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Making a positive difference
for energy consumers

Consumer Impact Report

Financial year **2018 - 2019**

Consumer Impact Report Financial Year 2018-19

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Ofgem is the independent energy regulator in Great Britain, working to protect the interests of current and future energy consumers. Our core purpose is to ensure that all consumers – including vulnerable and disengaged consumers – can get good value and service from the energy sector.

We assess the impact of our decisions against the five consumer outcomes we aim to achieve:

1. **Lower bills** than would otherwise have been the case.
2. **Reduced environmental damage** both now and in the future.
3. **Improved reliability and safety**.
4. **Better quality of service**, appropriate for an essential service.
5. **Benefits for society as a whole** including support for those struggling to pay their bills.

This is our second annual Consumer Impact Report. It assesses the quantifiable and non-quantifiable consumer benefits that we expect to result from key regulatory decisions made in the financial year April 2018 to March 2019.

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Key findings

Making sure the energy sector delivers good outcomes for consumers is at the heart of what Ofgem does. Our Consumer Impact Report assesses the benefits of the most significant regulatory decisions we make in a given financial year. These benefits are wide-ranging and many of them are not quantifiable. This report covers the 2018-19 financial year.

Most of our decisions are targeted at consumers in general, but there are some that are aimed at certain groups of consumers. For example, the default tariff cap is expected to benefit more than **10 million consumers** on standard variable tariffs, while our Supplier of Last Resort processes ensured that all of the approximately **800,000 customers** of failed suppliers have had continuity of service. Some of our decisions also target, to varying extents, consumers in vulnerable situations, such as the introduction of switching compensation and the new rules imposed on suppliers' communications.

Where possible, we quantify the benefits of the decisions we made in 2018-19. These amounted to estimated direct benefits of **£2,555 million**. These benefits are uncertain, and will be realised over a long time period (up to 50 years).

Retail market interventions

- We implemented a cap on default and standard variable tariffs to protect consumers from unjustified price increases. Direct benefits to consumers are estimated to be **£2,395 million** over the two years of 2019-2020.
- We put in place a package of service level requirements on suppliers, such as automatic compensation for customers, to ensure that consumers have adequate financial protection in case something goes wrong with the switching process. The net benefits to consumers are expected to amount to **£54m** in 2019.
- We conducted a series of randomised controlled trials designed to test the impact of targeted communication interventions on switching behaviour. Consumers who participated in the trials generally saved money on their projected annual energy bills, with savings of around **£10 million** in 2019.
- We ran 10 Supplier of Last Resort processes during the 2018-19 financial year to protect customers of failed suppliers by guaranteeing them continuity of services and adequate protection of their credit balances.
- We introduced new principles relating to domestic supplier-customer communications. These changes should enable consumers to understand better their costs and consumption and make an informed choice about their tariff and supplier.
- We removed the requirement on price comparison websites to show all deals available in the market, allowing them instead to show only the deals that consumers can switch to directly through their websites. We expect this to encourage greater customer engagement and potentially competition.

Networks regulation and energy system measures

- We confirmed the final regulatory arrangements for the Hinkley-Seabank Project. Net direct benefits are expected to be around **£89m** over the period 2019-2069.
- We disallowed **£136m** of costs as part of our price control measures governing the operation of the Data Communications Company (DCC).
- We decided not to launch a Mid Period Review of the outputs electricity distribution network operators must deliver as part of the current network price control. This should help to maintain regulatory confidence and avoid increases in bills resulting from higher financing costs.
- As part of the network price control reopener process, we accepted some of the funding requests from four transmission and distribution companies. We expect this to secure better compliance with emissions legislation and environmental benefits.
- We improved the incentives for network companies to engage with and meet the needs of their stakeholders through our Stakeholder Engagement Incentive (SEI) and Stakeholder Engagement and Consumer Vulnerability Incentive (SECVI) guidance.

Enforcement and compliance

- Our enforcement and compliance activities ensure that consumers can benefit from us stopping unlawful or anti-competitive conduct or activities in breach of licence conditions or other requirements; ensuring timely and proportionate redress to compensate customers for the detriment suffered because of breaches by suppliers; and improving the supplier-customer relationship.
- We estimate the direct consumer benefits from our enforcement actions to be **£5.6 million** in 2018-19, including compensation payments to consumers, fines, redress payments to charities and avoided costs to consumers. For compliance decisions taken over the same peiod, we estimate the direct benefits to be **£1.2 million**.

