

All stakeholders

Email: [vulnerability@ofgem.gov.uk](mailto:vulnerability@ofgem.gov.uk)

Date: 11 October 2017

Dear stakeholders,

### **Statutory consultation for a vulnerable customer safeguard tariff**

The energy market is not working for all consumers and those who have not switched tariff are losing out. Government has announced its plans to publish a draft bill implementing a price cap for all customers on Standard Variable Tariffs (SVTs) and other default tariffs.<sup>1</sup> We will work with the government to implement its proposals as quickly as possible, starting with a consultation on the methodology for this price cap while the draft bill progresses through Parliament.

In the meantime, vulnerable consumers in particular are in urgent need of protection. We are therefore consulting on changes to suppliers' licences to introduce, by February 2018, a temporary safeguard tariff for consumers in receipt of Warm Home Discount (WHD).

This vulnerable customer safeguard tariff will be set at the same price level as the current safeguard tariff for customers using prepayment meters. It will save eligible dual fuel households<sup>2</sup> an average of over £120 per year. The vulnerable customer safeguard tariff will fall away when the government's price cap is implemented or by the end of 2019.<sup>3</sup> As the government's legislative timetable firms up we will consider the case for amending the design and increasing the coverage of the vulnerable customer safeguard tariff.

Our proposal for introduction in February 2018 will provide price protection for around 1 million vulnerable consumers who are not already eligible for the prepayment meter safeguard tariff. Alongside this, we expect suppliers to do all they can to identify customers in need, and consider how they will help them, acting in accordance with the new vulnerability principle in the domestic Standards of Conduct.<sup>4</sup>

This letter explains our vulnerable customer safeguard tariff proposals and next steps. We have published statutory consultations on the electricity and gas supply licence

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<sup>1</sup> Department for Business Energy and Industrial Strategy statement on the Prime Minister's announcement.

<http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/other/13385955.html>

<sup>2</sup> This estimated average saving is in relation to dual fuel households who receive Warm Home Discount and who are currently on Standard Variable Tariffs. For more details, see the Technical Document published alongside this statutory consultation. <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-vulnerable-customer-safeguard-tariff>

<sup>3</sup> Our proposed licence drafting includes a sunset clause at the end of 2019.

<sup>4</sup> The new vulnerability principle took effect in the supply licences on 10 October 2017.

Ofgem (2017), Final decision: Standards of Conduct for suppliers in the retail energy market.

<https://www.ofgem.gov.uk/publications-and-updates/final-decision-standards-conduct-suppliers-retail-energy-market>

modifications required to implement our proposals. The Technical Document published alongside this letter contains a statutory impact assessment that provides more detail on the range of options we have considered and our analysis of the expected effects of our proposals.

We seek your views on all the documents published today by 9am on Monday 13 November. Please send responses to Jemma Baker at [vulnerability@ofgem.gov.uk](mailto:vulnerability@ofgem.gov.uk).

### **Why we need to act now**

The energy market is not working for all consumers. We are determined to reduce the detriment suffered by customers on default deals who are overpaying for their energy. The price difference between the average SVTs from the six largest suppliers and the cheapest tariff in the market recently reached nearly £320.<sup>5</sup>

We are implementing measures to improve competition in the retail energy market, which should bring benefits to most consumers, and the situation is improving. For example, last year the number of domestic consumers switching supplier increased by 20% in electricity and 17% in gas.<sup>6</sup> The number of households on SVTs has dropped by more than 2 million since 2015.<sup>7</sup>

But it will take time before disengaged vulnerable consumers (some of whom may never be able to fully participate in the market) see benefits from the market working properly. Ofgem has particular duties to have regard to the interests of certain groups who are vulnerable and to consider protecting the interests of consumers via means other than the promotion of competition.<sup>8</sup>

Our research shows that consumers with vulnerable characteristics – low income, social housing renters, aged 65 or over, living with a disability – find it difficult to engage in the market; are more likely to lack confidence, or to be wary of the potential risks of switching tariff or supplier.<sup>9</sup>

Consumers in vulnerable situations are more likely to be on high-priced standard variable tariffs<sup>10</sup> and spend a higher proportion of their income on energy. This group is more likely to suffer in a number of ways, including struggling to afford bills.<sup>11</sup> The impact of high energy prices is greater on poorer consumers, and the situation has got worse. In 2015, the poorest 10 per cent of households spent an average of 9.7% of their income on energy, compared to 5.8% of their income in 2005.<sup>12</sup>

These consumers are suffering now, and need assistance as quickly as possible.

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<sup>5</sup> In August 2017.

