



## **OFGEM: FORWARD WORK PROGRAMME 2021/22 CONSULTATION**

### **FEBRUARY 2021**

We welcome the opportunity to respond to Ofgem's Forward work programme 2021/22 consultation.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Carl Packman:

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### **ABOUT FAIR BY DESIGN**

Fair By Design is dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through pay day loans; and insurance, through higher premiums in deprived areas. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

Fair By Design was conceived by the Joseph Rowntree Foundation and Big Society Capital. The Barrow Cadbury Trust manages the Campaign, and Ascension Ventures manage the Venture Fund.

## Summary of recommendations

1. Ofgem to create with BEIS a single point of contact for consumer organisations on the specific remit of price protections and affordable bills. This will help consumer organisations in their work on matters that cut across the regulator and its sponsoring department.
2. Ofgem should adopt an inclusive design strategy which will guide their approach to understanding the needs of all consumers (particularly those on low incomes and/or who are in vulnerable circumstances) and to help set their priorities, develop and implement interventions, and assess their effectiveness. Fair By Design welcomes further conversations to help enable this.
3. Ofgem should include a specific poverty premium challenge within the Innovation Link programme.
4. Ofgem should provide greater clarity concerning its priorities and commitments for the second year of its vulnerability strategy.
5. Ofgem should provide clarity on how it intends to support BEIS in the future automatic switching work. Particularly in ensuring that the framework for rolling these reforms out can be inclusively designed around those in particular need of a fair energy deal.
6. Ofgem should clarify how it intends to improve the accessibility and awareness of existing supplier support schemes for energy customers.
7. Ofgem should commit to investigating what role it can play in ensuring households with legacy prepayment meters receive a smart meter as a priority. This being a first step to increasing protections for customers using prepayment meters.

## Our response

### Introduction to the energy poverty premium

Our main focus is on the parts of Ofgem's future work that intersects with protecting low income consumers from high energy bill prices.

Low income households experience the poverty premium in the energy market in a number of ways. Many of these households use prepayment meters for domestic fuel rather than paying monthly by direct debit. Also many low income households are not switched to the best fuel tariffs. We consider not switching to be a poverty premium as lower-income households are less likely to switch and higher rates of digital exclusion make it more difficult for them to do so.

In 2020 Fair By Design, along with the Personal Finance Research Centre at the University of Bristol, published findings on how the poverty premium affects people today<sup>1</sup>. The research provides details on the most up-to-date analysis of the poverty premium (drawn from market comparison sites and accurate pricing information direct from suppliers) and a survey of 1,000 people living in low-income households who have received help and support from national charity Turn2Us<sup>2</sup>.

The researchers compared the costs of the energy poverty premium in 2016 and 2019 to assess the degree to which the retail energy market has changed. While their findings showed an improvement, low income consumers still face excess costs for their energy.

The findings show:

- The gap between the standard variable direct debit tariff and the best online one has reduced from £317 in 2016, to £213 in 2019, a reduction of over £100<sup>3</sup>.
- The gap between the best PPM tariff and the best online only one had almost halved, dropping from £227 in 2016 to £131 in 2019<sup>4</sup>.
- The only energy-related premium that was higher in 2019 was for those who paid for energy on receipt of their bill. The best tariff available for those who paid in this way was £143 higher than the best tariff for those who pay by direct debit and managed their account online. This had increased from only £43 in 2016.

The researchers' conclusion on the retail energy market for low income consumers is:

“The nature of the changes to energy tariffs suggest that the 2017 prepayment meter tariff cap and the subsequent 2018 default tariff cap have narrowed the gaps between different tariffs, and by doing so, reduced the poverty premium.”

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<sup>1</sup> University of Bristol (2020) 'The poverty premium: a customer perspective' <https://fairbydesign.com/wp-content/uploads/2020/11/The-poverty-premium-A-Customer-Perspective-Report.pdf>

<sup>2</sup> <https://www.turn2us.org.uk/>

<sup>3</sup> Drawn from the average across Big 6 suppliers and across household size.

<sup>4</sup> Drawn from the average across Big 6 suppliers and across household size.

This is very welcome news and foregrounds our response to Ofgem's future work. Our research shows that sensible regulation and a focus on price for protecting consumers is achieving good outcomes. The focus now should be on how to narrow the gap even further to entirely remove the poverty premium.

