



Christians Against Poverty
Jubilee Mill
North Street
Bradford
BD1 4EW

Tel: 01274 761985
externalaffairs@capuk.org

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Dear Jemma Baker,

Statutory consultation for a vulnerable customer safeguard tariff

We are writing on behalf of Christians Against Poverty (CAP) to provide feedback on Ofgem's proposals to provide financial protections for vulnerable customers through the use of a safeguard tariff.

We fully support the intended aim of reducing the detriment caused to those in vulnerable situations from the current 'two-tier' energy market and agree that speed of action is imperative. We welcome the introduction of a safeguard tariff but remain concerned about the affordability issues that run much deeper than this proposal will address. Furthermore, we consider the passporting onto the temporary safeguard tariff from the Warm Home Discount (WHD) scheme to be a major design weakness that will severely inhibit the intended impact. In this letter, we outline the reasons for our position and make suggestions as to how the design of the temporary safeguard tariff could be more inclusive to all those in need of the protection it offers.

Decision to introduce a safeguard tariff

CAP's home-visiting model means we come face-to-face with the hardship experienced every day by those afflicted by deprivation and debt. On average, our clients have ten debts totalling £14,298. Fuel debt is part of this picture in two-fifths of cases, and many more have resorted to borrowing to pay their household bills.¹ As a result, we know the consequences of severe financial difficulty all too well: 45% of the people CAP help have cut back on heating over winter, 40% have mental health problems, 67% have skipped meals due to debt, and for 27% debt caused their relationship to completely breakdown.

Debt is destructive and isolating. Dealing with the stress of financial hardship whilst trying to get by sees three-quarters afraid to open their post, 64% afraid to answer the phone and even 38% considering suicide as a way out.² This explains why, despite suppliers' efforts to engage customers in vulnerable situations, many in the most severe hardship remain unable to do so. It is a positive step forward to see that action is being taken to prevent those in this

¹ 40% of CAP clients feel behind with their electricity and/or gas bills. 91% have borrowed to pay a household bill or another debt. See CAP (2017) *Client Report: Partnership; the key to transforming lives*, capuk.org/clientreportpdf

² *ibid*

situation from continuing to bear a financial penalty when they are often worst placed to do so.

Having reviewed the technical document, all considered, we agree that a safeguard tariff to directly reduce the cost of consumption is the best route forward. This takes provision for those struggling to pay for their energy beyond *Ability to Pay* requirements with a more encompassing approach before debt or self-disconnection becomes the result. In particular, we welcome the acknowledgement that the nature of a two-tiered competitive market means that such a policy is needed for those who cannot pursue their own interests in a competitive market, whether this is for a transitory phase or if there are permanent barriers to full engagement.

Nevertheless, we view there also to be wider wellbeing concerns which necessitate not only levelling the playing field, but ensuring all can afford to consume the energy they need. Energy is an essential good, and at CAP we are confronted by the daily reality for those who have resorted to living without it – at the extreme: living in the cold, in the dark, unable to have a warm shower or cook food. While a safeguard tariff will go some way to addressing the poverty premium experienced, it does not help those who simply cannot afford the energy they need or have disconnected themselves due to worries of ending up in arrears.

While we recognise that a price cap is not necessarily the right vehicle to address this deeper affordability problem and that Ofgem is limited in its ability to introduce redistributive policies, this is not a problem that exists separately to the operation of the energy market. There are many situations where it is difficult to achieve good customer outcomes and also impact suppliers' business models. For example, where it is deemed unsafe to install a prepayment meter and suppliers cannot disconnect due to vulnerability, there is no resolution to stop bad debts escalating, an occurrence that is likely to increase with the new consumer protections when force fitting a prepayment meter.

We believe there are two strands of action needed: a price cap to correct short-term market factors and remove financial penalties for those in vulnerable situations, and a deeper intervention for a smaller group that faces enduring issues for which consideration of what is affordable needs to be made (for instance, a form of social tariff or rebate). There are some suppliers who have support schemes that address this deeper affordability problem for a small group of customers but due to the extent of fuel poverty, we need the action to be more comprehensive and market-wide.

We hope that by following the introduction of the safeguard tariff, we can continue discussions about affordability to seek to address the unresolved depth of the issue. Perhaps with a focus on what needs to sit alongside the government's planned SVT (Standard Variable Tariff) price cap to more specifically meet the additional needs of those in the most severely vulnerable situations from 2019.

