



Mehgna Tewari and Dennis Berg
Consumers and Markets
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

8 August 2019

Dear Meghna and Dennis,

DRAFT CONSUMER VULNERABILITY STRATEGY 2025

Thank you for the opportunity to respond to the above consultation, which seeks views on Ofgem's updated Consumer Vulnerability Strategy 2025 (CVS2025). This response is submitted on behalf of ScottishPower Energy Retail. Our networks business, ScottishPower Energy Networks is responding separately from its perspective as a transmission and distribution network licensee.

We welcome Ofgem's work in this area, and think it timely that it reviews its strategy at this point recognising that the energy market is currently in a period of rapid change with technological developments and increased levels of data access, and it is important that the needs of customers in vulnerable circumstances are taken into account as the market evolves,

We are broadly supportive of Ofgem's identified themes that underpin its revised strategy and think that basing the updated Consumer Vulnerability Strategy around these themes and the related desired outcomes will support the delivery of an improved experience for all consumers in the market over the period to 2025 covered by the strategy. We set out our responses to the specific consultation questions in the annex to this letter with the key points of our response summarised below.

Interaction with the Default Tariff Price Cap methodology

Where Ofgem's strategy places additional requirements on suppliers, for example through the introduction of additional protections to consumers above those currently in place, there is potential for operating costs to increase materially above those currently allowed for via the Default Tariff Cap (DTC) methodology. With the DTC potentially remaining in place until the end of 2023, it is important that Ofgem considers the full impact assessment of any proposed changes including the potential for any changes that may be required to ensure that these additional costs are appropriately reflected within the DTC.

Issues of Affordability

Ofgem's role

We recognise the complexity that considerations of affordability and regulatory support options present to both Ofgem and suppliers, particularly as affordability for consumers

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goes beyond energy. We understand that Government has a significant role in current support mechanisms for customers in financial difficulty however think that Ofgem will play a key role in advising and influencing any policy changes to ensure those customers in most need of financial support for their energy costs get the support that is needed.

We understand that affordability issues will be considered as part of the joint Ofgem and BEIS Future Retail Market programme of work rather than the CVS and that any changes will be driven via that programme of work including both changes within the existing framework, and those requiring new or amended legislation.

Ongoing Financial Support for Customers in Vulnerable Circumstances

As Ofgem notes in the CVS consultation document, the current price caps are not specifically aimed at protecting customers in vulnerable circumstances however that they may be playing a key role in supporting those customers in being able to afford their energy costs at present. We agree with the reference from consumer groups within Ofgem's consultation regarding the need to consider how financially vulnerable consumers will be protected in the future once the price cap has been removed.

We have shared our thinking in this area with a number of stakeholders including Ofgem. In summary, we think there is likely to be a continuing need for a price capped tariff to protect the most financially vulnerable who do not shop around, complementing financial support provided by a revised Warm Home Discount (WHD) scheme. We also think that there is a need to consider a more fair distribution of the costs of supporting these particularly financially vulnerable customers. A potential solution would be to formalise the socialisation of the costs of future price protection through a form of industry levy to share the costs of supporting these customers more widely across consumers.

Ofgem Monitoring of Supplier Performance

We believe there is a role for Ofgem in ensuring that all suppliers are meeting the desired outcomes set out in its strategy and that as a result all consumers in vulnerable circumstances receive an appropriate minimum standard of service regardless of their supplier. We believe that Ofgem's existing monitoring mechanisms can be adapted to effectively monitor each of the outcomes and mitigate any impact and additional costs to suppliers of demonstrating compliance with the CVS.

Ofgem's Priorities for the First Year of the Strategy

We are broadly supportive of Ofgem's proposals for the first year of the strategy, and we will provide a response as Ofgem publishes more detail regarding specific policy proposals in each area.

Interaction with the Energy UK Commission for Consumers in Vulnerable Circumstances (CCVC)

We would also note that recent published work by the EUK Commission for Consumers in Vulnerable Circumstances (CCVC) which recognised a number of areas of good practice by suppliers in providing a positive service experience to customers in vulnerable circumstances as well as setting out a number of recommendations for suppliers and Ofgem among other stakeholders in the market.

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We are aware that the Commission has been engaging with Ofgem throughout the process, and believe that the Commission recommendations will be complementary to and support the delivery of the desired outcomes within the CVS.

We would be pleased to discuss our response further with you, if that would be helpful.

