics and lifestyle of the household and how energy efficient the home is.

2.6. The Government (in relation to England) and the Scottish Government have both committed to eliminating fuel poverty by 2016 and the Welsh Government has committed to do this by 2018. There are a number of policies in place in England, Scotland and Wales aimed at tackling fuel poverty. Many are designed to provide energy efficiency improvements to homes and the Warm Home Discount provides direct financial support to those in need. The policies are outlined in appendix 2.

2.7. The broader issues of fuel poverty are essentially for the respective Governments to tackle. Ofgem has an important responsibility in relation to social issues, including having particular regard to the interests of vulnerable consumers and a role in contributing to the Governments' targets to eradicate fuel poverty. We do this by keeping up pressure on energy costs; regulating energy suppliers where this proves the best way to protect consumers; promoting competitive energy markets; price regulating network monopolies and encouraging more efficient use of energy.

2.8. While the causes of fuel poverty go beyond energy markets, we are committed to driving forward the debate and working with the UK Government and devolved administrations. Competitive markets can deliver lower prices, better service and more innovative products than regulated markets, but in some cases regulation may be the best way to protect vulnerable energy consumers.

2.9. The Department for Energy and Climate Change (DECC) recently commissioned Professor John Hills, from the Centre for Analysis of Social Exclusion at the London School of Economics, to undertake an independent review of fuel

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<sup>6</sup> 'Fuel Poverty: The problem and its measurement', interim report of the Fuel Poverty Review, John Hills, page 10.

<sup>7</sup> The adequate standard of warmth is usually defined as 21 degrees for the main living area, and 18 degrees for other occupied rooms.

<sup>8</sup> The most recent figures on the numbers in fuel poverty were published by DECC in July 2011. This gave a figure of 5.5 million households in fuel poverty in the United Kingdom. Northern Ireland, which we do not regulate, had 300,000 in fuel poverty.

poverty. The terms of reference for the review included looking at how fuel poverty should best be measured and what the measurement meant for the effectiveness of policies designed to reduce it.

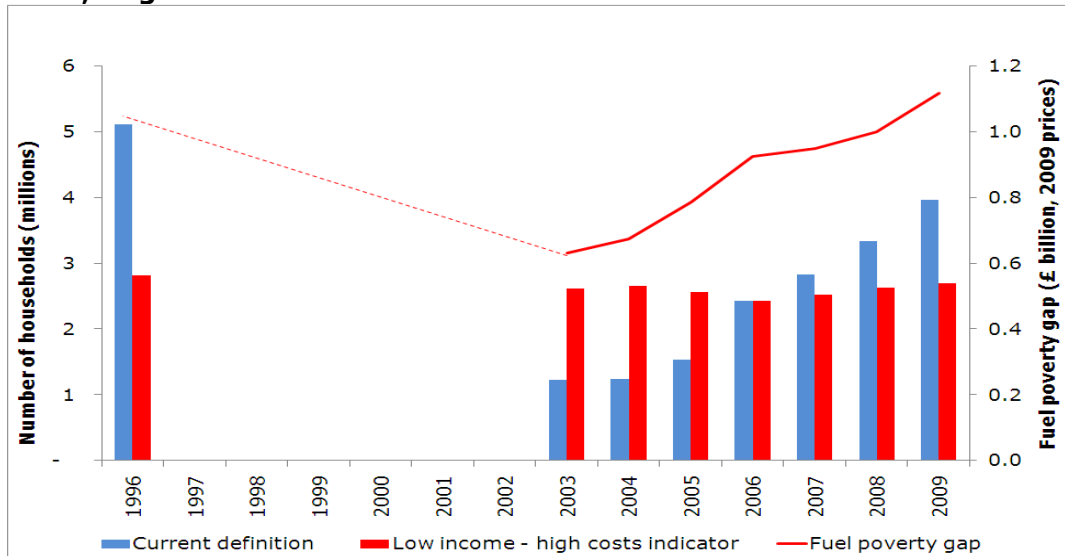
2.10. Following a consultation period, the final report was published in March 2012<sup>9</sup>. The Hills Review described fuel poverty as a problem affecting people on low incomes who cannot keep warm at reasonable cost. As such, Professor Hills has recommended that fuel poverty measurement should be based on directly measuring the overlap between low income and high costs. He has also proposed the introduction of a new indicator to calculate the depth of fuel poverty – the “fuel poverty gap”, defined as the amount fuel poor households would need to spend beyond “reasonable costs” to heat their home. The review has concluded that the current indicator was overly influenced by fuel prices.

2.11. Based on the low income high costs indicator developed through the Hills Review, nearly 8 million people in England (within 2.7 million households) both had low incomes and faced high energy costs in 2009. The fuel poverty gap was estimated to be £1.1 billion. Figure 1 below illustrates the fuel poverty gap and Low Income High Cost indicator in 1996 and 2003–2009 compared to the current fuel poverty indicator.

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<sup>9</sup> John Hills, 'Getting the measure of fuel poverty – final report of the Fuel Poverty Review', March 2012, <http://www.decc.gov.uk/assets/decc/11/funding-support/fuel-poverty/4662-getting-measure-fuel-pov-final-hills-rpt.pdf>

**Figure 1: Number of households in fuel poverty under the current indicator and under Hills’ proposed low income high cost indicator, 1996 and 2003-2009, England**



Source: Hills Fuel Poverty Review – interim report, Fuel poverty data, 1996, 2003-2009 (DECC)

2.12. The review estimated that the “fuel poverty gap” will rise by a further half to £1.7 billion by 2016, unless there are additional policies designed to reduce it beyond those currently planned. It is estimated that, while the current policy framework is having a positive impact, this is limited to a 10 per cent lower fuel poverty gap in 2016 than we might expect to see in the absence of policies<sup>10</sup>.

2.13. As a result of the findings, Professor Hills has concluded that the Government should change its approach to fuel poverty measurement and DECC, and other departments, should set out a new strategy for tackling fuel poverty. In response DECC announced its intention to consult on a new definition of fuel poverty in summer 2012.

## European developments

2.14. New Gas and Electricity Directives came into force on 3 March 2011.<sup>11</sup> The introductory recitals to the Directives emphasise the importance of consumer protection. They highlight the growing problem of fuel poverty (referred to as “Energy Poverty” in the Directives) and the need for Member States to put in place plans for tackling it. Under the Directives, Member States must take appropriate measures to protect gas and electricity consumers and ensure that there are

<sup>10</sup> ‘Getting the measure of fuel poverty: Final report of the Fuel Poverty Review’, John Hills, March 2012, page 21.