Impacts on vulnerable consumers across our priority areas

- Supporting those struggling with their bills: we implemented a price cap which has led to energy savings for customers who are on default tariffs. We expect the cap to deliver savings of around **£60m** per annum over the period 2019-2020, for approximatively **800,000** customers previously protected by the safeguard tariff.
- Improving customer service for vulnerable consumers: we placed a requirement on suppliers to compensate customers when they fail to refund credit balances within two weeks of the final bill. This will benefit those who are vulnerable to financial shocks.
- Encouraging positive and inclusive innovation: we imposed a responsibility on suppliers to identify vulnerable consumers and adapt the type and frequency of communication to fit their circumstances.
- Improving identification of vulnerability and smarter use of data: we rewarded gas distribution network companies for developing energy solutions for the fuel poor through the Gas Discretionary Reward Scheme.

Executive Summary

About this report

Making sure the energy market delivers good outcomes for consumers is at the heart of what we do. Consumers want to switch on their lights, their appliances, and their heating safely and reliably, with the confidence that they will be paying a reasonable price for energy services. They also want to be treated fairly by the companies they deal with, with as little hassle as possible. But we know that not every consumer is the same, and some need more support to achieve these outcomes than others. Through the decisions and actions that we take, we try to improve outcomes for consumers in several ways. Our five strategic consumer outcomes are:

- Lower bills than would otherwise have been the case;
- Reduced environmental damage both now and in the future;
- Improved reliability and safety;
- Better quality of service, appropriate for an essential service;
- Benefits for society as a whole including support for those struggling to pay their bills.

The costs of funding Ofgem's activities are ultimately passed to consumers through their energy bills or through the taxes that they pay. It is therefore essential that we understand the impact of our actions and decisions, to make sure that we are delivering value to consumers for the money that we spend. Our 2019 Consumer Impact Report assesses the benefits that some of our significant regulatory decisions over the previous year are expected to provide. We note that we do not include E-Serve activities in this report, which is a division of Ofgem that runs government environmental and social schemes. To date, we have concentrated on assessing the impact of our regulatory decisions, but we will consider including E-Serve activities in future years.

While many of our decisions are intended to benefit all consumers, such as those related to when or how companies should communicate with their customers, others target particular groups where we have identified that the market is not working well for them. For example, the default tariff price cap is expected to benefit more than 10 million consumers on standard variable tariffs, while our Supplier of Last Resort processes have ensured that more than 800,000 customers of failed suppliers have not had disruption to their service. We recognise that different consumers can have very different needs and personal circumstances, so we include specific consideration of how our decisions will affect consumers whose circumstances make them vulnerable to experiencing worse outcomes.

In a given year, Ofgem typically has over 100 specific regulatory decisions in progress and so it is not practical for this report to cover all our activities. For those we do report, not all of the benefits we deliver to consumers can reasonably be estimated and given a monetary value – the reported monetised estimates represent only a fraction of our overall impact. For example, in terms of our enforcement and compliance actions, while compensation for past detriment suffered by consumers can be quantified, it is much harder to place a value on the avoided detriment that would have occurred in the absence of Ofgem's intervention. It is also difficult to quantify future harm that our decisions avoid by discouraging other parties from acting in the same way. These types of non-monetised benefits may outweigh the ones we can monetise. We have therefore set out the benefits to consumers resulting from our decisions through a combination of both qualitative and quantitative analysis.

Consumer impacts that we have assessed qualitatively

Ofgem's decisions from this financial year will deliver a wide range of benefits to consumers. Below are some of the benefits that we have assessed qualitatively:[1]

- *Increased protection for consumers in vulnerable circumstances, and compensation when things go wrong*
    - consumers should be adequately compensated when something goes wrong with their switch of supplier, such as experiencing a long delay.
    - making suppliers adapt the form and frequency of billing information to customers who have difficulty making payments, help those households get out of financial difficulty and place them under less stress.
    - more effective communication from suppliers to consumers about their consumption and their bills, to help them engage with the market and reduce their bills.
    - network companies are incentivised and rewarded for the actions they take to support vulnerable consumers, helping to protect those consumers better from negative outcomes.

- *Maintained security of supply and consumers' confidence in the retail energy market*
    - successfully appointing a Supplier of Last Resort each time a supplier has gone out of business has ensured that the affected customers have had continuous supply of energy to their homes and businesses.