Yours sincerely

A handwritten signature in black ink that reads "Rhona Peat". The signature is written in a cursive style with a period at the end.

Rhona Peat
Head of Retail Regulation

**DRAFT CONSUMER VULNERABILITY STRATEGY 2025 - SCOTTISHPOWER
RESPONSE**

Chapter 2. Why we need to update our Consumer Vulnerability Strategy

Question 1: Do you agree with the five priority themes and the outcomes we will aim for (as set out in chapter 3-7 and annex 2)?

Ofgem has identified a number of desired outcomes under the following five priority themes:

- Improving identification of vulnerability and smart use of data.
- Supporting those struggling with their bills.
- Driving significant improvements in customer service for vulnerable groups.
- Encouraging positive and inclusive innovation.
- Working with partners to tackle issues that cut across multiple sectors.

We are broadly supportive of these identified themes and think that basing the updated Consumer Vulnerability Strategy around these themes and the related desired outcomes will support the delivery of an improved experience for all consumers in the market over the period to 2025 covered by the strategy.

We would highlight the following points:

- We note the need for all consumers across the market to receive an appropriate minimum standard of service regardless of their supplier, and believe there is a role for Ofgem in ensuring that all suppliers are meeting the desired outcomes set out in its strategy, and that the costs of supporting customers in vulnerable circumstances are fairly spread across all participants in the market.
- We believe that Ofgem's existing monitoring mechanisms can be adapted to effectively monitor each of the outcomes and mitigate any impact and additional costs to suppliers of demonstrating compliance with the CVS.
- Where Ofgem's strategy places additional requirements on suppliers, for example through the introduction of additional protections to consumers above those currently in place, there is potential for operating costs to increase materially above those currently allowed for via the DTC methodology. With the DTC potentially remaining in place until the end of 2023, it is important that Ofgem considers the full impact assessment of any proposed changes including the potential for any changes that may be required to ensure that these additional costs are appropriately reflected within the DTC.

We set out below our specific thoughts under each identified theme.

Improving identification of vulnerability and smart use of data (Chapter 3)

We agree with Ofgem that there are challenges for suppliers in identifying customers who are in vulnerable circumstances and in understanding when a customer's circumstances change to ensure the Priority Services Register (PSR) is up to date. In many cases, suppliers are dependent on consumers feeling able to share this information with their energy supplier, and we understand that there can be circumstances where customers do not feel able to do this easily. We recognise that suppliers are improving their engagement with customers to recognise additional needs albeit agree that not all customers may be

receiving an appropriate level of customer experience in this area and are supportive of Ofgem's aims and desired outcomes in this regard.

We think technology developments and access to smart data offers suppliers opportunities to improve engagement with consumers to better identify those consumers who may need additional support. This includes using technology to engage in different ways to better meet consumer's needs. For example, over the last 12 months, ScottishPower has extended its options for customers to engage with us, including new "In App" and "chat" options, which we believe offers an alternative option that may better meet some groups of consumers' needs, and support better self-identification by consumers with additional needs. Furthermore we think smart meters and the more granular data that will be accessible to suppliers (subject to consumer consent), may provide more opportunity for suppliers to pro-actively contact customers who they believe may be struggling to manage their energy account, either financially or in other ways.

We are also supportive of the role that other industry participants may have in better identifying consumers in vulnerable circumstances. In some cases, consumers may be more open to sharing their characteristics and circumstances with parties other than their energy supplier, and it is important that industry uses this information (where the consumer consents to it) where it can. This would include the cross-sector activity Ofgem highlights in the CVS and which has already progressed to some extent, but also for example, in the role that Citizens Advice may play in capturing and sharing information. We would note that in driving forward any cross-sector activity, care will need to be taken to ensure consistency of definitions, consumer consent and alignment of systems to ensure relevant information is shared only with consumer consent, and the costs of doing so are minimised as much as possible.

Supporting those struggling with their bills (Chapter 4)

We understand that the current price caps are not specifically aimed at protecting consumers in vulnerable circumstances however that they may be playing a role in doing so. We agree with the reference from consumer groups within Ofgem's consultation regarding the need to consider how financially vulnerable consumers will be protected in the future once the price cap has been removed.