<https://www.ofgem.gov.uk/data-portal/retail-market-indicators>

<sup>6</sup> Year ending June 2017. Ofgem analysis of data from electricity distribution network operators and Xoserve.

<https://www.ofgem.gov.uk/data-portal/retail-market-indicators>

<sup>7</sup> Change between March 2015 and April 2017.

<sup>8</sup> We may also have regard to the interests of other groups of consumers.

<sup>9</sup> GfK (2017) Consumer Engagement in the Energy Market 2017: Report on a survey of energy consumers

[https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_engagement_survey_2017_report.pdf)

<sup>10</sup> For example: GfK (2017) Consumer engagement in the energy market 2017. Report on a survey of energy consumers. Research conducted on behalf of Ofgem. Page 15.

[https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_engagement_survey_2017_report.pdf)

<sup>11</sup> Ofgem (2013), Consumer Vulnerability Strategy, paragraph 3.5.

<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy>

<sup>12</sup> Ofgem calculations based on Office for National Statistics data.

<https://www.ofgem.gov.uk/data-portal/energy-spend-percentage-total-household-expenditure-uk>

## Our approach

We propose to put in place a short-term safeguard tariff from February next year, so that some vulnerable consumers can benefit from lower prices this winter. The need for speedy action dictates many elements of our approach.

### *Safeguard tariff level*

We propose to extend the safeguard tariff already in place for prepayment customers to those consumers who receive Warm Home Discount (WHD) rebates.<sup>13</sup> Our proposals will limit the amount a supplier can charge per unit of energy to the same level as the existing prepayment safeguard tariff. We estimate around 1 million consumers who are not already protected by the prepayment safeguard tariff would save money – for dual fuel customers this would be on average over £120 off their energy bill on an annualised basis. This means that in total, all 2.2 million WHD recipients<sup>14</sup> will either be protected under our vulnerable customer safeguard tariff, protected under the prepayment safeguard tariff, or have already switched to a cheaper deal.

The safeguard limit will move in line with prepayment safeguard tariff when it is updated every April and October.

We have considered various alternatives to a safeguard tariff – we discuss these in the Technical Document.<sup>15</sup> We consider that a safeguard tariff is the best approach available.

We believe it is proportionate to use the current prepayment safeguard tariff level because this is a short-term measure. The level of the prepayment safeguard tariff is already published, and suppliers are familiar with applying it, so using this level will allow us to implement it quickly. The prepayment safeguard tariff was designed and set following several rounds of consultation, and is intended to reflect the costs of an efficient supplier. The level of this safeguard tariff was designed for a different group of consumers (prepayment consumers rather than vulnerable consumers), and so it will not perfectly reflect the cost of serving non prepayment customers. However, we consider this is proportionate given this is a temporary measure, and in light of the relatively low number of additional customers to be captured by the vulnerable consumer safeguard tariff.

### *Which customers it will apply to*

Our consumer vulnerability strategy defines vulnerability as “when a consumer’s personal circumstances and characteristics combine with aspects of the market to create situations where he or she is:

- Significantly less able than a typical consumer to protect or represent his or her interests in the energy market; and/or
- Significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial”.<sup>16</sup>

We believe the protection should apply automatically for eligible consumers, rather than requiring consumers to request it. It is likely that some of the most vulnerable consumers would be some of the least likely to contact their supplier.

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<sup>13</sup> The WHD rebate gives consumers £140 off their electricity bill.

<sup>14</sup> Total number of WHD rebates for 2015/16 Scheme Year.

Ofgem (2016) Warm Home Discount Annual Report 2015-16.

[https://www.ofgem.gov.uk/system/files/docs/2016/12/whd\\_annual\\_report\\_sy5\\_final\\_for\\_publication2.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/12/whd_annual_report_sy5_final_for_publication2.pdf)

<sup>15</sup> Chapter three of the Technical Document.

<sup>16</sup> Ofgem (2013), Consumer Vulnerability Strategy, paragraph 3.4.

<https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy-pdf>

To do this suppliers currently have (at least) two sets of information already available to them that would allow them to identify vulnerable customers: the WHD scheme and a Priority Service Register (PSR).<sup>17</sup>

We discuss in our Technical Document the relative benefits of each of these proxies. We conclude that WHD is the most appropriate target group. A safeguard tariff for those households in receipt of WHD would provide protection for people who are already targeted as fuel-poor. It would not be possible for suppliers to obtain more data to identify additional consumers (at risk of being vulnerable) in a consistent and robust way before February 2018. As a result, our measures will apply to those who are in receipt of WHD (in either the Core Group or the Broader Group) rather than all consumers that are eligible for the WHD.<sup>18</sup> More information on the WHD scheme and how it works in practice can be found in the Technical Document.