<sup>11</sup> Directive 2009/73/EC concerning common rules for the internal market in gas; and Directive 2009/72/EC concerning common rules for the internal market in electricity.

adequate safeguards to protect vulnerable customers. As explained in paragraph 1.2, Ofgem is now the National Regulatory Authority and, as such, has an important role in protecting consumers, particularly vulnerable consumers.

2.15. The European Commission (the Commission) is developing the EU's Consumer Strategy through a package covering 2013 to 2020 and building on the Commission's existing rules and policies. The package covers a range of approaches on consumer empowerment, information, rights and enforcement recognising the needs of vulnerable consumers within this framework.

2.16. The Commission has also launched a working group on vulnerable consumers in EU energy markets to look at the broad spectrum of vulnerable energy consumer issues across the European Union and identify measures that can help address these issues. Ofgem is engaged in this work through its membership of the Council of European Energy Regulators (CEER).

2.17. The European Commission has proposed a new Energy Efficiency Directive, which is currently being discussed by the European Parliament and the Council of Ministers. The proposed Directive includes measures requiring member states to save energy, for example by establishing obligation schemes on energy suppliers, removing barriers to the development of combined heat and power generation, and by regulating monopoly network companies in a way that encourages energy efficiency. We are providing advice to the Government as the negotiations have proceeded, and will continue to do so in the implementation phase, in particular where this involves changes to the regulatory regime.

## **Government policies and schemes**

2.18. Government has a number of environmental and social policies in place designed to tackle fuel poverty and/or improve the energy efficiency of housing.

2.19. CERT - the Carbon Emissions Reduction Target is a GB wide scheme financed through energy bills. CERT requires all domestic energy suppliers with a customer base in excess of 250,000 customers to make savings in the amount of carbon monoxide emitted by householders. Suppliers meet this target by promoting the installation of energy efficiency measures in homes.

2.20. CESP - targets households across Great Britain, in areas of low income, to improve energy efficiency standards, and reduce fuel bills. There are 4,500 areas eligible for CESP. It is expected to deliver up to £350m of efficiency measures.

2.21. ECO - Energy Company Obligation will place one or more obligations on energy companies requiring them to generate a specific amount of credit by facilitating the installation of energy efficiency measures in homes in Great Britain before a set deadline. It will also provide support to those on low incomes through the 'affordable warmth' part of the obligation.

2.22. There are other separate schemes available in Wales and Scotland. In Wales, Nest offers a range of support to help people reduce their fuel bills including advice, regarding benefits and tariffs, as well home efficiency measures. In Scotland, the Energy Assistance Package provides assistance on energy efficiency measures and information on low cost tariffs.

2.23. More details on these schemes are available in appendix 2.

**Figure 2: Programmes and their and their impact on bills and CO<sub>2</sub> emissions**

	<b>Total CO<sub>2</sub> savings (MtCO<sub>2</sub>)</b>	<b>Cost on electricity bill (p.a.)</b>	<b>Total funding going to consumers</b>
<b>CERT</b>	293	£52	-
<b>CESP</b>	2.9	£3	-
<b>WHD</b>	-	£9.40-£11.70 (2011/12-2014/15)	£1.1bn over 4 years

Source: CERT and CESP: DECC website [www.decc.gov.uk](http://www.decc.gov.uk), WHD: funding levels for each year of the scheme are on DECC’s website, the cost on the bill are Ofgem’s own calculations.

2.24. The UK Government has also established the Energy Efficiency Deployment Office (EEDO) in order to drive a step change in energy efficiency across domestic, non-domestic and industrial sectors. Working closely with the Devolved Administrations to ensure a UK-wide approach as far as possible, EEDO is tasked with the development of an Energy Efficiency Strategy which is due for publication by the end of 2012. EEDO will also play a leading role in the negotiations of the EU Energy Efficiency Directive and in the promotion of energy efficiency benefits within international discussions.

### Attributing the cost of environmental and social measures

2.25. The costs of a number of these policies, namely the Carbon Emissions Reduction Target (CERT), the Community Energy Saving Programme (CESP), the Warm Homes Discount (WHD) and in the future the Energy Company Obligation (ECO), are recovered through gas and electricity bills. Figure 2 shows the impact on carbon emissions and the average electricity bill of these policies.

2.26. The method of setting suppliers’ targets for these programmes is, properly, a matter for Government to decide. However, to contribute to the debate we have set out below our consideration of how targets could be set on a more progressive basis.

2.27. Currently the method of setting suppliers’ targets for these programmes is on the basis of the number of customer accounts of each supplier. Target setting based on customer numbers can be seen to provide a signal that the cost of compliance should be collected on a per customer basis, particularly as suppliers are likely to alter their pricing structures to reflect changes in their costs given the competitive risks of not doing so.

2.28. This approach is less progressive than other options. For example, to fund CERT consumers are likely to pay the same absolute amount per fuel, regardless of their consumption level (assuming suppliers pass on the CERT cost in this way). This means that consumers with low consumption will pay the same amount as consumers with high consumption. This is less progressive since low income consumers are more likely to have low consumption and energy bills represent a higher proportion of expenditure for low income than better off households. It also does not explicitly encourage consumers to be energy efficient since they cannot reduce the absolute or relative amount they pay by reducing their energy use.

2.29. Given this, Ofgem considers that setting targets based on consumption, that is the amount of kWhs supplied, would be more progressive for future schemes such as ECO.

2.30. Recent research undertaken by the Centre for Sustainable Energy (CSE) for the Joseph Rowntree Foundation (JRF) shows that the top 10 per cent of earners emit 45% more carbon through their household fuel use than the bottom 10 per cent<sup>12</sup>. On the basis of the polluter pays principle, this further suggests that suppliers' targets should be set on a basis where high earners, using more energy, pay more towards the measure.

2.31. We recognise that there are some low income high use households that would be adversely affected by cost recovery per kWh and that these consumers are more likely to be fuel poor. However, on average low income consumers spend less on energy. To mitigate any potential impact on high use, low income consumers measures could be targeted on these consumers to improve energy efficiency. This is however a matter for Government.