We have shared our thinking in this area with a number of stakeholders including Ofgem. In summary, we think there is likely to be a continuing need for a price-capped tariff to protect the most financially vulnerable who do not shop around, complementing the financial support provided by a revised Warm Home Discount (WHD) scheme. We also think that there is a need to consider a more fair distribution of the costs of supporting these particularly financially vulnerable customers with a potential solution being to formalise the socialisation of the costs of future price protection through a form of industry levy to share the costs of supporting these customers more widely across consumers.

Ofgem's consultation suggests that proposals such as ours may need legislation from Government to allow implementation, and we understand that further consideration of this would sit under the joint Ofgem and BEIS Future Retail Market programme. We provide further thoughts on this in response to Question 2 and would note that we are reviewing the recently published Flexible and Responsive Energy Retail Markets Consultation.

We welcome Ofgem's aims to provide an appropriate minimum standard of service for all consumers by:

- Ensuring that actual or potential payment difficulty is identified as early as possible;

- Appropriate support is provided to consumers including in relation to potential self-disconnection; and
- Ensuring that repayment plans are affordable and tailored for consumer needs.

We would highlight that in many cases suppliers are dependent on consumers engaging with them to allow support to be provided. However the roll out of smart meters and access to greater granularity of data (with consumer consent) will likely offer suppliers more opportunity in better identifying customers who need supporting including prepayment customers at risk of self-disconnecting.

Driving significant improvements in customer service for vulnerable groups (Chapter 5)

We agree with Ofgem's aims to ensure that suppliers have a culture that ensures a focus on identifying and supporting those consumers in vulnerable circumstances. Alongside the existing supplier monitoring, we think Ofgem's new supplier licensing rules will play an important role in supporting this outcome as they require new entrant suppliers to demonstrate during the application process how they will identify and support customers in vulnerable circumstances.

As we have noted above, we agree with Ofgem's aims to ensure customers an appropriate minimum standard of service regardless of their chosen supplier. Ofgem's aims include the collection and sharing of good practice examples, either as part of its own publications or through supporting third-party publications, which we are supportive of as we believe this provides greater visibility of different approaches taken by different organisations and may drive improvements for all consumers.

Encouraging positive and inclusive innovation (Chapter 6)

Ofgem highlights concerns that changes in the market which may benefit consumers more generally may not necessarily be accessible to consumers in vulnerable circumstances. We recognise this potential risk and agree with Ofgem's aims to ensure that products and services are designed in a manner to ensure customers are able to understand the impact to them and allow an informed choice to be made in relation to the relevance and appropriateness of the product or service to them.

In many cases, innovation may require significant investment from suppliers, and in assessing supplier activity in this area Ofgem must take account of the challenges and constraints that suppliers may face to innovate under the current price cap environment.

Working with partners to tackle issues that cut across multiple sectors (Chapter 7)

We agree with Ofgem that there may be learnings for the energy market from other sectors. This includes identifying opportunities for different sectors to better align some activity to provide a better service to consumers including those in vulnerable circumstances. We note the current data sharing initiative between energy and water companies and highlight the need to ensure that such activity takes account of all data protection requirements, for example ensuring that sharing is only done so with consumer consent and where the information is relevant to the sector it is being shared to.

We welcome the aims for Ofgem to improve engagement and sharing of information with third sector organisations. We think that the insight offered by these parties will be complementary to Ofgem's own monitoring and will allow greater insight to the experience of consumers more generally in the market, but customers with additional needs in particular. We would welcome understanding how Ofgem plans on sharing insight gained on trends in the market with stakeholders more widely.

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.

We recognise the complexity that considerations of affordability and regulatory support options present to both Ofgem and suppliers, particularly as affordability for consumers goes beyond energy. We understand that Government has a significant role in current support mechanisms for customers in financial difficulty, for example the Warm Home Discount (WHD) scheme. In our interaction with customers in payment difficulty, we think it is very important to offer services that take a holistic view of a customer's finances to ensure debt repayment arrangements are appropriate for the customer therefore we understand the need for affordability and support options to be viewed and assessed at a holistic level which a Government driven approach offers.

We do however think that Ofgem will play a key role in advising and influencing any policy changes to ensure those consumers in most need of financial support for their energy costs get the support that is needed. We also think there is likely to be an ongoing role for Ofgem in implementing and enforcing future protections.

From our recent engagement with relevant Ofgem and BEIS teams, and on review of the recent joint BEIS and Ofgem Flexible and Responsive Energy Retail Markets consultation, we understand that affordability issues will be considered as part of the joint Ofgem and BEIS Future Retail Market programme and that any changes will be driven via that programme of work including both changes within the existing framework, and those requiring new or amended legislation.

