



About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Background to this response

Over the last year, NEA, alongside other consumer groups, worked with Ofgem to secure some key improvements in the treatment of domestic customers. In particular, we worked to ensure that low income and vulnerable customers had adequate protections in gas and electricity markets.

Some key achievements include:

- The publication of a new Consumer Vulnerability Strategy for 2020-2025, with commitments to, in the first year of the strategy:
 - Create an analytical framework to consistently assess the impact of policies on particular groups of consumers in vulnerable situations.
 - Introduce a new licence condition for gas distribution networks so that they treat customers in vulnerable circumstances in a consistent and appropriate manner.
 - Consult on the strengthening of rules to protect customers who self-disconnect.
 - Updating the Ability to Pay principles and include them in the licence conditions to provide targeted support to consumers facing payment difficulty.
 - Consult on proposals for the future energy retail market review.
- Consulting on the details of new price control frameworks for gas and electricity distribution networks, with a greater focus on vulnerability and affordability.
- A supplier licencing review, including provisions to ensure that suppliers of all sizes meet a minimum standard with respect to their treatment of vulnerable customers.

Ofgem has once again moved in a positive direction over the last year. To continue this momentum, it is vital these key commitments are honoured. Our consultation response below builds on this progress and outlines how the proposed plan for the next two years could strengthen support and protection of vulnerable and fuel poor customers.

Our response to this consultation

Following through on commitments made in the Consumer Vulnerability Strategy 2025

In 2019, Ofgem published its new Consumer Vulnerability Strategy 2025, focussing on 5 key themes: Improving identification of vulnerability and smart use of data; supporting those struggling with bills; driving significant improvements in customer service for vulnerable groups; and encouraging positive and inclusive innovation; working with others to solve issues that cut across multiple sectors. Ofgem also made 5 commitments for the first year of the strategy:

- Create an analytical framework to consistently assess the impact of policies on particular groups of consumers in vulnerable situations.
- Introduce a new licence condition for gas distribution networks so that they must adhere to a vulnerability principle;
- Strengthen rules to protect customers who self-disconnect;
- Update the Ability to Pay principles and include them in the licence conditions to provide targeted support to consumers facing payment difficulty;
- Consult on proposals for the future energy retail market review.

As noted above, it is critical Ofgem must follow through on all of these commitments in the coming year. NEA is therefore pleased to see that four of them are explicitly included in the forward work programme. We are, however, disappointed that there is not commitment in the FWP to consult on proposals for the

future energy retail market review, a task that is crucial to undertake in order to ensure that vulnerable customers can continue to be protected from the deficiencies of the energy market. It is also important that the analytical framework must not just be created and left alone, but regularly assessed so that it can remain fit for purpose in a rapidly changing sector.

Ensuring Retail Markets Work for All/Price Protection

The Pre-Payment Price Cap and the Default Tariff Price Cap provide relief from unpredictable price increases, greater transparency in the pass through of energy related policy costs and the prospect that bills could fall if input costs drop. For the majority of customers who don't (or can't) engage in the market, this continues to be a positive development. NEA supported Ofgem's work on the Safeguard Tariffs and was disappointed with its decision to move customers from this form of price protection on to the Default Tariff Cap. This now allows suppliers to charge these customers for the cost of the smart meter rollout, despite the fact many customers have not had the opportunity to benefit from the programme to date. In addition, we are concerned what will happen once the default tariff price cap ends, with many low-income consumers and PPM customers still requiring price protection, especially until the smart meter rollout is completed at the end of 2024. NEA would like Ofgem to take several actions:

1. Ofgem should extend the prepayment cap so that it continues past the end of 2020, as recommended to it by the CMA.
2. Ofgem should consult on the future of price protection. NEA's preference is for a more targeted cap to replace the default tariff price cap.
3. Ofgem should work with the UK Government to ensure all licenced suppliers deliver all elements of their Warm Home Discount and that the scheme continues for existing low-income pensioner recipients and is provided automatically to more low-income working families, using powers under the Digital Economy Act to ensure better targeting. We are also hopeful that Ofgem will require suppliers to ensure the WHD is better designed, ensuring that more customers know about it and there are more channels to apply for it via Industry Initiatives and evaluate the benefits of the WHD, in particular the value of Industry Initiatives such as the number of beneficiaries, the cumulative impact of support provided and whether the services provided are providing value for money compared to switching supplier or direct yearly WHD rebates.