2.32. In 2010 we commissioned the CSE to examine the characteristics of low income high use households<sup>13</sup>.

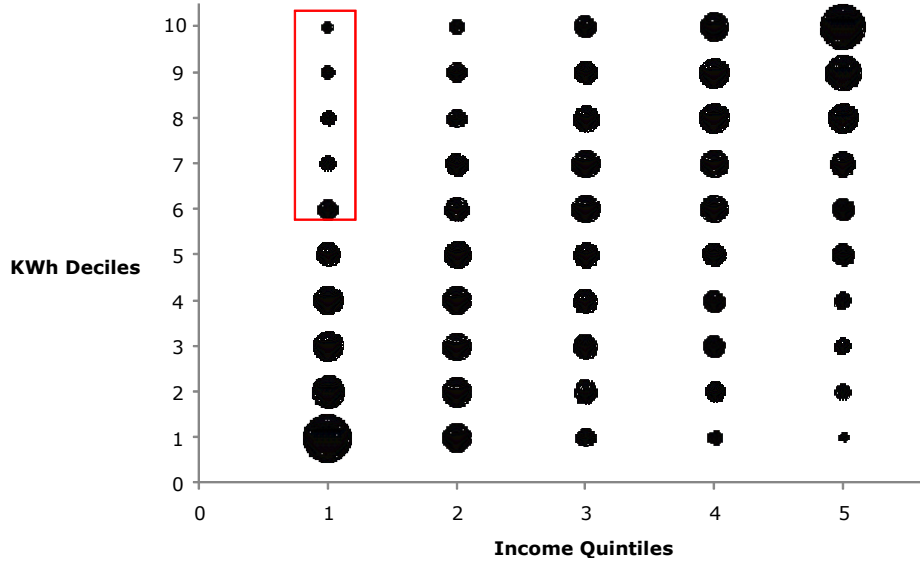
2.33. Figure 2, taken from the CSE's report for Ofgem, illustrates the distribution of household gas and electricity usage across household income groups. The size of the bubbles indicates the number of households – the bigger the bubbles the greater the number of households. For example, households in the bottom left hand corner of figure 2 are in the first income quintile and lowest consumption profile. While households in the top left hand corner are still in the lowest income quintile but have high consumption profiles.

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<sup>12</sup> Centre for Sustainable Energy (2011), *The distribution of UK household CO<sub>2</sub> emissions: Interim report, a report for the Joseph Rowntree Foundation*:  
<http://www.jrf.org.uk/sites/files/jrf/carbon-reduction-policy-full.pdf>

<sup>13</sup> 'Understanding High Use Low Income Energy Consumers', Centre for Sustainable Energy, November 2010  
[http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/High%20use%20low%20income%20energy%20consumers\\_Final%20Report%20Nov%2010.pdf](http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/High%20use%20low%20income%20energy%20consumers_Final%20Report%20Nov%2010.pdf)

**Figure 3: Energy use across income groups**



Source: Centre for Sustainable Energy (2010), *Understanding 'High Use Low Income' Energy Consumers, report for Ofgem*

2.34. Figure 2 illustrates that there is a positive relationship between income and energy usage, i.e. high income consumers are more likely to have higher energy consumption than low income consumers. However, the diagram illustrates that there are some households with a low income but high energy consumption. The area highlighted in red above represents approximately 29 per cent of those in the lowest income quintile, around 1.22 million households. These households are most likely to be at risk of fuel poverty given their relatively high energy requirements and low income.

2.35. The characteristics of consumers and homes in this category of low income high use include:

- homes that do not have a gas supply
- larger homes
- energy inefficient homes
- occupants with retired singles or couples, single parent families and large families.

2.36. We consider that by targeting help at these consumers (who are also likely to be fuel poor) would help mitigate any potential impact of setting suppliers' targets on the basis of the amount of energy (kWh) supplied.

## 3. Ofgem's work

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### Chapter Summary

This chapter sets out our intention to review our strategy for vulnerable consumers. It also summarises the work we are doing towards tackling affordability issues, including under the RIIO price controls and the Retail Market Review (RMR) which is aimed at helping consumers engage in the market and therefore get better deals.

### Questions

**Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?**

**Question 2: What can Ofgem do differently to help address affordability concerns?**

**Question 3: We welcome views on how Ofgem can help stakeholders with their contribution.**

### Review of Ofgem's strategy for vulnerable consumers

3.1. In 2005 we published our Social Action Strategy (SAS) which was positioned to run for five years. The strategy sets out how we intend to protect vulnerable consumers and help government to tackle fuel poverty. Since its first publication we have reported annually on our work. We also report annually on our action towards eradicating fuel poverty and protecting vulnerable consumers in our annual 'Sustainable Development Focus' report<sup>14</sup>.

3.2. The current Social Action Strategy has four themes:

- securing compliance with regulatory obligations and effective monitoring and reporting by the companies
- encouraging best practice among energy suppliers, using research to identify effective ways to address fuel poverty and help vulnerable consumers

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<sup>14</sup> Our Social Action Strategy update documents can be found at:  
<http://www.ofgem.gov.uk/SUSTAINABILITY/SOCACTION/Pages/SocAction.aspx>  
Our 'Sustainable Development Focus' annual reports can be found at:  
<http://www.ofgem.gov.uk/Sustainability/SDR/Pages/SDR.aspx>





## Energy Affordability: developing Ofgem's vulnerable consumers' strategy

- influencing the debate about measures to help tackle fuel poverty, working with other stakeholders, helping to promote a joined up and holistic approach, and
- informing consumers about ways to lower their energy bills.

3.3. It is timely to review the strategy and we plan to consult again in the summer.

3.4. In addition to this consultation, two further inputs to our work and the development of a future strategy include:

- Assessing the need to develop a **broader understanding of the needs and issues facing consumers in vulnerable positions**. We are currently working with the Centre for Consumers and Essential Services at the University of Leicester to assist us with this. We expect the output to be incorporated in the strategy and to be used in our work with energy companies to promote best practice
- Developing our scope for assessing the impact of policy decisions on different groups of consumers. We have commissioned the Centre for Sustainable Energy (CSE) to develop a number of pen portraits/archetypes that include information about the level and pattern of gas and electricity usage of consumers under each archetype.

3.5. The following sections set out in more detail the work Ofgem has been progressing over the last year under the key themes of our Social Action Strategy. This is intended to help inform stakeholders' responses to the key questions which we are posing in this discussion paper.

**Q1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?**

**Q2: What can Ofgem do differently to help address affordability concerns?**

**Q3: We welcome views on how Ofgem can help stakeholders with their contribution.**

## Ofgem's recent work

### Regulatory obligations, monitoring and enforcing

3.6. While our work involves the promotion of competition we recognise that in some circumstances competition alone is not sufficient to protect consumers, particularly those in vulnerable positions. Given this there are a number of regulations already in place to protect consumers. In some cases, we may also

propose further regulations where we find competition is not sufficient to protect consumers.