Passporting from receipt of Warm Home Discount

With regard to the design of the proposed safeguard tariff, we appreciate that it needs to be targeted at those who cannot engage rather than those who choose to remain disengaged and can afford to pay more. The difficulty of identifying vulnerability due to the variety of circumstances and common lack of self-identification is a substantial challenge. Therefore, we agree with the assessment that this target group would be some of the least likely to contact their supplier and need to qualify for the safeguard tariff automatically.

In light of this, we agree that a proxy is needed. Yet, while on the whole the Warm Home Discount eligibility criteria captures the majority of those in the target group, we are concerned that the proposed passporting will exclude a large proportion of those in need of these financial protections. As the statistics in the technical document suggest, there are as many as 3.9 million people who stand to lose out despite the likelihood that they fall into the target group, more than twice the number that stand to gain.³

While it may not be possible for suppliers to obtain enough new data to robustly identify additional customers who should benefit from the tariff by February 2018, the design should not be set to rigidly exclude those additional customers who are identified during or after this timeframe. A major flaw is that while under the proposal a customer can qualify for the safeguard tariff automatically, they need to have contacted the supplier at the opportune time to be a recipient of WHD in the first place. This creates one window of opportunity each year to benefit from the safeguard tariff and it is only those who are more engaged with their supplier or accessing specialist support services who will benefit. Those who are eligible but have not applied for WHD or do so too late to receive it, appear to have no way of accessing the safeguard tariff despite being in the same situation.

Eligibility for the safeguard tariff needs to be based on eligibility for WHD, not receipt. While those who have received it in a given year can qualify for the safeguard tariff automatically, it also needs to be accessible at any point during the year to anyone else who would have been eligible for WHD as well. This flexibility would also provide opportunity for customers who received WHD from their electricity supplier but have a different gas supplier, to receive protection from the safeguard tariff on both fuels, perhaps making use of industry data flows.

Furthermore, there also needs to be flexibility to include other customers who fall outside the WHD eligibility criteria, but have a clear need for this protection. For instance, those with a terminal illness or disability that means their consumption level renders them fuel poor.

Moreover, to manage demand, not all suppliers remind customers who received WHD in the previous year to reapply once applications open again. As the safeguard tariff aims to protect consumers who will find it difficult to remember to do this proactively, it should be a requirement that suppliers need to at least remind customers to confirm their eligibility for the safeguard tariff each year.

Collaboration with third parties

To improve take-up of the safeguard tariff and reach more disengaged customers in the most vulnerable situations, suppliers need to work closely and collaboratively with third parties who can help identify where a customer is in a vulnerable situation or has multi-complex needs. There is much willingness from energy suppliers to do this, but to be effective it needs to be an efficient process for both parties. In some cases, data protection concerns prevent positive collaboration and innovation. It would be helpful if Ofgem facilitated work between consumer groups and energy suppliers to look for opportunities for data sharing. This would allow third parties to inform energy suppliers in bulk which of their

³ According to the CMA's survey, there are 1.7m WHD recipients on SVTs (including both prepayment and non-prepayment customers). Ofgem estimate 5.6m households on SVTs contain at least one individual in receipt of income or disability-related benefits.

customers qualify for the safeguard tariff.

Use of prepayment price cap methodology

We do not dispute the suggestion to use the prepayment price cap methodology to set the level of the safeguard tariff, and accept the rationale in terms of speed and ease of application. However, one of the risks identified in the technical document of doing so is of particular concern. In our experience, some suppliers currently prevent their customers switching from their SVT to one of their own cheaper tariffs if they are in arrears, even though doing so would ease the customer's financial pressures and facilitate quicker repayment of their debt. We would welcome Ofgem's investigation of whether the introduction of the safeguard tariff exacerbates this situation and further restricts choice, and if so, take action to mitigate this effect.

Finally, it appears that customers on smart SVTs are encompassed by this safeguard tariff, yet those on smart prepay are not covered by the prepayment meter price cap. Could you please clarify this situation and if so, give explanation of why this group of consumers will not receive similar financial protections?

Thank you for taking the time to read our comments on the safeguard tariff. We have also appreciated the opportunity to engage with you about this policy from the early stages through stakeholder events. We recognise the safeguard tariff as a bold and important strand of the work you are doing to help those in the most vulnerable circumstances, and look forward to working together to address a broad range of policy issues in future.

Yours sincerely,



Dawn Stobart
Director of External Affairs



Rachel Gregory
External Affairs Analyst