

Jemma Baker
Retail Price Regulation
Ofgem
9 Millbank
London
SW1P 3GE

By email only, for the attention of
Jemma Baker: CDconsultations@ofgem.gov.uk

30 January 2018

Dear Jemma,

Consultation Response – Providing financial protection to more vulnerable consumers

Thank you for the opportunity to respond to your Consultation.

We have limited our response to the specific questions raised, and will address each in turn:

Question 1 – What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data-matching?

Ofgem propose that all existing WHD obligated suppliers will identify consumers by way of a Data Matching exercise with DWP. We acknowledge that this would promote consistency between suppliers using that methodology to enable customers *in receipt* of either income-related benefit, or disability-related benefit to be consistently identified. In the short term, we feel that, subject to the cost point below, this is the preferred option.

DWP Data Matching will come at an additional cost to suppliers

Whilst processes may already be in place with existing WHD obligated suppliers to facilitate this method, we are concerned that there is currently no price control around the costs that DWP can charge for this service. These costs may represent a significant expense for those smaller suppliers already only just within the WHD obligation threshold. We would ask that Ofgem consider this issue carefully – perhaps with a view to capping these additional costs.

Criteria that will continue to fail many vulnerable customers

We would suggest that Ofgem considers whether data matching could be conducted against a wider set of criteria than those proposed. Ideally, we would favour a data matching exercise which identifies and benefits vulnerable customers not only on the basis of an existing financial benefit.

Ofgem have guided the industry along a path which has encouraged a more diverse range of vulnerability. Those vulnerable circumstances often create disengagement leading to detriment. Not all cases of vulnerability, however, will necessarily qualify that customer for the financial Government assistance (income based and disability based) that is currently proposed as the qualifying primary benefit.

Whilst we recognise the benefit of simplicity over complexity for the proposed measures, we are concerned that the data-matching methodology (whilst having advantages over the backstop method) builds on the existing WHD Safeguard tariff by *again* targeting a further group of customers who already receive some financial benefit. Whilst everyone in this group is likely to be vulnerable, this group of customers will now receive *additional* financial assistance through the safeguard tariff.

At the same time, there remains a risk that a further significant group of vulnerable customers, also unable to engage, but which, for whatever reason, do not qualify for, or receive, the primary financial assistance to begin with, will now fail to receive financial assistance on *two* counts. This risks creating, and widening, a vulnerability “class divide”. This solution is more at odds with the developments in vulnerability that Ofgem have promoted. Indeed, it tends to confirm earlier Industry scepticism that the widening of PSR eligibility would dilute its impact on those who have the most need. We would suggest that there is a group of disengaged vulnerable customers who do, indeed, have the most (or just as much) need, but who will be excluded under this proposal.

The problem is compounded when larger suppliers will be obligated to use data matching, and smaller suppliers might be asked to use the backstop method. This will have the effect of treating vulnerable customers who are with larger suppliers differently to those served by the smaller suppliers. If you are a vulnerable customer who is not in receipt of benefit, you will lose out if you are with a larger supplier. This will therefore be true for the vast majority of that group of customers since those larger WHD suppliers have 93% of the market.^[1]

Question 2 – What are your views on our backstop option that requires suppliers to use the information they hold (such as Priority Services Register and debt information) to identify vulnerable consumers?

A more inclusive selection process

Ofgem have indicated that the preferred option would work alongside a backstop option for smaller suppliers who are not WHD obligated, and thus without the existing data matching system infrastructure in place to accommodate DWP data matching.

For reasons eluded to in our response to question 1, we do see the benefits of this system over the preferred option. All suppliers are already required to maintain a Priority Services Register, and

^[1] At page 18, 2.28

should also have readily available access to information on their indebted customers. Development costs should, therefore, be more limited.

The use of the PSR will enable suppliers to take a much more informed approach to identification – not necessarily based on existing receipt of government assistance. Since a customer can be on the PSR for many reasons, we would be keen to better understand what categories of PSR customer Ofgem would consider eligible for the Safeguard tariff?

More generally, we are pleased to see that the PSR (in which many suppliers will already have invested significant development time and cost) can be put to additional good use. Requiring suppliers to use the PSR in this way can only improve its coverage and consistency between suppliers.

Inconsistency leading to poor customer experience

That being said, we are also conscious that this information is unlikely to be applied consistently by suppliers - even if specific sub-criteria were specified by Ofgem, since all suppliers will operate their PSR slightly differently. Indeed, those suppliers more adept and conscientious about identifying and supporting their vulnerable customers are likely to identify many more customers as being eligible for the tariff, and this arguably places those suppliers at a considerable commercial disadvantage.

Question 3 – Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?

The point is made at page 17 that the use of the PSR might tend not to reveal those disengaged vulnerable customers who have not self-identified and thus not been added to the PSR. We are not aware, however, of a more feasible way to identify that sub-set of vulnerable customers who have not yet told us they are vulnerable. Whilst the DWP data sharing exercise may capture some of those customers, we believe that any method of identification should not require a customer, necessarily, to be in receipt of an existing financial benefit. We have already addressed the potential cost to suppliers of a further data matching exercise, and the challenge in seeking to include all suppliers within this approach. To that extent, both systems have their advantages but are far from ideal. Perhaps there is an opportunity to explore data matching / sharing with a wider group.

A tariff that allows full and consistent participation

We are aware of the difficulties envisaged in extending Data matching to smaller suppliers and the possibility that some suppliers will use the backstop method whilst others will use the preferred method, or simply given more time to implement Data Matching. This gives the impression of a fragmented, disorganised solution. We are also concerned that once the full Government Tariff is in place, it is possible that there will be a proportion of customers currently deemed to be eligible under these proposals, but who will no longer be eligible under the Government tariff. Suppliers are likely to have to bear the brunt of consumer dissatisfaction which will send a very negative message to customers that those interim arrangements were simply rushed through. We would suggest that this is far from satisfactory and would much prefer to see Ofgem postpone the launch of a tariff that might benefit from further development.