3.7. Securing compliance with regulatory obligations and effective monitoring and reporting by suppliers are essential in enabling us to track progress on social issues, identify issues that need resolving and possible additional areas for future action.

#### *Retail Market Review*

3.8. Our Retail Market Review (RMR) published in March 2011 concluded that consumers are at risk from a number of features in the market that serve to reduce the effectiveness of competition. We found that these features included a combination of tariff complexity, poor supplier behaviour and lack of transparency of company accounts. We also found that suppliers' response to the reforms Ofgem had introduced following its 2008 Energy Probe, which were designed to increase consumer engagement, had been patchy<sup>15</sup>.

3.9. Of particular concern is the growing complexity of pricing information and the high number of sticky customers. Sticky consumers are those who choose not to switch, cannot switch due to their circumstances, or are put off switching due to other features of the market such as tariff complexity. We estimate that around 40-60% of customers in the energy sector are currently sticky (although we recognise that they may have switched in the past) and that vulnerable consumers are likely to be disproportionately represented in this group.

3.10. As a result of our findings, we consulted on proposed reforms in December 2011 aimed at making it easier for consumers to choose a better deal and for new suppliers to enter the market<sup>16</sup>. We are currently reviewing responses to this consultation which were received at the end of February 2012.

3.11. During our RMR, we have also asked for respondents' views on whether more needs to be done to help vulnerable consumers. We are reviewing responses and considering this further. In addition we have, as we said we would, begun to discuss these issues directly with DECC given the important interaction with Government policy on fuel poverty and price support.

3.12. We are active in considering current market developments, for example the building interest in the scope and role for collective switching and purchasing. We are assessing the consumer protection and regulatory implications of these schemes. We consider these may also have the potential to provide a useful way for vulnerable consumers to access the competitive retail market.

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<sup>15</sup> Retail Market Review: Findings and Initial Proposals, March 2011:

[http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR\\_FINAL.pdf](http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR_FINAL.pdf)

<sup>16</sup> Retail Market Review: Domestic Proposals, December 2011:

<http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/RMR%20Domestic%20Consultation%20December%202011.pdf>

### *Smarter markets*

3.13. Smart metering can empower consumers by providing valuable, accessible information to help them to use energy more efficiently. It can also help stimulate competition by facilitating new entry, creating opportunities for innovation and enabling faster and easier customer switching. Innovation in tariff structures (such as time-of-use tariffs), energy services and payment methods can also bring significant benefits for consumers, including those struggling to pay. In a wider environment of rising energy prices, the ability to get the best possible value out of each unit of energy will be critically important in making energy as affordable as possible for all consumers.

3.14. In December 2011 we consulted on our strategy to shape market development with the roll-out of smart metering<sup>17</sup>. One of Ofgem's roles during the roll-out of smart metering is to take proactive steps to protect and promote the interests of consumers. We will focus on consumers, particularly the vulnerable, to help them realise the benefits of smart metering and to protect them from any risks that present themselves as a result of the roll-out.

3.15. In this respect, Ofgem has already taken early steps, for example, by introducing new licence protections for consumers where suppliers use the remote functionality of smart metering to switch a consumer to prepayment mode or to disconnect their supply<sup>18</sup>. We are also introducing measures to support switching for consumers with early smart meters.

3.16. As tariffs and services develop, such as a greater proliferation of time of use tariffs, we will also assess the need to consider the distributional effects of these, in particular on vulnerable consumers.

### *Regulating networks*

3.17. RIIO (Revenue = Incentives + Innovation + Outputs) is our network regulation model which aims to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers a reliable supply and keeps costs as low as possible for consumers. RIIO places an emphasis on identifying social and consumer service outputs, among others, that network companies can deliver to help address issues such as fuel poverty.

3.18. The gas distribution price control (GD1), which is due to begin in April 2013, has a strong focus on social objectives. We will support activities to raise awareness of the risks associated with carbon monoxide (CO) poisoning as part of this price

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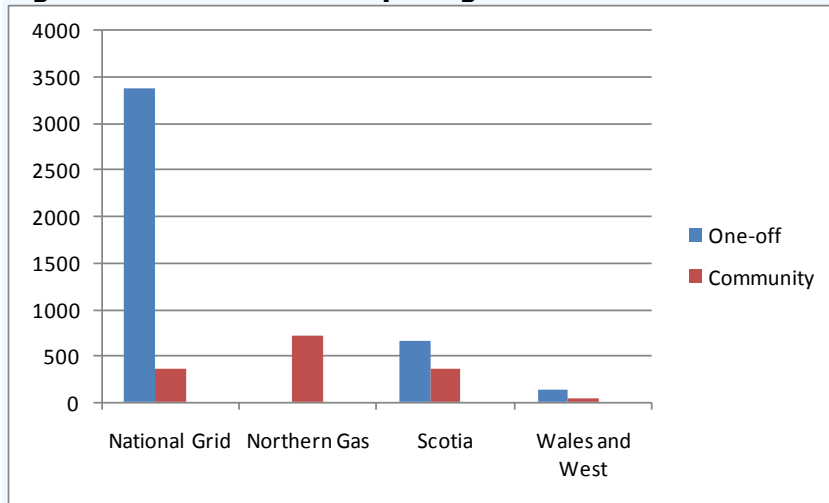
<sup>17</sup> Promoting smarter energy markets, December 2011:  
<http://www.ofgem.gov.uk/Markets/sm/strategy/Documents1/Smarter%20Markets%20Strategy%20-%20Consultation%20document.pdf>

<sup>18</sup> Smart metering consumer protections package: statutory consultation, June 2011:  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Smart%20Metering%20Consumer%20Protections%20Package%20-%20Statutory%20Consultation.pdf>

control, and we will also continue to encourage the extension of the gas network to fuel poor communities where it is cost efficient to do so.

3.19. Fuel poor network extensions were first factored into the price control regime in 2009. The expectation is that 20,000 fuel poor consumers will have been connected by March 2013. Figure 3 illustrates that the number of fuel poor gas network connections in 2009/10 was 5,672, which was well above anticipated numbers<sup>19</sup>. Most of the fuel poor connections were one-off connections and not part of a project to connect a community.

**Figure 4: Number of fuel poor gas network connections in 2009/10**



Source: Ofgem, figures reported by Gas Distribution Networks

3.20. We will review our fuel poor gas connections policy in 2014 to ensure that gas network extensions continue to be the best option for fuel poor customers off the gas grid. The introduction of government policies, such as the Renewable Heat Incentive, has the potential to make other options more cost effective.