Our proposals rely on information that is already available to suppliers. There is no perfect or easy way to identify vulnerable consumers. Our proposed approach allows for rapid implementation and minimises implementation costs.

#### *Which suppliers it will apply to*

Our safeguard tariff will apply to the existing WHD Compulsory Suppliers.<sup>19,20</sup>

Not all suppliers currently participate in the WHD scheme. The scheme applies to electricity suppliers with over 250,000 domestic customers and associated Scheme Gas Suppliers.<sup>21</sup> However, those 12 suppliers that are required to provide WHD serve over 93%<sup>22</sup> of the market – and their share may be even larger among disengaged vulnerable consumers, who are by definition less likely to have switched supplier.

#### *Which tariffs and meters will be covered*

We want to protect those vulnerable consumers who have not engaged with the market. As such, we propose that the safeguard applies to any evergreen or fixed-term default tariff offered by the supplier to eligible customers.<sup>23</sup> At present the default deals offered by the 12 eligible suppliers are SVTs.<sup>24</sup> We note that some suppliers are considering putting some of their customers on fixed term default deals.<sup>25</sup> Even where a customer has made an active choice to sign up to a supplier's evergreen tariff, it will be subject to the vulnerable safeguard tariff protections.

We do not propose to place a safeguard restriction on non-default fixed-term tariffs.

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<sup>17</sup> A register maintained by each supplier, which enables vulnerable customers access to free services such as priority support in an emergency, personalised customer services and accessible information.

<sup>18</sup> WHD is paid by electricity suppliers. The supplier for a single fuel gas consumer will not know that a consumer receives WHD. The consumer would therefore have the safeguard tariff applied by its electricity supplier, but not by its gas supplier.

<sup>19</sup> This includes any white labels of existing WHD Compulsory Suppliers.

<sup>20</sup> We currently do not propose to place WHD Voluntary Suppliers in scope at first. These suppliers have data matching processes in place. However, if we included them in scope, they might choose to withdraw from participating in WHD, which could lead to a loss of consumer benefits.

<sup>21</sup> Some smaller suppliers also participate in the scheme voluntarily.

<sup>22</sup> Figure based on Ofgem analysis of gas and electricity distribution network operator reports. Information correct as of March 2017.

<sup>23</sup> For the detail of our proposals, see the statutory consultation notices.

<sup>24</sup> We recognise that some consumers may have engaged by selecting an SVT, but that could have been a number of years ago.

<sup>25</sup> We have published today a decision to allow suppliers to roll consumers onto further fixed term tariffs (where that is a better option for the consumer than defaulting onto an SVT).

<https://www.ofgem.gov.uk/publications-and-updates/decision-default-tariffs-domestic-customers-end-fixed-term-contracts>

All meters will be covered by the tariff. This is different to the prepayment safeguard tariff, which will not apply to those customers who receive fully interoperable smart meters.<sup>26</sup> The Competition and Markets Authority introduced the prepayment safeguard tariff to mitigate the lack of competition for customers on non-smart prepayment meters. In contrast, we are seeking to ensure that vulnerable consumers who have not engaged are protected – no matter what meter they have.

However, customers who are protected by the prepayment safeguard tariff will not be in scope for this vulnerable customer safeguard tariff.

### **Time-period of the safeguard tariff**

This proposal is designed to provide temporary protection. As a result, we are proposing the safeguard tariff remains in place no longer than December 2019 and will fall away once the government's price cap is in place. The vulnerable safeguard tariff could be removed<sup>27</sup> or amended earlier if we think it is appropriate to do so. This should provide sufficient time for the government to implement its plans for a broader price cap intervention.

### **Next steps**

We seek your views on all the documents published today by 9am on Monday 13 November. Please provide your responses to Jemma Baker at [vulnerability@ofgem.gov.uk](mailto:vulnerability@ofgem.gov.uk).

The table below sets out our indicative timetable going forwards.

<b>Licence modification stage</b>	<b>Timing</b>
Responses due to statutory consultation	By 9am on Monday 13 November
Ofgem publish final licence changes	Late November/early December 2017
Licence implementation period (56 days)	Ends no later than early February 2018
Safeguard tariff live	February 2018

In parallel with this consultation, we will work with the government on its plans for a price cap for customers on SVTs and default tariffs.

Yours sincerely,

**Rachel Fletcher**

Senior Partner, Consumers & Competition

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<sup>26</sup> CMA (2016), Energy market investigation – final report, paragraphs 14.5-14.7.

<https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

<sup>27</sup> Removing the protections earlier could be achieved by changing the date of the sunset clause. This would not require a licence modification. Please see the statutory consultation notices.