- *Improved customer service*
    - requiring suppliers to provide a better service, including ease of contact, better information on their websites and better complaints resolution.
    - encouraging non-price competition among retail companies, and incentivising them to innovate.
    - improving consumers' experience of engaging with the market should result in more future engagement, as well as reducing unnecessary hassle and frustration.

- *Increased competition in energy markets*
    - removing the Whole of Market requirement for Price Comparison Websites, incentivising them to make their services easy for consumers to compare energy deals and eventually switch.
    - encouraging the entry of firms with innovative business models.

Consumer impacts that we have been able to quantify

In addition to the benefits outlined above, we expect our decisions from this financial year to result in the following quantified impacts:[2]

- Direct benefits of £2,555 million
- Indirect costs of £555 million
- Additional benefits of £136 million from reduced funding for the DCC.

These are largely forecasted consumer impacts and may, in the future, differ from the actual amount realised. They are also, as noted above, only partially reflective of our

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[1] Some decisions from this list also deliver consumer benefits that we were able to quantify: *Default tariff cap*; *Switching compensation*; Enforcement and Compliance cases.
[2] These estimates are presented in net present value terms. This is an approach used consistently across government policy appraisal to ensure that impacts occurring in differing future years are assessed on a consistent basis.

impact. However, they give a strong indication of the positive impact that our decisions have for consumers. In terms of the costs incurred in delivering these benefits, Ofgem's costs for the financial year April 2018 to March 2019 were £97 million.[3] This gives a ratio of direct benefits to costs of 26:1, which means that, for every £1 we spent in the last financial year, we expect to provide direct benefits to consumers worth at least £26.[4]

Our approach to quantifying benefits is similar to that used by the Competition and Markets Authority to assess, where practical, the direct monetised benefits to consumers of its decisions. We aggregate the monetised benefits that are set out in formal impact assessments and those resulting from enforcement and compliance actions.

For the decisions supported by impact assessments, the quantified benefits are forward-looking assessments of expected impacts, as opposed to backward-looking evaluations of actual impacts. The impact assessments provide a transparent and consistent framework for understanding our policies' likely impacts on consumers. Each impact assessment is prepared according to our guidance[5] and where feasible provides the net present value (NPV) of consumer impacts that we expect to materialise as a consequence of a decision. To compare NPVs across the decisions, we measure benefits from 2019 (ie, we chose 2019 as the base year).

Table 1 summarises the expected monetised benefits from some of the key decisions made in the 2018/2019 financial year.

We define direct impacts here as those where we compel companies in the industry to act in a particular way (e.g. capping the amount they can charge for a service). Indirect impacts are those second-round impacts that arise from the responses of suppliers, customers and other participants to a given regulatory change. The additional monetised benefits are mainly produced from changes to regulated companies' funding allowances, which are shown as a cash amount rather than a net present value.

Table 1 - Summary of expected monetised consumer benefits (figures adjusted for inflation and social time preference, 2019 price year and NPV reference year)

Benefits and breakdown by decision	Central case (£m)	Period of accrual	Annualized benefit (£m)
a. Total direct impacts	**2,555**		**1,271**
Default tariff cap	2,395	2019-2020 (2 years)	1,198
Switching compensation	54	2019 (1 year)	54
Trials to prompt customer engagement	10	2019 (1 year)	10
Hinkley Seabank Delivery model	89	2019-2069 (50 years)	2
Enforcement	6	2019 (1 year)	6
Compliance	1	2019 (1 year)	1
b. Total indirect Impacts	**-555**		**-275**

[3] This includes the cost of E-Serve.
[4] If we exclude the cost of E-Serve of £25 million, the direct benefit to cost ratio becomes 35.
[5] https://www.ofgem.gov.uk/system/files/docs/2016/10/impact_assessment_guidance_0.pdf

Default tariff cap	-561	2019-2020 (2 years)	-281
Enforcement	6	2019 (1 year)	6
c. Total additional monetised benefits	**136**		**68**
DCC Price Control	136	2019-2020 (2 years)	68
d. Aggregate expected benefits (a+b+c)	**2,136**		**1,065**

Note: all figures are based on central case estimates and obtained by adjusting the monetised benefits reported in the impact assessments. The price year and NPV reference year are moved to 2019. See Section 6 for further details on the methodology and Table 11 for the list of adjustments made. The figure for the indirect benefits of price cap decision is calculated as average of the low value scenario and high value scenario.

Impact across multiple years

We have adjusted the headline figures from last year's report so that they are directly comparable to the figures presented in this report (eg to account for factors such as inflation). This results in an updated direct expected consumer benefit of £7.9 billion for the 2017/18 financial year, with a direct benefit to cost ratio of 86:1.