3.21. We are in the early stages of considering the policies and output requirements for the next electricity distribution price control, due to start in 2015. A challenge for this price control will be to consider how we can facilitate the consideration of renewable heat technologies as a cost effective alternative to help fuel poor consumers who are not connected to the gas network. In this respect, we will be looking at how electricity and gas distribution companies can work together with the aim of helping these consumers.

3.22. Both gas and electricity price controls have featured Discretionary Reward Schemes (£4m a year in gas and £1m a year in electricity). The focus of these schemes has been to recognise and reward network company behaviour and

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<sup>19</sup> Gas and electricity connections industry review 2009-10, March 2011: <http://www.ofgem.gov.uk/Networks/Connectns/ConnIndRev/Documents1/CIR%2009-10.pdf>

practice, which goes beyond licence obligations, to bring environmental improvement, enhance customer service and support vulnerable and fuel poor households and communities. Below are case studies for the companies that received awards in the category of extending the gas network to fuel poor consumers in 2010/11.

**Gas Discretionary Rewards for 2010/11: Extensions to the gas network for fuel poor consumers**

Scotia Gas Networks (SGN)	SGN received £400,000 for their initiative to connect fuel poor consumers in Park homes to the gas network using direct engagement with customers to understand specific needs.
National Grid Gas (NGG)	NGG received £200,000 for a wide range of initiatives involving network extensions to the fuel poor and providing affordable warmth solutions.
Wales and West (WWU)	WWU received £100,000 for their GIS mapping initiative and their work with the Welsh Assembly Government to better identify areas of fuel poverty which may benefit from gas network extensions which could applied more widely.

Source: Ofgem<sup>20</sup>

3.23. Going forward it is likely the method of recognising and incentivising these types of innovative approaches will change. However, our policy intent will remain to encourage and incentivise initiatives by the network companies that help fuel poor and vulnerable consumers.

*Securing compliance with social obligations*

3.24. Given the pressure high gas and electricity bills place on households budgets we are aware of the risk that some customers in vulnerable positions may find themselves in debt with their gas and electricity bills.

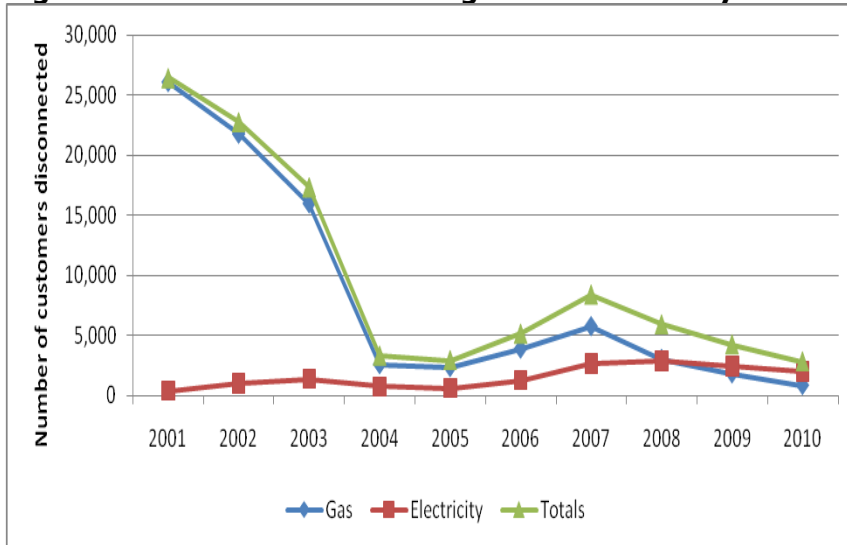
3.25. Effective monitoring and reporting are essential in enabling us to track progress on debt and disconnection issues, inform compliance activity and identify possible additional areas for future action. During 2011/12, we have continued to monitor and report on suppliers' performance against their social obligations relating to, amongst other things, debt and disconnection, prepayment meters, suppliers' Priority Services Registers (PSRs) and energy efficiency advice by publishing quarterly reports and an annual report in June 2011.

3.26. Our work in successive years to monitor disconnections and encourage best practice in this area has been an important contribution to securing a reduction in

<sup>20</sup> Report on the Gas Discretionary Reward Scheme 2010/11:  
<http://www.ofgem.gov.uk/Networks/GasDistr/OoS/Documents1/2010-11%20Gas%20Discretionary%20Reward%20Scheme%20Decision%20Report.pdf>

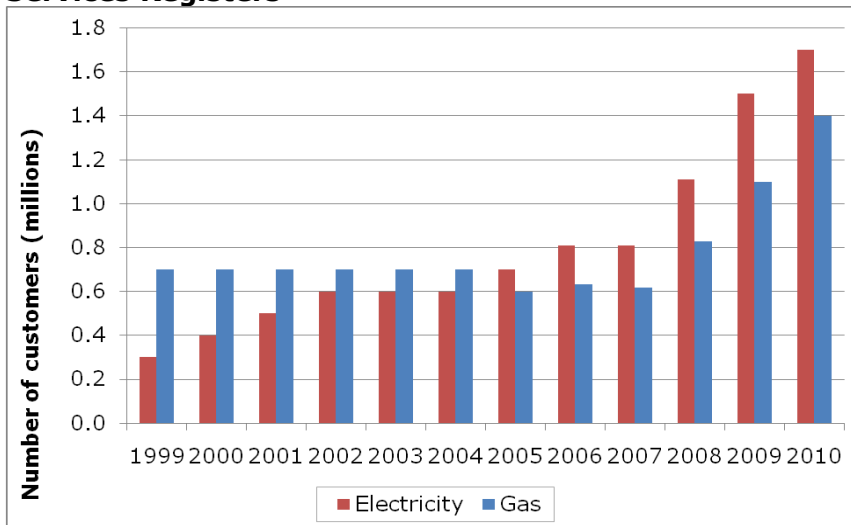
disconnections for non payment of debt, as shown in figure 4. We have also seen a considerable increase in the number of consumers on suppliers' PSRs, as shown in figure 5.

**Figure 5: Number of domestic gas and electricity disconnections over time**



Source: Ofgem, supplier data

**Figure 6: Number of gas and electricity consumers on suppliers' Priority Services Registers**



Source: Ofgem, supplier data

3.27. As part of our joint debt review with Consumer Focus (referred to further in paragraph 3.35, published in June 2010, we established a number of key Principles that suppliers should consider when assessing consumers' ability to pay when setting

debt repayment amounts<sup>21</sup>. We take these key Principles into account when considering compliance issues against suppliers' licence obligation to take into account a customer's ability to pay when setting repayment amounts. We stand ready to investigate and take enforcement action if necessary where suppliers are in breach of their supply licence obligations.

