

Energy Systems Catapult consultation response

Ofgem's Draft Consumer Vulnerability Strategy 2025

Contact: Dr Rose Chard, Consumer Insight Manager, rose.chard@es.catapult.org.uk

About Energy Systems Catapult

Energy Systems Catapult was set up to accelerate the transformation of the UK's energy system and ensure UK businesses and consumers capture the opportunities of clean growth. The Catapult is an independent, not-for-profit centre of excellence that bridges the gap between industry, government, academia and research. We take a whole systems view of the energy sector, helping us to identify and address innovation priorities and market barriers, in order to decarbonise the energy system at the lowest cost.

Responses to consultation questions

Question 1: Do you agree with the five priority themes and the outcomes we will aim for?

ESC supports the five priority themes and the outcomes laid out in the draft consumer vulnerability strategy. Progress against these outcomes would deliver significant improvements for consumers in vulnerable situations.

Our key comment on the priority themes and outcomes relates to strengthening the robustness of Ofgem's proposed strategy to the impact of major transformations in the energy system, and therefore in the retail market interface with consumers in the years to come.

The challenge of decarbonisation will drive changes in the energy system that are inherently unpredictable, so we need to ensure that the market arrangements will continue to provide for vulnerable consumers even as major changes in energy networks, technologies and markets take place.

Some of our work on the new forms of consumer protection required in a future smart energy system illustrate the kinds of changes that Ofgem's vulnerability strategy may need to address. Citizens Advice commissioned ESC to map out the potential areas that will need new consumer protections and to better understand consumers' reactions to a novel way of buying energy, heat plans. Our work pointed to the importance of ensuring that consumers:

- Know what they are buying
- Know how to get problems diagnosed and fixed
- Can compare and switch to the new offers available

The full results can be found here <https://es.catapult.org.uk/news/smarter-protections-using-field-trials-to-explore-how-people-understand-energy-as-a-service/>

We would recommend further consideration of how the outcomes will be achieved within the context of this changing energy system.

Question 2: Do you agree with our approach on affordability? While we recognise this is a concern for many consumers in vulnerable situations, we think addressing wider affordability pressures is mainly a matter for government to address.

While we agree that broad strategy on the affordability of essential services is mainly a matter for government, we also contend that the deep sector insight and understanding of Ofgem as energy regulator also has an important role to play in ensuring that markets serve the needs of all consumers.

ESC supports joint working between government departments, especially the Department for Business, Energy and Industrial Strategy, regulators (i.e. Ofgem) and the industry. As briefly touched on in the consultation, we think that it is especially important for Ofgem to share insight on how patterns of consumer vulnerability are changing as energy markets evolve. We agree that vulnerability is dynamic and transient, but we would like to see the sector consider how situations that cause vulnerability may change in the future as new ways of using and buying energy are available to consumers.

Affordability and vulnerability currently cause issues for consumers to heat their home adequately and affordably. As the most cost-effective way to meet our carbon targets is to move almost all homes to low carbon forms of heating, the affordability pressures on consumers and their experience of that is likely to change.

The circumstances that interact with the energy market to cause consumers to be in a vulnerable situation are therefore likely to change in the future. Changes may be seen in the personal characteristics that mean that consumers cannot reap all the benefits of the retail energy market and in how patterns of vulnerability are related to different areas of the country, for example where there is a greater diversity in networks for delivering heat to homes and these interact in different ways with patterns of affordability and vulnerability.

The role of different departments and the regulator should aim to anticipate the substantial change that is happening and make sure that significant joint activities take this into account. This could be done by sharing insights on changes that different consumers markets are seeing in what groups are vulnerable and how decarbonisation and digitalisation are changing affordability of different essential services.

Question 3: What more could be done through energy regulation to assist consumers in vulnerable situations in the longer term? How should any such further measures be funded?

ESC supports the use of a broad toolbox of regulatory intervention to assist vulnerable consumers, but it is vitally important that the design of arrangements and assistance for vulnerable consumers is informed directly by consumers themselves, harnessing methods and new digital technologies that can reveal consumers' preferences effectively.

Currently significant reliance is placed on the use of focus groups and the BEIS Consumer Forum to bring the voice of the consumer into policy design and creation. This should be enhanced with new and innovative methods to understand consumer needs and vulnerability. ESC's experience with co-designing with consumers, consumer trials and a Living Lab environment show the importance of creating an environment in which consumers can experience a service to give meaningful feedback on it. We have learnt that some risks and problems will only emerge as consumers use and engage with a new service over a period of time.

The ESC's work on designing and testing consumer protection in heat services provides an example of this kind of 'experiential evidence' <https://es.catapult.org.uk/news/smarter-protections-using-field-trials-to-explore-how-people-understand-energy-as-a-service/>.

One of the lessons from digitalisation in other sectors is that capability to design high quality experiences grows with feedback from failing fast. Our work on field trials, <https://es.catapult.org.uk/wp-content/uploads/2019/06/SSH2-Field-Trial-Learnings-Insight-Report.pdf>, has shown how data can enable industry to design high-quality energy services that support consumers with what they want and need from energy. It is therefore key that the toolbox of regulatory intervention includes methods that have the capability to test and learn how to design smarter protection based on real consumer experiences. This could build on and strengthen the use of behaviour science in energy companies through further testing concepts with consumers. A diversity of consumers should be included to ensure that the diversity of vulnerable situations is taken into consideration when designing and delivering services.

Using trials in this way will ensure that consumers in vulnerable situations can benefit from the opportunities that innovation will bring. We think the need to understand and address the impact of innovation on vulnerable consumers should be taken into account in the design and allocation of innovation funding.

Question 4: Do you agree with our proposals for the first year of the strategy?

ESC broadly supports the proposals laid out for the first year of this strategy.