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Rachel Fletcher  
Senior Partner, Consumers and Competition  
Ofgem  
9 Millbank  
London SW1P 3GE

Email: [alisonrussell@utilita.co.uk](mailto:alisonrussell@utilita.co.uk)

By email only

Dear Rachel,

**Re: Statutory Consultation for a vulnerable customer safeguard tariff**

Thank you for the opportunity to comment on the above statutory consultation. We understand the current pressures associated with trying to reduce the impact of winter fuel bills for vulnerable customers, but we are concerned that the current approach will not address the issue.

It is also disappointing that no consultation on the proposals other than an initial roundtable was undertaken before moving to statutory consultation stage.

We have a number of general points on the approach and also some specific observations on the proposals.

Firstly, we question the logic of maintaining the Warm Home Discount at this time. When it was first introduced the level of customers being supplied by new entrants was far lower than it is today. The purpose of the Warm Home Discount was to reduce the cost of energy for the lowest income households from the very high pre-pay and SVT (non-direct debit) prices being charged by the Big Six. Through differential pricing the Big Six were exploiting their dominant position in the market by overcharging some customers whilst preventing competition from growing by cross-subsidising more engaged customers. Through the Warm Home Discount, these low-income households were effectively being given the benefit of lower prices without switching.

It was always an anomaly to include the new entrants in the Warm Home Discount scheme since they were not in a position to extract the monopoly rent in the same way as the Big Six.

However, things have moved on and more customers have become engaged, especially in pre-pay, and are therefore benefiting from lower prices. Consequently, there is less need for

the Warm Home Discount. By applying the price cap and the Warm Home Discount customers will be seeing unsustainably low energy costs, and that group of customers will now be receiving a double benefit. Effectively applying the new regulatory measure of a price cap will achieve the impact that the Warm Home Discount was intended to give, and therefore this would be the appropriate time to scrap the scheme.

Furthermore, it is quite clear that the CMA pre-pay price cap does not include sufficient margin to give back £140 per customer, and therefore Ofgem would be embedding the concept of cross-subsidy which is not beneficial for competition in the long run. Scraping the Warm Home Discount scheme will remove the adverse impact on competition that it introduces because of the manner in which it is applied differently to various supplier groups.

While we have reservations over the continued application of the Warm Home Discount, for the reasons set out above, if this is to be used as a proxy for vulnerability, it has a number of shortcomings. Proposals of this type are selective and may omit many who are in need, it does not encompass all suppliers and only a limited number of 'places' are available. The main issue in this instance is that not all suppliers participate<sup>1</sup>, potentially leaving eligible customers who may have actively engaged in the market to manage their costs doubly exposed. This is likely to have an impact on future switching behaviour. If it is perceived that by moving to a smaller supplier, fewer benefits may be available to those in need, we expect this would discourage such switching, meaning customers in need may remain with larger suppliers on high standard variable and default tariffs.

The market impact will also be variable on suppliers. The largest suppliers (Big Six) will continue to be able to cross subsidise the costs most likely without substantial tariff changes (mitigating the impact for them), but 6 challenger organisations will be expected to bear costs not imposed on smaller organisations.

The proposals only apply to those suppliers who have to participate in the Warm Home Discount Scheme. This is a fundamental flaw and should be addressed. We do not understand why, together with DWP, Ofgem cannot arrange for eligible customers who are supplied by non-participating suppliers to be notified to their suppliers, so they can deliver both the Warm Home Discount and the cap. This could remove the issue identified by Ofgem for single fuel gas customers, as the supplier would know the customer was eligible and apply the cap.

A further risk with the proposals is that where customers (who were in receipt of the Warm Home Discount) may have switched from a WHD supplier to a non WHD supplier, they will not be given this protection. The approach above, i.e. full participation, would remove this risk.

In the case of Utilita, all our customers receive prices below the prepayment cap, as our tariff does not vary by payment method. This means that our credit/direct debit customers are already below the relevant cap, whether dual fuel or single fuel.

However, were this not the case, we believe that the approach of a customer being eligible depending on whether they received the WHD in the prior or current year may create more of

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<sup>1</sup> Although some suppliers do participate voluntarily, the number who do not is significant.

an administrative issue than noted. Not only must a supplier be able to track this information, but there are twice-yearly changes to the prepayment charge restriction. Suppliers will also not have information on whether a customer received a Warm Home Discount in the prior year unless they were on their own portfolio.

There will also be variability between supplier criteria for the broader group which may lead to a lack of consistency.

We note Ofgem's expectation that suppliers will create a new specific safeguard tariff<sup>2</sup>. We would be grateful for explicit confirmation that this is not required where the tariff the customer is on complies with the prepayment charge restriction (and hence the 'Safeguard Tariff').

It will also be important to manage carefully communication to customers in respect of the proposals and future decision. We note Ofgem's view on the conference call, that managing customer expectations and any confusion resulting from the interaction of WHD years and the Safeguard Tariff, is for suppliers to manage.

While we agree that the relationship with the customer is for suppliers to manage, if implemented, this decision will take effect during the busiest period for energy suppliers and at the same time as the next update to the prepayment charge restriction<sup>3</sup>. We believe that Ofgem is in a good position to assist customer understanding in this case. Ofgem must take an active role in supporting communications for customers, together with consumer bodies, to avoid driving unnecessary confusion and customer contact. This might include for example, confirming why a customer who gets the WHD and already benefits from the prepayment charge restriction will not need to be moved to another 'Safeguard Tariff'.

We hope this submission has been helpful, and would be happy to discuss any points in more detail.

Yours sincerely,

*By email*

Alison Russell  
Director of Policy and Regulatory Affairs

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<sup>2</sup> Technical document, page 11, paragraph 1.8

<sup>3</sup> Due to be notified in early February for implementation on 1 April 2018