We appreciate that it is perhaps beyond the remit of the current proposals, but we wonder if the issue of disengagement should be the primary underlying trigger, rather than vulnerability per se? It is, surely, this lack of engagement leading to customers paying more than they should which lies at

the heart of the proposals. Vulnerable customers are a subset of that group whom, we agree, would suffer more detriment, and who are likely to be less able to engage. Whilst we acknowledge Ofgem's prioritisation of that group of customers, there may be a missed opportunity here to cut to the heart of the issue and offer up a proposal which targeted *any* customer that had been on an SVT for a particular length of time (say three years). This would send a clearer message - that a supplier should look to engage with *all* its customers – vulnerable or not. Ofgem have already set the tone for this with the introduction of the optional default fixed tariff. This may be seen as a natural extension of that. Should a supplier not roll a fixed term customer immediately onto a similar fixed term tariff, they would *have* to do something after three years. Over time, we envisage that this would erode the practice of SVT's altogether.

As to the proposals themselves, we would ask Ofgem, respectfully, to consider the roles that can be played by others, both in and outside the industry, who are able to engage with at least as much precision as suppliers might. As a smaller supplier with all those challenges that come with it, we are keen to maintain the trust of our customers. We work hard to meet the expectations placed upon us, and we happily accept that responsibility, but we have concerns about the disproportionate focus that is placed on suppliers alone to solve what is effectively a much wider problem. In discharging its primary obligation to protect the interests of existing and future energy customers, Ofgem must surely be in a position to rally some degree of focus on those who are active in this area. Certain charities might, for example, be in an ideal position of trust with elderly customers who may not fully appreciate the significance and sincerity of continued attempts by their supplier to persuade them to switch tariff. Local Authorities must also surely play their part in acknowledging the boundary between the duties of a commercial supplier and the social obligations of the State.

Question 4 – What are your views on our proposal for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers? Please provide evidence to support your views.

We would not wish to see any group of customers treated differently and lose the opportunity to benefit under the tariff. We think that as a matter of fairness (for customers and suppliers) the tariff must apply to all suppliers. This is likely to be more costly for smaller suppliers who are perhaps more likely to feel the cost of switching their SVT customers to the safeguard tariff (given that SVT pricing is intended to mitigate against particular risks or costs associated with an SVT customer). It is possible, however, that there will be a lower proportion of customers with smaller suppliers on SVT to begin with.

Ofgem should not underestimate the burden and cost of system and process changes to adopt any solution that is proposed. This disproportionately falls on smaller suppliers who are offering competition in the market place, and who generally have customers on supply for overall shorter periods.

Question 5 – What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

We have no objections to the proposal that the tariff will apply to all meter types.

Question 6: Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

We would favour an approach that has already been tried and tested within the market, subject to further refinement where necessary. Ofgem acknowledge that this second version of the safeguard tariff is intended to be temporary pending the government review. We see little point, therefore, in attempting to refine the tariff beyond the PPM safeguard tariff currently based on the CMA benchmark. All existing participating suppliers will be familiar with the tariff structure, and the reporting mechanics are already in place to support this. The use of this tariff presents less of a risk in our view. That is not to say that the tariff will not require modification and refinement to take account, for example, of the cost of the Smart Meter rollout. We have no doubt Ofgem will engage with suppliers to address these adjustments.

We have concerns that the *basket of market tariffs* option, would create difficulty in identifying a batch of tariffs that were representative of the market – for reasons explained at 3.20. There are an array of differences in the operation of every supplier that makes it difficult to compare like for like in identifying the ideal standard. For example, as you have identified at 3.20, the tariff of a smaller supplier may well appear in the cheapest 10, yet that may be reflective of lower operational costs or even (as you have alluded to) sacrificing a level of service to establish customer numbers in the early stages of development – thus skewing the basket. Even with an uplift, we would be concerned that a tariff which made use of the cheapest in the market to begin with is fundamentally flawed. This approach could also push suppliers in gaming the market and ensuring prices were increased at the point the basket market tariffs option would be selected from. Using cheapest deals on the market could mean picking up loss leading deals that have been launched for new entrants, or deals from smaller suppliers who do not have obligation costs. With the recent demise of BG Energy Supply Limited, Brighter Energy & only recently Future Energy, this is further justification for not using Variable deals offered by smaller suppliers as a benchmark, as they have not been able to sustain a profitable business using this method.

Whereas the existing Safeguard tariff applies only to obligated WHD suppliers, this latest Consultation proposes a vulnerable safeguard tariff for all suppliers, regardless of WHD. Smaller suppliers not yet obligated will have the advantage of a significant saving allowing them to operate at lower levels. We would ask Ofgem to consider building this into the equation, perhaps by way of separate safeguard tariffs – one for obligated WHD suppliers, and one for non-obligated suppliers.

Question 7: Do you have any comments on the design issues for either of our two options?

On the basis that the proposals relate to a cap (and eligible customers would thus remain on their existing SVT if they are better off on it) we have no further comments at this time.

In general, we would be happy for our response to be published in due course. However, we would be grateful if that future publication is subject to our prior written approval so that we may have the opportunity to determine at that time whether any element of the response merits redactions on the grounds of commercial sensitivity. As such, please treat this response as confidential prior to that further approval for publication.



We hope that you will find our comments helpful, and we await, with interest, the development of your proposals. Please do not hesitate to contact us should you require further information.

Yours sincerely,

Richard Shotton-Oza
Regulatory Manager
Extra Energy