

Providing financial protection to more vulnerable consumers

Ofgem consultation

A Response by Utility Warehouse

This document sets out the views of Utility Warehouse regarding the Ofgem consultation “*Providing financial protection to more vulnerable consumers*” published by Ofgem on 20 December 2017.

Utility Warehouse is the UK’s only fully integrated provider of a wide range of competitively priced utility services spanning both the Communications and Energy markets. Customers benefit from the convenience of a single monthly statement, consistently good value across all their utilities and exceptional levels of customer service. Utility Warehouse does not advertise, relying instead on ‘word of mouth’ recommendation by existing satisfied customers in order to grow its market share.

We take our responsibilities as an energy provider very seriously and make every effort to ensure we provide such essential services to our customers with the utmost integrity; the customer is at the heart of our business model and the way in which we operate. Customer value is the cornerstone of the success we have had and continue to achieve.

We are supportive of Ofgem’s policy intent to refine the design of the Warm Home Discount (WHD) safeguard tariff and extend it to a broader group of vulnerable customers.

We believe there should be a fair and equitable set of rules that apply for all suppliers and not a two-tier system of regulation that distorts competition. Therefore, we consider that all suppliers should be in scope and obliged to participate in providing financial protection to vulnerable customers regardless of their size. It’s our view, that a vulnerable customer should have the same likelihood of benefiting from financial protection regardless of who their supplier is, given the policy intention is to protect all vulnerable customers.

We are fully supportive of Ofgem’s preference for using a data-matching process between suppliers and the Department for Work and Pensions (DWP), to identify vulnerable customers who would most benefit from additional financial support.

We firmly believe that the design of any future safeguard tariff should apply to all suppliers in the market, through a single consistent approach using data-matching to identify vulnerable customers. We would like to see a fair and equitable set of rules that apply to all suppliers in the market, rather than focusing on potentially different options depending on a supplier’s customer base – this simply reinforces the two-tier regulatory system that we see today with the recurrent application of the 250,000 customer threshold.

We do not consider Ofgem’s proposed backstop option suitable for identifying vulnerable customers for the purpose of the future safeguard tariff design. As acknowledged by Ofgem, we believe this approach would lead to inconsistencies between suppliers in terms of which customers would be protected, because of differences in internal business practices. For example, suppliers manage debt in different ways and some more efficiently than others, so we would not support an approach where debt is used exclusively as an indicator for vulnerability. The transient nature of debt would also create situations where customers who repay any outstanding arrears would no longer eligible for the safeguard tariff protection and

would therefore potentially be subject to a price increase, not to mention the challenges that a supplier would face in trying to manage the regulatory price increase notification process.

While we fully recognise that the Priority Services Register (PSR) is a valuable flag for assisting in the identification of vulnerable customers, we believe the PSR is a proxy for non-financial vulnerability and as such it is not a suitable flag for the identification of customers for the safeguard tariff.

We also agree with Ofgem that using PSR as an indicator presents a risk that disengaged vulnerable customers, who have not self-identified as needing priority services could be excluded. We therefore do not consider this to align with Ofgem's objective that protection applies automatically for eligible customers. We firmly believe instead, that all suppliers should identify vulnerable customers utilising a bespoke data-matching process with DWP, recognising those who receive the appropriate benefit.

In terms of the methodology that could be used for setting any future safeguard tariff cap, we accept the need to consider different tariff structures when setting the benchmark and that this is a fundamental design consideration.

We are disappointed to see that Ofgem appear to have dismissed using a bottom-up cost assessment that would accurately reflect the operating costs involved in serving Credit Meter customers, we believe this would be the most effective method for setting a competitive and considered benchmark. We would welcome Ofgem reconsidering their view on the feasibility of this approach moving forward.

We do not support the basket of market tariffs methodology for establishing the price cap as we believe it would lead to a distorted benchmark being set. As is recognised in the consultation, it would be heavily influenced by which suppliers are considered within the basket. For example, smaller suppliers are able to offer cheaper deals as they are exempt from the policy costs associated with having a larger customer base.

If the prepayment methodology was to be considered based on the Competition and Markets Authority's benchmark, we believe it would have to be significantly updated to reflect the actual costs of operating in the Credit Meter space, not least to reflect updated smart metering costs and bad debt that is generated from servicing this part of the market. It is imperative that any benchmark set allows suppliers to recover costs while providing sufficient scope for competition in the market.