3.28. In November 2011 we published our case closure decision in respect of an investigation into British Gas' compliance with this licence obligation. Our decision clarifies the high standard required for compliance with these obligations, providing more detail on the application of the Key Principles of ability to pay set out in our debt review<sup>22</sup>.

3.29. We have also consulted on a review of the data we collect to monitor suppliers' compliance with social obligations to ensure that it is identifying the key issues. We will report on the changes we plan to make to the data we collect at the end of March 2012.

3.30. Given the current economic climate and the recent increases in fuel bills, we strongly urge all suppliers to do all they can to assist their consumer, particularly those who are vulnerable, to manage their energy bills. We will continue to monitor suppliers' performance in this area and report on a quarterly and annual basis.

#### *Monitoring suppliers' social initiatives*

3.31. Last year we reviewed the final year of suppliers' voluntary social initiatives, which have contributed £488.7 million over the three years of the scheme, exceeding the government's target by around £115 million.

3.32. From 2008–2011, suppliers have contributed a total of over £335 million through social and discounted tariffs, over £81 million through rebates and around £42 million through Trust Funds.

3.33. The voluntary commitment has now come to an end. Financial support to consumers likely to be fuel poor is now run through government's mandatory Warm Homes Discount scheme. Under the scheme suppliers are required to provide £1.13 billion of direct and indirect support arrangements to fuel poor consumers over four years from April 2011. Ofgem E-Serve has an important role in administering the scheme on behalf of government.

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<sup>21</sup> Review of suppliers' approaches to debt management and prevention, joint Ofgem/Consumer Focus, June 2010:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20Review%20Report.pdf>

<sup>22</sup> Treatment of customers in payment difficulty: investigation into British Gas Trading Limited's compliance with obligations under the gas supply licence and the electricity supply licence (Standard Licence Condition 27.8), case closure decision, November 2011: <http://www.ofgem.gov.uk/About%20us/enforcement/Investigations/ClosedInvest/Documents1/BG%20SLC27-8%20decision%20document.pdf>

### **Encouraging best practice and research**

3.34. Promoting best practice within the energy industry can achieve positive benefits for consumers and promote innovative initiatives amongst suppliers.

3.35. We are continuing to encourage suppliers to adopt best practice with regard to managing and preventing debt. As part of our joint best practice review with Consumer Focus, we identified a number of key principles suppliers should consider to ensure they are properly and proactively taking account of a customer's ability to pay when setting debt repayment amounts. Suppliers have made steady progress to embed the key principles in their processes.

3.36. Research is another key area of our work and provides an important role in informing our wider work and future plans as well as being a key input into our policy development, particularly for the Retail Market Review.

3.37. Over the last year we have continued with our Consumer First panel to help inform work across Ofgem. Ofgem's Consumer First Panel<sup>23</sup> has met several times and fed back on issues including data matters relating to smart metering, enhanced information for consumers relating to switching and the RMR, Ofgem's future strategy.

3.38. Ofgem also undertakes consumer research to support its work on networks. The Consumer First Panel has fed back on its priorities for the outputs to be delivered by network companies under the RIIO price control framework and we have and 'willingness to pay' research for service improvements to the electricity distribution network. To support this we have set up a Consumer Challenge Group to ensure that the consumer view is being taken into account in our development of network price controls. The Group of eight consumer experts acts as Ofgem's 'critical friend' and brings additional insight and expertise that we could not address through market research.

3.39. We have undertaken a considerable amount of research for the RMR including qualitative and quantitative research with all types of consumers on tariff comparability, a study of the language and layout of supplier communications and a survey of customer engagement with the energy markets.

3.40. On an annual basis we undertake a quantitative survey to examine the experiences of vulnerable consumers in the energy market.

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<sup>23</sup> Ofgem's Consumer First Panel consists of 100 everyday domestic consumers recruited from five locations across Great Britain. The Panel meets regularly to discuss key issues impacting on their participation in the gas and electricity markets. It is refreshed with new panel members once a year. Further information is available from <http://www.ofgem.gov.uk/Sustainability/Cp/CF/Pages/CF.aspx>



3.41. In 2012 we have commissioned qualitative research into the Debt Assignment Protocol (DAP), a process which gives prepayment meter consumers with a debt of £200 or less the ability to switch to a new supplier. This research aims to enhance our understanding of the reasons why more consumers in debt have not used the protocol to switch supplier. On the back of this research, we will review the DAP in the summer and make improvements where necessary.

3.42. We are building our understanding of wider factors affecting vulnerability. On the back of their report 'too many hurdles: information and advice barriers in the energy market', the Centre for Consumers and Essential Services at the University of Leicester has run a workshop to assist us with this<sup>24</sup>. This work will be incorporated in our new Vulnerable Consumers' Strategy and we hope to encourage energy companies to adopt a similarly broad understanding of the issues that put consumers in vulnerable positions.

3.43. We are currently developing our scope for assessing the impact of policy decisions on different groups of consumers. We have commissioned the Centre for Sustainable Energy (CSE) to develop a number of pen portraits/archetypes that include information about the level and pattern of gas and electricity usage of consumers under each archetype.

### **Knowledge and influence**

3.44. We are committed to driving forward the debate, identifying solutions and facilitating discussion in areas relating to our own role and where we have less direct influence over outcomes.

3.45. As part of this, last year we brought together our environmental and social advisory groups to form the Sustainable Development Advisory Group (SD Advisory Group). The group is made up of independent policy experts from Government, industry and consumer and environmental interest groups who provide us with valuable advice on the priorities for our work relating to sustainable development<sup>25</sup>.

3.46. We have used our knowledge of the energy markets to help Government develop its Green Deal and the Energy Company Obligation proposals to ensure that these programmes interact effectively with the competitive energy retail markets and ensure that vulnerable consumers are protected. In addition, Ofgem E-Serve, given its knowledge of administering a number of environmental and social programmes on behalf of Government, has been able to also help Government in the development of these schemes<sup>26</sup>.

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<sup>24</sup> 'Too many hurdles: information and advice barriers in the energy market', Centre for Consumers and Essential Services, University of Leicester, November 2011: <http://www2.le.ac.uk/departments/law/research/cces/documents/Too-Many-Hurdles-2011.pdf>

<sup>25</sup> More information on our SD Advisory Group can be found at: <http://www.ofgem.gov.uk/Sustainability/sdag/Pages/sdag.aspx>

<sup>26</sup> Further information on both schemes is included in appendix 2.