To reduce the impact of any single decision on our assessment, we plan to report a three-year moving average of the benefits in future reports (as this is just the second time we have published this report). As a starting point, the two-year moving average of expected direct benefits from the last two financial years are £5.2 billion, and the direct benefit to cost ratio is 56:1.

Feedback

We welcome your feedback and comments, including on our methodology which is set out in Section 6.

For questions and requests, please contact:
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Background

Our Forward Work Programme for 2018-19 sets out our priorities for the year. It includes a commitment to assess how well we meet our objective to protect the interest of current and future consumers by making sure the energy sector delivers positive outcomes for them. This report fulfils our commitment by assessing the impacts that the selected decisions have or are expected to have for consumers.

At any one time, Ofgem typically has over 100 regulatory decisions in progress, as well as numerous smaller decisions such as industry code modifications, directions and licence applications. Although we are able to quantify the impacts of some decisions, many of the wider benefits of our work are inherently difficult to monetise. This report is therefore a qualitative and quantitative assessment of the impacts of our decisions.

Criteria for selecting Ofgem's decisions

We use the following non-cumulative criteria to choose which decisions to include in this report:

- **The decision was made using a formal impact assessment**. We have a statutory duty to do an impact assessment for our most important decisions, or to publish a statement saying why we are not doing one.[6] Therefore, using an impact assessment indicates the significance of the decision;

- **The decision is categorised as 'red'** in Ofgem's internal decision tracking process. This uses a red / amber / green system to categorise decisions by legal complexity and monetised impact or significance. The 'red' decisions are normally significant ones;

- **The decision was significant enough to be considered by the Gas and Electricity Markets Authority (GEMA);** and

- **Enforcement and compliance cases**.

In addition, we may showcase some interventions that do not meet these criteria but have a significant impact on consumers. This year, we include trials to prompt customer engagement.

For the financial year 2018-19, we look at the qualitative and quantitative benefits of:

(1) Decisions supported by formal impact assessments, which include:
  - *Default tariff cap*
  - *Switching compensation*
  - *Removal of Whole of Market requirement*
  - *Hinkley-Seabank delivery model*
  - *Mid-Period Review for RIIO-ED1.*

  For our decisions relating to the d*efault tariff cap*, *switching compensation*, *Hinkley-Seabank delivery model*, and *Mid-Period Review for RIIO-ED1*, the impact assessments quantified some of the net benefits to consumers.[7] This

[6] For detail on when Ofgem carries out impact assessments, see our Impact Assessment Guidance:
https://www.ofgem.gov.uk/system/files/docs/2016/10/impact_assessment_guidance_0.pdf
[7] The *Mid-Period Review for RIIO-ED1* decision is not expected to deliver additional net benefits to consumers, as it retains the scope of the MPR as defined previously.

information enables us to calculate an aggregate net present value (NPV) of some of the consumer benefits.

The decision *Removal of Whole of Market requirement* was supported by a *qualitative* impact assessment, providing a non-monetised measure of benefits to consumers.

(2) **Decisions and interventions not supported by formal impact assessments**, which include:

- *Trials to prompt customer engagement*[8]
- *Supplier of Last Resort (SoLR) cases*
- *Changes to customer communication rules*
- *RIIO-1 price control reopeners*
- *DCC Price Control*
- *Changes to Stakeholder Engagement Incentive Guidance*
- *Gas Discretionary Reward Scheme*

(3) **Ofgem's enforcement and compliance activities**

Ofgem's *Enforcement and Compliance activities* delivered quantified benefits to consumers and these are taken into account in the calculation of the aggregate NPV.

We added a new section in the report that reviews decision that are targeted at protecting vulnerable consumers. This includes a decision not covered by the above criteria.[9]

To demonstrate the contribution of each area of Ofgem's regulatory activities, decisions are grouped by broad market area, namely *Retail price controls and competition measures, Networks regulation and energy system measures, Enforcement and compliance*.

Our approach

The report is based on a combination of two approaches:

(1) Aggregating the quantified benefits, where possible, in impact assessments that informed some of the decisions we took in the financial year 2018-19. Where different scenarios are included in the impact assessment, they are also included in this report. The reported lower case, central case and higher case scenarios for particular decisions are driven by different assumptions, with the lower case scenario taken as the more pessimistic scenario and the higher case scenario as the more optimistic one.