In this area, as we have noted above in response to Ofgem's proposed outcome for "*Supporting those struggling with their bills*", ScottishPower believes that there is likely to be a continuing need for a price-capped tariff after removal of the CMA prepayment and Ofgem default tariff caps to protect the most financially vulnerable consumers who do not shop around and that this would complement the financial support provided by a revised Warm Home Discount (WHD) scheme. We also think that there is a need to consider a more fair distribution of the costs of supporting these particularly financially vulnerable customers with a potential solution being to formalise the socialisation of the costs of future price protection through a form of industry levy to share the costs of supporting these customers more widely across consumers.

We have shared our thinking in this area with a number of stakeholders in both Ofgem and BEIS alongside other relevant parties and believe that each of the above options (which we view as complementary) should form part of the joint Ofgem and BEIS review and we will raise this in our response to the Flexible and Responsive Energy Retail Markets consultation in due course.

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?

We believe that Ofgem's CVS2025 broadly covers most of the areas where energy regulation can be used to ensure consumers in vulnerable situations are supported appropriately. We would however highlight the following areas which, while in some cases are mentioned within the CVS2025 consultation, it is not completely clear to us whether Ofgem intends including further review or action as part of the CVS.

- Further consideration of ensuring a consistent experience for consumers across the market. Many of the changes proposed or made by Ofgem and BEIS in recent times have acted to reduce the potential for consumers to have materially different experiences (for example the changes to the supplier licensing process, and changes to the threshold at which suppliers become obligated to offer the WHD), however we think that more can be done to ensure a level playing field and create an enforceable minimum standard, resulting in a more consistent customer experience for all consumers.
- Consideration of wider data sharing options with the Department for Work and Pensions to support improved targeting of consumer support. For example for those consumers currently within the WHD Broader Group categories, however in the longer term such data sharing could provide a basis for other mechanisms of consumer support
- Consideration of approaches to protecting consumers engaging with third-party intermediaries, for example price comparison websites or auto-switching sites

We would note that any additional requirement placed on suppliers may be significant, and could have costs materially above those operating costs currently allowed via the DTC methodology. With the DTC potentially remaining in place until the end of 2023 which may therefore cover the “longer term” Ofgem refers to in this question, it is important that Ofgem considers the full impact assessment of any proposed changes including the potential for any changes that may be required to ensure that these additional costs are appropriately reflected within the DTC.

We would also highlight again here our view that we think that there is likely to be a need for ongoing financial support for some consumers after the current price caps are removed for example via a revised WHD scheme and/or an ongoing price-capped tariff for financially vulnerable consumers. To ensure that the costs of providing such support is fairly distributed we think that there may well there is a need to consider a more fair distribution of the costs of supporting these particularly financially vulnerable customers across all suppliers and consumers with a potential solution being to formalise the socialisation of the costs of future price protection through a form of industry levy.

Chapter 8. Next steps and areas of immediate focus

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

We are broadly supportive of Ofgem’s proposals for the first year of the strategy, and we will provide a response as Ofgem publishes more detail regarding specific policy proposals in each area. At this point, we would make the following points:

- We agree with Ofgem prioritising activity relating to better identifying and supporting prepayment consumers at risk of self-disconnection. We would note that a key facilitator of this is the roll out of smart meters and the access suppliers may have to more granular data which is not available where a customer is supplied via a dumb prepayment meter. Ofgem should therefore take into account the speed of the roll out, and the level of consumers allowing suppliers access to relevant data in considering any strengthened protections in this area. We would also welcome clarity on Ofgem’s intention around self-rationing which is a much harder area for suppliers to identify as it is not clear from the CVS whether Ofgem is including self-rationing as part of its self-disconnection activity.

- Ofgem references assessing whether it is necessary to strengthen the current Ability to Pay rules and aims to assess the options for doing so. While we agree with Ofgem's aims in ensuring there is an appropriate minimum level of service for consumers regardless of which supplier they choose, it is not clear from the CVS whether Ofgem's intention is to assess alternative options for ensuring that the existing Ability to Pay principles are complied with by all suppliers, for example by putting them into the licence rather than the current associated guidance document, or whether Ofgem intends amending the principles themselves to increase protections offered to consumers.

ScottishPower
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