3.47. Last year we completed the policy design phase of the Smart Metering Programme on behalf of DECC. This work set out how smart metering will be delivered to every home in Great Britain (GB), including design requirements, central communications, data management and the approach to the roll-out. Going forward we are continuing to engage constructively and actively with government in a regulatory capacity to help ensure that the roll-out of smart metering delivers benefits to all consumers, including those in vulnerable positions.

3.48. As explained in chapter 2, the Government has announced that it will review the definition of fuel poverty following the conclusions of the Hills Fuel Poverty Review. We consider that this review is important to ensure that help to those in fuel poverty is effectively targeted. We will contribute where we can to this important debate.

### **Information for consumers**

3.49. Consumers need to be properly informed about options for reducing their energy bills and need to feel confident in the choices they make. Consumers in vulnerable positions, in particular, may feel they need additional information and support. We, along with suppliers and consumer bodies, have a role to play in providing such information to consumers.

3.50. We are continuing our work with Citizens Advice on 'Energy Best Deal'. The sessions are designed for consumers and frontline workers who are likely to be in contact with vulnerable consumers. The sessions give advice on how to make homes energy efficient, ensure consumers are claiming the right benefits and check they are on the best energy tariff for their circumstances. Between now and May more than 1,200 sessions will be delivered across Scotland, Wales and England. This should result in additional 95,000 consumers benefiting from the campaign, more than doubling the current total.

3.51. Ofgem recently announced that EDF Energy will pay a £4.5 million package to vulnerable consumers, which includes £1 million to Energy Best Deal next year. This is following an investigation into EDF Energy's sales practices which found the company had breached its licence conditions<sup>27</sup>.

3.52. The RMR includes proposals aimed at improving the quality of information consumers receive on their bills and other correspondence. We are also looking to standardise price information to make it easier to compare tariffs.

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<sup>27</sup> More information about this package to help vulnerable consumers can be found at: <http://www.ofgem.gov.uk/media/pressrel/Documents1/EDF%20press%20notice%20March%2009%202012.pdf>



## Energy Affordability: developing Ofgem's vulnerable consumers' strategy

3.53. We consider these proposals will provide clearer information to consumers making it easier for them to engage in the energy retail markets and get a better deal.

## 4. Next Steps

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4.1. Over the next four months we will be developing our Vulnerable Consumers' Strategy with the aim of publishing a consultation on the strategy in the summer.

4.2. To help us develop the strategy we would appreciate responses to the questions in chapter 3 and repeated below as follows by **25 May 2012**:

1. What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?
2. What can Ofgem do differently to help address affordability concerns?
3. We welcome views on how Ofgem can help stakeholders with their contribution.

4.3. Responses should be addressed to Lisa Taylor, Consumer Policy Manager, [lisa.taylor@ofgem.gov.uk](mailto:lisa.taylor@ofgem.gov.uk). Further details about responding to this document are provided in appendix 1.

4.4. In order to help us develop our strategy we will also be hosting a roundtable discussion with key stakeholders on 10 May 2012.

## Appendices

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### Index

Appendix	Name of Appendix	Page Number
1	Consultation responses and questions	30
2	Government’s fuel poverty policies	32
3	Glossary	35
4	Feedback questionnaire	38

## Appendix 1 - Consultation Response and Questions

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1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by **25 May 2012** and should be sent to:

**Lisa Taylor**

Consumer Policy and Insight  
9 Millbank  
Ofgem  
London  
SW1P 3GE  
020 7901 7272  
lisa.taylor@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Any questions on this document should, in the first instance, be directed to:

**Claire Tyler**

Consumer Policy and Insight  
9 Millbank  
Ofgem  
London  
SW1P 3GE  
020 7901 7331  
claire.tyler@ofgem.gov.uk

**CHAPTER: Three**

**Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?**

**Question 2: What can Ofgem do differently to help address affordability concerns?**

**Question 3: We welcome views on how Ofgem can help stakeholders with their contribution**

## Appendix 2 – Government's fuel poverty policies

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### Fuel poverty policies

1.1. The Government has a number of fuel poverty policies which are outside the work that Ofgem does.

1.2. At the Spending Review in October 2010 the Government announced it would commission an independent review to take a fresh look at the fuel poverty target and definition. The Government wishes to focus its available resources where they will be most effective in tackling the problems underlying fuel poverty.

### Warm Front, Nest and Energy Assistance Package Scheme

1.3. The Warm Front Scheme was funded by the Government in England and has run from 2000. The scheme provides funded heating and insulation improvements to households receiving particular income-related benefits and living in properties that are poorly insulated and/or do not have a working central heating system. During its life, the scheme has helped around 2.3 million households, at an average of around £1,200 per household. The scheme is due to finish in 2013.

1.4. Similar schemes are also available in Wales and Scotland. Nest is the Welsh Government's fuel poverty scheme which aims to help people in Wales reduce their fuel bills. Nest offers a range of advice, regarding benefit entitlement, tariffs and managing money, through expert partners, as well as a full home energy assessment and energy efficiency improvements at no cost to the householder. Free entitlement is available to people in Wales who are in receipt of a means tested benefit and living in hard to heat homes.

1.5. The Welsh Government also has a scheme called Arbed which invests money in improving homes in some of Wales' poorest areas. It includes the provision of energy saving improvements such as external wall insulation, high efficiency, class 'A' boilers and the transition to more efficient types of fuel.

1.6. The Energy Assistance Package is Scotland's scheme to provide assistance tailored to the needs of individual households. It offers energy efficiency advice, information on low cost energy tariffs, and advice on income maximisation, as well as a wide range of energy efficiency measures to those most at risk of fuel poverty.

1.7. The Scottish Government has an additional scheme called the Universal Home Insulation Scheme to provide energy efficiency measures to a large number of Scottish households while delivering emission savings and helping to reduce fuel



poverty. It offers free loft and cavity wall insulation in certain local authorities in conjunction with local delivery partners.

## **CERT**

1.8. The Carbon Emissions Reduction Target (CERT) is a GB wide scheme financed through energy bills. CERT requires all domestic energy suppliers with a customer base in excess of 250,000 customers to make savings in the amount of carbon monoxide emitted by householders. Suppliers meet this target by promoting the installation of energy efficiency measures in homes.

1.9. However, CERT is also intended to help: reduce energy demand; enhance the UK's security of supply; reduce energy bills and fuel poverty for those receiving measures; and, secure jobs in energy efficiency industries.