(2) *Reporting the illustrative consumer benefits of those decisions without quantified benefits*. These decisions were either supported by a qualitative impact assessment or were published without a formal impact assessment.

Structure of the document

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[8] Although the trials do not have a formal impact assessment, we calculate and report their direct benefit to consumers who participated in the trials.
[9] Gas Discretionary Reward Scheme (DRS)

This year's report has a similar structure to the 2017-18 Consumer Impact Report, but includes a new chapter focusing on the expected impact of our decisions for vulnerable consumers. The document is structured as follows:

Sections 2 to 4: summarise the decisions and describe the actual and expected benefits for consumers. The sections are organised by market area: *Retail price control and competition measures* (Section 2), *Networks regulation and energy systems measures* (Section 3), *Enforcement and Compliance activity* (Section 4).

Section 5 - Impact on vulnerable consumers: this new chapter assesses the expected impact of our decisions on vulnerable consumers. It does not cover all the decisions included in the report, but rather a set of policies that have considered the impact on vulnerable consumers, such as the *Default tariff cap*.

Section 6 - Methodology: includes details of how we calculate the overall net present value and the issues encountered in the assessment process.

Appendix - Links to source documents: lists the relevant documents, including the formal impact assessments, that the summaries of each decision and the expected consumer benefits are based on.

Retail energy markets

We want retail energy markets to deliver positive outcomes for consumers, including meeting the needs of people in vulnerable circumstances. In 2018-19, Ofgem undertook several pieces of work to protect consumers from high energy bills, drive the high standards and services expected of an essential service, promote vigorous competition between suppliers and price comparison websites, and facilitate customer engagement.

Below are the quantified net present values (NPV) of expected benefits, after adjustment for inflation and NPV reference year, from our decisions to protect consumers and enhance competition in the retail energy markets. The total monetised *direct* benefits that these measures are expected to deliver to consumers amount to £2,459m.

Table 2 - Expected monetised consumer benefits from retail market interventions (figures adjusted for inflation and social time preference, 2019 price year and NPV reference year)

Breakdown by type and decision	NPV value (£m)	Period of accrual	Annualized benefits (£m)
a. Direct Benefits	**2,459**		**1,262**
Default tariff cap	*2,395*	*2019-2020 (2 years)*	*1,198*
Switching compensation	*54*	*2019 (1 year)*	*54*
Trials to prompt customer engagement	*10*	*2019 (1 year)*	*10*
b. Indirect benefits	**(561)**		**(281)**
Default tariff cap	*(561)*	*2019-2020 (2 years)*	*(281)*
Total benefits (a+b)	**1,898**		**981**

Note: all figures are based on central case estimates and obtained by adjusting the monetised benefits reported in the impact assessments. The price year and NPV reference year are moved to 2019. See Section 6 for further details on the methodology and Table 11 for the list of adjustments made. The figure for the indirect benefits of price cap decision is calculated as the average of the low value scenario and high value scenario.

Decisions with quantified impact

There are three decisions relating to retail markets for which we can quantify the impact: the default tariff cap, the decision on switching compensation, and trials to prompt customer engagement.

The default tariff cap

☑ **Lower bills**	☒ Reduced environmental damage	☒ Reliability and safety
☒ Quality of service	☑ **Benefit for society as a whole**	

The retail energy market has worked well for consumers who actively choose their supplier, but it has not delivered good outcomes for those who remain on their supplier's default tariff. Ofgem's analysis, and the Competition and Markets Authority's (CMA) investigation of the energy market, has shown there is insufficient competitive constraint on the prices suppliers charge these consumers. Market failures, such as information asymmetries and perceived and actual switching costs, have enabled suppliers to charge high prices to customers on default tariffs.

At the time of our decision, around 60% of domestic customers paid for their energy on Standard Variable Tariffs (SVTs). Suppliers generally charge SVT customers considerably more than customers who choose fixed tariffs. In September 2018, the simple average SVT offered by large suppliers cost a typical consumer £1,206 if they paid by direct debit. This was around £160 more than the cheapest deals that they offered, and around £225 more than the cheapest tariffs in the market.

In 2018 the government introduced legislation to provide price protection to the estimated 11 million households on default energy deals. The Domestic Gas and Electricity (Tariff Cap) Act 2018 came into effect on 19 July 2018.