Enforcing the Vulnerability Principle (SLC0)

NEA supported adding a broad vulnerability principle to the domestic Standards of Conduct that clarifies to suppliers that to uphold their obligation to treat all domestic customers fairly. Suppliers now need to make an extra effort to identify and respond to the needs of those in vulnerable situations. However, we maintain our concern about the capacity of Ofgem to adequately monitor these requirements, especially given the increasing number of smaller suppliers. There are also concerns about the failure of some suppliers to join up their mandated obligations to improve services for their most vulnerable customers. One illustrative concern is that as engineers visit homes as part of the smart meter roll-out they will have to turn off any unsafe gas or electrical appliances. Whilst it is welcome that qualified engineers condemn unsafe appliances one risk to health and safety can be replaced by another if there is no guidance or support available to fix or replace these appliances in low income homes. This is an issue that NEA identified some time ago, and there is still a worrying lack of a joined-up approach to address this. The issue is especially pertinent given the new proposals on supplier licencing consulted on in 2019.

NEA has also supported Ofgem's intention to consolidate some of the good work that has been done in the current price control by Gas Distribution Networks (GDNs) by creating a vulnerability licence condition. We also believe that minimum standards for the treatment of vulnerable customers should also be developed. This is the best way of ensuring consistent outcomes for those who need them most. In particular, we believe minimum standards for the FPNES should be introduced as prescriptive rules and should take the form of a Smart Meter Installation Code of Practice (SMICOP) equivalent for FPNES. In the case that this service continues to be delivered by a contractor, this would be reflected in an additional or modified contractual responsibility with the GDN being able to demonstrate clear mechanism for auditing their contractors compliance with these stipulations. This can ensure there are much more consistent outcomes for low income and vulnerable customers and maximise the welcome existing support provided under the FPNES.

Ofgem's role in making the most of the smart meter roll-out

NEA has a long-standing interest in smart meters and their roll-out in Great Britain and Northern Ireland, particularly regarding their impact on vulnerable consumers. Ofgem's role of monitoring and enforcing minimum standards under the Smart Meter Installation Code of Practice (SMICOP) is also fundamental to the success of the roll-out. However, as noted above, concerns are mounting about the capacity Ofgem must monitor these requirements, especially given the increasing number of smaller suppliers.

NEA has previously highlighted our concern that the smart meter rollout is now significantly back-loaded, meaning that most households have less opportunity to enjoy the benefits of smart (and any resulting financial savings). There have now been proposals from the Government on a post 2020-24 rollout, and Ofgem have consulted on the reporting that would complement such a rollout. There is therefore an opportunity to ensure that information regarding the rollout is improved. There is currently little information about how or when individual suppliers are rolling smart meters or the approaches they are taking to engage vulnerable consumers to ensure they too capture the benefits of more accurate billing and greater control of their energy use. NEA continues to believe that this information is not commercially sensitive and would offer third parties the ability to offer bespoke advice to customers about when they can expect to benefit from smart from their respective suppliers.

Maximising network companies' role in tackling fuel poverty

As noted above, NEA has supported Ofgem's intention to introduce new licence conditions for GDNs treatment of vulnerable customers. In addition, NEA was delighted that the framework for RIIO GD2 includes provisions for extending FPNES, and a use it or lose it allowance that can be used to support customers in vulnerable situations. In order to capitalise on these decisions, Ofgem must:

- Ensure that GDN's business plans include a robust target for FPNES connections, taking into consideration changes in the ECO scheme that better incentivise funding for first time central heating. This should allow targets to be set at the higher end of the spectrum.
- Ensure that GDN's plans for the use it or lose it allowance is focussed on helping the most vulnerable customers.
- The majority of carbon monoxide allowances are spent by companies on addressing the acute risks of faulty and inefficient heating appliances.
- Innovation funds are deliberately targeted at supporting low income and vulnerable customers transition to net zero.

In addition to these GDN actions, NEA believes that RIIO 2 presents a significant opportunity to cultivate the role of DNOs:

- Further action to enhance procedures for power outages.
- Helping low-income customers upgrade their connection in the context of moving to low carbon electrical heating.
- Future innovation funding (Network Innovation Allowances or Network Innovation Competitions) is likely to be more directly linked to supporting consumers in the transition to a low-carbon future, particularly those in or extreme risk of fuel poverty.
- There are potential reforms to the current share factors to encourage projects that have a direct social and environmental outcome as well as reducing the need for BAU reinforcement.
- Ofgem considering reforming the current losses incentive so that DNO/DSOs are incentivised to savings within domestic properties.
- Introducing a new vulnerability licence condition for DNOs.

NEA continues to have a desire to work collaboratively with Ofgem and DNOs to influence this strategic outlook and expand existing collaborative projects. Some further suggested priority areas are also noted below.