### **The impacts of the Covid-19 pandemic**

We particularly welcome aspects of the Forward Work Programme that highlight the risks and difficulties brought on by the Covid-19 pandemic to energy customers. Particularly those on low incomes or in vulnerable circumstances (for example, Point 6: future of retail).

Fair By Design commissioned research on the impact of the poverty premium in relation to people's particular protected characteristics<sup>5</sup>. A passage from that report reads:

“As with income loss, it is clear that the extra costs incurred as a result of COVID-19 will not be spread evenly. Higher energy bills from staying at home will fall harder on those who pay more for their gas and electricity, with the estimated average increase of £16 per month likely to be higher for people on expensive tariffs or in badly insulated homes, or for those with a physical disability who may need to use additional heating to stay warm.”

Any future work should keep in mind how the effects of the pandemic have been distributed across the country. Those in vulnerable circumstances and/or on low incomes are likely to have seen their financial standing be made even more precarious.

We think it's important that Ofgem continues to work with BEIS, the DWP, and other government departments to keep sight of information pertaining to the wider impacts that the pandemic has had on households across the country generally when considering appropriate regulations and protections for energy customers.

### **Responsibilities on price protections and affordable bills**

Fair By Design welcomes the focus in the work programme on pricing. We will engage at the appropriate times during the year when Ofgem develops options for helping consumers pay a fair price for gas and electricity.

In particular, we will engage on activities relating to default tariff price caps. At the moment these price caps are in place to ensure a fair price is paid for energy and energy customers are not overcharged. In future we want to see how price caps can be used to help energy become affordable, in combination with schemes like the Warm Home Discount (WHD).

This issue naturally cuts across different departments. BEIS has responsibility over how schemes like the WHD are distributed and how well they work for consumers to help lower bills. Ofgem will be looking closely at what protections are required to keep the price of energy fair across all customers. It is correct that one should inform the other.

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<sup>5</sup> Personal Finance Research Centre, University of Bristol. The Inequality of Poverty. Forthcoming research exploring the link between the poverty premium and protected characteristics

If schemes aren't working for some customers (for example where some customers are eligible for the WHD but cannot access it since their supplier has already allocated their entire funding for it) then there has to be a place for price caps to provide further protections. Though if for various reasons price caps cannot provide this protection (for example because the cap has to be high enough to allow suppliers to claim back money missed on unpaid bills) then there needs to be improvements and more funding for schemes.

Working across BEIS and Ofgem is not easy for consumer organisations. Particularly small ones, only part of whose overall remit is retail energy. We hope that in the future there will be efforts made to make this process easier. For example, it would be very useful to be able to speak to both BEIS and Ofgem at the same time (via consultation process, or via a distinct consumer network) on issues relating to price protections and affordable bills.

**Recommendation:** Ofgem to create with BEIS a single point of contact for consumer organisations on the specific remit of price protections and affordable bills. This will help consumer organisations in their work on matters that cut across the regulator and its sponsoring department.

## **Ofgem's future work: new workstreams**

What follows are details on new workstreams that we feel Ofgem should consider for the coming year.

### ***Inclusive design***

Inclusive design is increasingly recognised as a way to ensure markets are fair and inclusive, especially for consumers in vulnerable circumstances.

It starts from the principle that setting good regulation must start from the experience of the consumer.

The first step is for regulators to know what consumers really experience and what the best solution to problems look like to them. In order to achieve that they must not only be regularly collecting information on how that experience is changing but also ensuring people with lived experience of poverty are at the centre of decision making. By doing this, they minimise the risk of detriment and maximise consumer welfare.

This is because the best solutions are those created and informed by the actual lives of consumers, rather than the experiences of economists, competition specialists or just the remits of institutions. Institutional remits rarely match the reality of people's lives.

An inclusive design approach also requires better joined up working between regulators and their sponsoring departments.

**Recommendation:** Ofgem should adopt an *inclusive design* strategy to:

- guide their approach to understanding the needs of all consumers – through evidence, research and market analysis – to help set their priorities, develop and implement interventions, and assess their effectiveness.
- guide their expectations of businesses to embed consideration of all consumers, including low-income consumers, when they design and deliver products and services.

Fair By Design, along with project partners Money Advice Trust, has published a practical guide on what inclusive design means and how it can be incorporated into the work of regulators.<sup>6</sup>

We would welcome further discussion with the relevant officials on how to move forward in collaboration with this.

