

21 March 2018

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

Email: alisonrussell@utilita.co.uk

By email only

Dear Jemma,

Consultation on providing financial protection to more vulnerable consumers

Utilita specialises in providing an excellent smart prepayment service. While prepayment is not a proxy for vulnerability, we do have a significant number of customers on our portfolio in vulnerable circumstances, and we recognise the additional support needs such customers have. We therefore welcome the opportunity to comment on this consultation. We have demonstrated by our approach to our most vulnerable customers our commitment to supporting them in their difficulties through the work of our Extra Care Team.

In general terms, we do not support the use of selected energy suppliers to deliver government policy or schemes. Such approaches create unequal playing fields for competition, and also lead to selective support for those most in need, as not all suppliers provide the necessary services. While it has been argued that new suppliers who do not offer schemes such as the Warm Home Discount for example, may offer cheaper prices, the differential rarely compensates adequately. Third sector organisations and bodies such as Citizens Advice also frequently raise concerns about the level of understanding some such new suppliers have of their obligations towards those in vulnerable circumstances.

We believe that when the Warm Home Discount scheme was first developed, it was seen as a structured and targeted alternative to a social tariff to compensate for the differential pricing implemented by the Big Six. This was a badly designed mechanism because increasing numbers of customers switched supplier on to cheaper tariffs (with new entrants) but were still eligible for the subsidy. Extending the prepayment price cap, or creating a safeguard tariff cap (in addition to the Warm Home Discount) as is proposed creates a scenario where these customers will receive both Warm Home Discount and a price reduction through a 'social tariff'. While we understand that customers who may be in vulnerable circumstances may need additional support, this should be on an appropriately justified basis and funded by central government.

In respect of the specific questions raised in the consultation, we address each point below, subject to the general points made above:

Chapter 2 – Scope

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

We do not believe this is appropriate for energy suppliers. DWP should identify consumers in need of additional funding and increase benefits accordingly. Any alternative method will result in duplication of effort and be less efficient.

However, if the mechanism is to be implemented, the most viable approach for identifying customers is data matching to DWP. This provides a consistent approach for all suppliers, and gives confidence to consumers that the decision is independent and robust.

Some suppliers do not currently have data matching in place, as they are exempt from the obligations imposed by participation in the Warm Home Discount Scheme. However, if a safeguard tariff is to be applied using these criteria, the criteria should be applied consistently across suppliers, and Ofgem should ensure guidance is provided and all suppliers are compelled to put the appropriate matching arrangements in place.

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?

We do not support this backstop option. Approaches to PSR may vary across suppliers, and may not produce a consistent result. In addition, while we appreciate the intent behind using debt as an indicator, we believe that the potential inconsistency between suppliers in conjunction with the inherent perverse incentive should preclude such an approach.

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

We only support methods which provide for a consistent approach to all customers between suppliers. Suppliers should not have a choice over who qualifies for the tariff, this will give a robust approach in which customers in vulnerable circumstances can have confidence.

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.

If suppliers are to be required to provide safeguard tariff protection to vulnerable customers, then the same requirement should be imposed on all suppliers. In addition, the extension should be fully based on data matching with DWP.

We acknowledge that this will require smaller suppliers to engage in a way that they do not currently. However, we believe that this is appropriate, if the mechanism is to be implemented and justified based on the vulnerability of the customers in question. We believe that Ofgem may need to support/mandate engagement in this case.

We believe that this approach will:

- Standardise the availability for customers impacted, no matter their size of supplier
- Apply consistency of approach to eligibility
- Reduce potential for perverse incentives on smaller suppliers in terms of eligibility criteria, for example if PSR customers or customers in debt are chosen.

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

If extended safeguard tariff protections are to apply, they should be applied consistently to all tariff types and to all meters other than those already covered by a price restriction.

The priority of any form of protection should be established and then applied consistently across all suppliers. If a safeguard tariff extension can be justified, this should incorporate both variable and fixed term tariffs.

Chapter 3 – Methodology

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

Utilita does not support the approach of using a 'basket of tariffs' as a basis for the vulnerable customer safeguard tariff. Such a basket of tariffs may not reflect a price level where an efficient supplier can generate normal profit, as tariffs are affected by supplier strategy and industry levy exemptions. Also, the tariffs will be for different durations, and hedging basis risk will not be possible under this methodology.

The alternative is modification of the PPM price cap methodology. Such modifications discussed at the workshop included both increases to reflect different costs to serve (arguable) and corrections to fundamental flaws. This was generally considered preferable to a basket of tariffs from the cheap end of the market, which would be impossible to match on the wholesale market and almost certainly loss making.

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

Although beyond the scope of this consultation, Utilita would like it noted that any corrections of flaws in the prepayment price cap used to set the vulnerable customer safeguard tariff must be reflected in the prepayment price cap. Not doing so will either undermine the prepayment price cap, as known flaws will be allowed to persist, or undermine the vulnerable customer safeguard tariff, where if the prepayment price cap methodology is considered sound, vulnerable customers would necessarily be over-charged.

Should you have any questions on this submission, we would be happy to discuss them in more detail.

Yours sincerely

By email

Alison Russell
Director of Policy and Regulatory Affairs