1.10. CERT was extended in 2012 and as a result some changes were made to the programme, including an increase in the target. At least two thirds of the increase in target (68%) must be delivered through professionally installed insulation measures. In combination with the exclusion of compact fluorescent lamps, this will refocus the scheme around supporting insulation measures that can help deliver deep and long lived carbon and energy savings.

1.11. There is also a renewed drive to ensure that more vulnerable households receive support. Suppliers were already required to meet 40% of their total target by delivering measures to a 'Priority Group' of vulnerable and low-income households, including those in receipt of eligible benefits and pensioners over the age of 70. Under the extension an additional target has been introduced, to require that 15% of the savings be achieved in a subset of low income households (a Super Priority Group) considered to be at high risk of fuel poverty.

1.12. CERT is due to end in December 2012 and will be replaced by the Green Deal and Energy Company Obligation (ECO).

## **CESP**

1.13. The Community Energy Saving Programme (CESP) is a GB wide scheme financed through energy bills.

1.14. CESP targets households across Great Britain, in areas of low income, to improve energy efficiency standards, and reduce fuel bills. There are 4,500 areas eligible for CESP. CESP is funded by an obligation on energy suppliers and electricity generators. It is expected to deliver up to £350m of efficiency measures.

1.15. CESP is intended to promote a "whole house" approach i.e. a package of energy efficiency measures best suited to the individual property. The programme is delivered through the development of community-based partnerships between Local Authorities (LAs), community groups and energy companies, via a house-by-house, street-by-street approach. This partnership working allows CESP to be implemented

in a way that is best suited to individual areas and coordinated with other local and national initiatives. Up to 400 schemes are expected, benefiting around 90,000 homes and saving nearly 2.9m tonnes of CO2 emissions. CESP is expected to deliver annual average fuel bill savings for those households involved of up to £300.

### **Future policies – Green Deal and ECO**

1.16. Green Deal will be available across Great Britain from the end of 2012. It will allow consumers to make energy efficiency improvements to their homes at no upfront cost. Central to the Green Deal is a finance mechanism that will allow access to the finance needed for the improvements with repayment, in instalments, through the household's electricity bill.

1.17. Underpinning the delivery of the Green Deal is the Energy Company Obligation (ECO). ECO will place one or more obligations on energy companies requiring them to generate a specific amount of credit by facilitating the installation of energy efficiency measures in homes in Great Britain before a set deadline. ECO has been designed to fit within the Green Deal framework and provide support, in the domestic sector, where Green Deal finance alone is not enough. It will also provide support to those on low incomes through the 'affordable warmth' part of the obligation.

### **Warm Homes Discount**

1.18. The Warm Home Discount Scheme is a four-year scheme that runs from April 2011 to March 2015 to help low-income and vulnerable households with energy costs. The scheme is worth up to £1.1bn over the four years of the scheme and around 2 million low-income and vulnerable households will be assisted each year. The scheme is financed through energy bills.

## Appendix 3 - Glossary

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### **A**

#### **Annual Statement**

A written document that suppliers must provide to each customer, each year. The Annual Statement contains a range of key tariff information, including tariff name, consumption over the previous 12 months, estimate of annual cost for the next 12 months and details of any premium or discount that applies to the tariff.

### **B**

#### **Barrier to entry**

A factor that may limit a firm's ability to enter the market.

### **C**

#### **Carbon Emissions Reduction Target (CERT)**

A government policy that requires all domestic energy suppliers with a customer base in excess of 50,000 customers to make savings in the amount of CO<sub>2</sub> emitted by householders. Suppliers meet this target by promoting the uptake of low carbon energy solutions to household energy consumers, thereby assisting them to reduce the carbon footprint of their homes.

#### **Community Energy Saving Programme (CESP)**

A government policy that targets households across Great Britain, in areas of low income, to improve energy efficiency standards and reduce fuel bills. Suppliers provide funding for the programme.

### **D**

#### **Department for Energy and Climate Change (DECC)**

The UK government department responsible for policy and regulations in the fields of energy and climate change.

### **E**

#### **Energy Best Deal (EBD)**

Ofgem and Citizens Advice consumer awareness campaign.

#### **Energy Company Obligation (ECO)**

A forthcoming government policy that will replace CERT and CESP. Suppliers would provide funding for this policy.

### **F**

#### **Fuel poverty**

Those households who need to spend more than 10 per cent of their annual income on fuel to maintain an adequately heated home are considered to be in fuel poverty.

### **G**

#### **Green Deal**

A forthcoming government policy that will replace CERT and CESP. Financial mechanism eliminates the need to pay upfront for energy efficiency measures.

### **K**

#### kWh

Kilowatt-hour is a unit used to measure energy consumption in both electricity and gas.

#### M

##### Market Liquidity

The ease with which new entrants or small suppliers are able to secure wholesale gas and electricity supplies, for on-sale to retail customers.

#### N

##### New entrant

An entrant that does not have an incumbent customer base.

#### P

##### Priority Services Register (PSR)

The standard licence conditions of the gas and electricity supply licences require suppliers to establish a list (the Priority Services Register) of domestic customers that are of pensionable age, disabled or chronically sick. Eligible customers can ask to be added to their supplier's list. These customers are then eligible for certain free services specified in the supply licences.

#### S

##### SD Advisory Group

An independent panel of experts that helps to guide Ofgem on environmental and consumer issues. The group is made up of policy experts from Government, industry and interest groups.

##### Smart meter

A generic term for innovative forms of metering that provide increased levels of functionality above that of a basic meter. It usually includes at a minimum the ability to read the meter remotely via a communication channel.

##### Standards of Conduct (SOC)

A written policy and procedure that outlines broad standards of integrity and business ethics.

##### Supply Licence Conditions (SLCs)

The legally binding conditions that gas and electricity suppliers must meet to supply to domestic and non-domestic customers, in accordance with the Gas Act (1986) and Electricity Act (1989).


##### Switching

The process of changing gas or electricity supplier, or changing to a new tariff with the same supplier.

#### T

##### Third Package

The term "Third Package" refers to a package of EU legislation on European electricity and gas markets that entered into force on the 3rd September 2009. The purpose of the



## Energy Affordability: developing Ofgem's vulnerable consumers' strategy

Third Package is to further liberalise European energy markets. DECC is primarily responsible for its transposition in Great Britain and must do this by the 3rd March 2011

### **W**

#### [Warm Home Discount](#)

The Warm Home Discount scheme mandates domestic energy suppliers to provide approximately £1.13 billion of direct and indirect support arrangements to fuel poor customers over four years from April 2011.

## Appendix 4 - Feedback Questionnaire

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1.19. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.20. Please send your comments to:

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