### ***A poverty premium challenge in the Ofgem Innovation Link programme***

**Recommendation:** Ofgem should include a specific poverty premium challenge within the Innovation Link programme

Innovation Link should create its own market-specific challenge for suppliers/innovators on the programme to design new models/products/services/engagement methods specifically with consumers who experience the poverty premium in mind. In particular, we want to see more work looking at the poverty premium and affordability.

We would welcome the opportunity to work directly with Ofgem on what the parameters of such a challenge would be.

## **Ofgem's future work: clarity on existing commitments**

### ***Clarity on commitments made in the Consumer Vulnerability Strategy 2025***

There were five proposals that Ofgem said it would focus on in the first year of its Consumer Vulnerability Strategy 2025. They were:

- Creating an analytical framework to consistently assess the impact of Ofgem policies on particular groups of consumers in vulnerable situations.
- Strengthening rules to protect consumers in vulnerable situations from self-disconnecting their pre-payment meters.
- Consulting on proposals for the future energy retail market review.
- Updating the Ability to Pay principles and including them in the licence conditions to provide targeted support to consumers facing payment difficulty.

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<sup>6</sup> <https://fairbydesign.com/wp-content/uploads/2021/01/Inclusive-Design-Regulators-Report-Final-Fair-By-Design-Money-Advice-Trust.pdf>

- Proposing a requirement on gas network companies to adhere to a vulnerability principle, similar to the obligations placed on gas and electricity suppliers.

Fair By Design has a particular interest in these areas, especially where they intersect directly with the cost of essential household bills for low income customers to address the poverty premium.

**Recommendation:** We would like to see clarity from Ofgem concerning its priorities and commitments for the second year of its vulnerability strategy, including on further work relating to the five proposals above.

### ***Supporting BEIS on automatic switching***

Fair By Design welcomed the publication of BEIS' Energy White Paper last year. We are particularly enthusiastic about the forthcoming details on opt-in and opt-out switching for tariff arrangements, as part of a drive towards creating a fair deal for consumers.

**Recommendation:** Ofgem should provide clarity on how it intends to support BEIS in the future automatic switching work. Particularly in ensuring that the framework for rolling these reforms out can be inclusively designed around those in particular need of a fair energy deal (for example, those in fuel poverty and/or experience of the poverty premium).

### ***Improving the accessibility and awareness of existing support schemes***

We support the call by our colleagues at National Energy Action (NEA) to improve the accessibility and awareness of existing support schemes. As NEA's Fuel Poverty Monitor 2019/2020<sup>7</sup> found there were many challenges to accessing support, especially where households did not feel comfortable contacting their energy supplier for help. Several groups of households, especially those who are digitally excluded and those that speak English as an additional language, demonstrated very low or confused awareness of the support that could be provided by their supplier during the crisis. Large variations in support creates confusion for householders and those supporting them.

**Recommendation:** Ofgem should clarify how it intends to improve the accessibility and awareness of existing supplier support schemes for energy customers.

In particular, we support NEA's following recommendations for Ofgem:

- Ensure that energy suppliers have detailed plans for mobilising additional call centre support and/or ensuring call centre staff can work effectively from home.
- Work with suppliers to set out what criteria they are adopting for 'emergency' calls and their call triage methodology/protocols for prioritising customer queries.

<sup>7</sup> <https://www.nea.org.uk/research/fuel-poverty-monitor-20/>

- Have regard to how companies have used different communication channels to see how non-digital consumers have missed out on support/advice during COVID-19.
- Ensure that utilities have plans in place to provide information on emergency support in different languages and formats, including Braille, BSL, and languages such as Polish, Punjabi and Urdu.

### ***Smart meter rollout***

Smart meters provide significant benefits for low income households who are impacted by the poverty premium. Smart meters generate behavioural data more useful for suppliers to better engage with customers than legacy prepayment meters. This gives suppliers a better opportunity to notify struggling/at-risk customers of available schemes helping them to reduce the cost of bills, avoid financial harm such as arrears, and other interventions like payment holidays or friendly credit.

Ofgem has a role in monitoring and enforcing minimum standards under the Smart Meter Installation Code of Practice (SMICOP). We feel that within this remit should be assurances that the rollout of smart meters is performed in the best interest of energy customers in vulnerable circumstances. To that end, we support a call by our colleagues at NEA that households with legacy prepayment meters should receive a smart meter as a priority.

<p><b>Recommendation:</b> Ofgem should commit to investigating what role it can play in ensuring households with legacy prepayment meters receive a smart meter as a priority. This being a first step to increasing protections for customers using prepayment meters.</p>
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