New innovation and insights:

- Trialling new ways to decarbonise heat whilst delivering network and customer benefits

- Aggregating and controlling electric storage in tower blocks to offer reductions in residents' charges, offsetting costs using income earned from grid services including fast frequency response.
- Demonstrating the qualitative and quantitative network and customer benefits of innovative combinations of hybrid heat pumps, domestic solar PV, heat and electricity storage technologies.
- Trialling new ways to guide behaviour change in vulnerable households by promoting the efficient use of energy and water and encouraging efficiency improvements in the home.

Collaborative research:

- Exploring how the DSO transition can reduce the cost of, and provide a cornerstone for, a fair transition to a net zero carbon society and economy.
- Helping to consolidate lessons learnt and what has been done so far via innovation funds which has a domestic social dimension.
- Developing new options for DNOs assisting low income customers to upgrade their connection in the context of moving to low carbon electrical heating.
- Developing options to provide more flexibility within the losses incentive and enhancing share factors to encourage domestic flexibility and demand reduction.
- Developing links with other utilities and the local community.
- Develop new cross-utility approaches to identifying vulnerable customers and more efficient ways of supporting them.

Responding to the opportunities and risks of Brexit

It is welcome that the work plan set out that Ofgem will be investigating the impact Brexit may have on energy consumers. In identifying these opportunities and risks, the Department for Business, Energy and Industrial Strategy and the Northern Ireland Authority for Energy Regulation (NIAER) should also identify the impact and opportunities of Brexit in the energy sector³ now that the Withdrawal Agreement has been ratified.

Supporting BEIS to deliver fuel poverty commitments

It was disappointing that the work plan did not detail how Ofgem can support the Government to meet its fuel poverty commitments, which were restated in last years' draft Fuel Poverty Strategy. Implementing the strategy will require greater collaboration between BEIS and Ofgem, particularly in the administration of supplier led schemes and ensuring that customers are adequately protected in the market. Ofgem must plan to work with BEIS to deliver the strategy, alongside its own Consumer Vulnerability Strategy, in the period 2020-22.

As noted above, a specific task that Ofgem could undertake in the immediate term in order to support the delivery of fuel poverty commitments would be to help assess the value of the Warm Home Discount scheme, in particular in relation to the outcomes of the Industry Initiatives part of the scheme. Ofgem currently reports on the spend of industry initiatives and the number of people helped, split by the activity type. There is, however, no indication of the value of different activities (for example, a social return on investment), something that networks have had to do for their similar work that is incentivised within the RIIO price controls. Understanding the value of this crucial scheme could have a big impact on Government decisions surrounding the future of Warm Home Discount. The more information that Government has in relation to both the benefits and the costs of the scheme, the better the decision that will be made about the future of it. As E-serve are the administrator of the scheme, and have access to a significant amount of data surrounding it, we judge Ofgem as the best placed entity to undertake this work.

Addressing Self Disconnection

NEA continues to be concerned about the scale of self-disconnection that we have seen in recent years. Ofgem's call for evidence on self-disconnection⁴, and subsequent proposals⁵, are a good first step in trying to solve issues surrounding self-disconnection. However, Ofgem could, and should, go further to significantly reduce the number of self-disconnections that occur. NEA proposes that Ofgem should:

- Extend the Pre-Payment Meter price cap as recommended by the Competition Markets Authority (CMA).

- Update the Ability to Pay principles and include them in the licence conditions to provide targeted support to consumers facing payment difficulty
- Urgently address major anomalies with the current eligibility criteria for the Priority Services Register (PSR), especially surrounding a lack of needs code surrounding financial vulnerability. Ofgem should also aim to enhance monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- Address an unacceptably large variance in efforts to reduce the risk of self-disconnection and self-rationing across different energy suppliers depending on their size and capacity. They should stress its willingness to regulate all licensees if voluntary attempts to encourage greater participation of industry-led protocols like Energy UK's upcoming Vulnerability Charter fail to enhance protections in this area for vulnerable customers.
- Investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy. Ofgem's work in the targeted charging review must not lead to an increase in standing charges for electricity prepayment customers.

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ NEA recently provided evidence to the EU Energy and Environment Sub-Committee's Brexit: energy security inquiry. For more information visit:

<http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu-energy-environmentsubcommittee/inquiries/parliament-2017/brexit-energy-security/>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/prepayment-self-disconnection-and-self-rationing-call-evidence>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/proposals-improve-outcomes-consumers-who-experience-self-disconnection-and-self-rationing>