Ofgem's intervention

On 1 January 2019, in accordance with this Act, Ofgem implemented a temporary price cap to protect current and future consumers who pay standard variable or default rates. This default price cap is not aimed at replacing competition. Its objective is to prevent default tariff customers from being overcharged, and to ensure they pay prices that more closely reflect the underlying cost of supplying them energy. We have set the first cap level for a 'typical' dual fuel customer at £1,137 per annum. This level applied from 1 January to 31 March 2019.

Using published methodologies, we adjust the level of the caps twice a year (on 1 April and 1 October) to reflect the estimated costs of supplying electricity and gas to homes for the next six-month period. Our first adjustment on the price cap came into effect on 1 April 2019, which increased the price cap by £117 to £1,254 per year, for the six-month "summer" price cap period.

Under the Act, we are required to review whether conditions are in place for effective competition for domestic supply contracts. This review must take place by 31 August 2020 and include a recommendation on whether the default tariff cap should remain in place for 2021 or be removed. The Secretary of State will consider this review and make a decision by 31 October 2020. If the default tariff cap is extended into 2021, the same process will be repeated until 2023, when the cap ceases to have effect.

How does the cap work?

The default tariff cap sets a maximum rate that suppliers can charge to default tariff customers per day (known as "the standing charge") and a maximum rate per unit of energy for gas and electricity separately, ie it sets maximum prices and not maximum bills.

The level of the cap is set using a bottom-up assessment of suppliers' costs.[10] For each component[11] of a customer's bill, we set an efficient allowance. In total, these allowances aim to ensure that default tariffs will reflect the efficient costs of supplying energy.

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[10] The overview document provides more details on the methodology: https://www.ofgem.gov.uk/system/files/docs/2018/11/decision_-_default_tariff_cap_-_overview_document_0.pdf

[11] The energy bill is made up of the following components: wholesale costs, network costs, policy costs, operating costs, VAT.

For an individual customer, the amount they will pay under the cap varies depending on their circumstances, including the level of consumption, the payment method, the geographical location and the meter type.

In most circumstances, the cap applies to all consumers on an SVT. It also applies to any tariff onto which consumers default after the fixed tariff they have previously chosen expires. This includes consumers whose contracts state that they will default on to another tariff – as we do not consider them to have actively chosen that tariff. In addition, the level of price cap for direct debit will apply to consumers receiving the Warm Home Discount and benefitting from the existing safeguard tariff, regardless of their payment method.

However, the cap does not apply to the following categories of consumers and tariffs:

- *Consumers with prepayment meters*: they will continue to be protected by the prepayment meter cap and they are exempt from the default tariff cap;

- *Standard variable tariffs that support renewable generation:* suppliers can request a derogation for Standard Variable Tariffs if these support the production of gas, or the generation of electricity, from renewable sources (beyond existing subsidies) and if these are actively chosen by customers;

- *Consumers who are not on a default tariff.*

What is the impact on consumers?

In order to estimate the price cap's impact on consumers, we assumed in our impact assessment[12] that the baseline tariff prices would vary in line with efficient costs, as measured by the efficient cost benchmark, over the period of the cap, and that the profile of customers across different default tariffs would remain constant. As the cap level will also vary in line with efficient costs, we assume that the impact on energy bills per customer based on typical consumption would remain constant over the period of the cap.[13] Therefore, we compared the cap as it would have been in 2017 with tariff prices in 2017 and assumed this differential would exist in future years.

We expect the price cap to reduce bills directly for approximately 10.4 million customers who were on uncapped default tariffs. This results in a direct customer bill saving of approximately £1,233 million per annum across all default tariff customers. Therefore, the cap is expected to deliver direct monetised benefits of £2,269 million (in NPV) to customers on default SVTs, over the two years 2019 and 2020.

In addition to direct benefits, the impact assessment also quantified the indirect impact on customers in the event of suppliers changing prices in response to the cap. We consider two scenarios where suppliers might change their pricing strategies:

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[12] The impact assessment is available at this link: https://www.ofgem.gov.uk/system/files/docs/2018/09/appendix_11_-_draft_impact_assessment.pdf

[13] In practice we are aware that default tariff prices do not closely track marginal costs. For example, we note that since 2017 default tariff prices have increased at a slower rate than wholesale costs. However, we are unable to predict future changes in domestic retail energy prices in the absence of the cap, and changes relative to costs could be positive or negative. We therefore assume the ratio of prices to costs remains the same as in 2017 for the purposes of our analysis.

1) all the prices (both default and non-default fixed tariffs) above the cap level fall to the cap, while customers on tariffs priced below the cap continue to pay the same as they would without the cap;

2) all prices (both default and non-default fixed) converge to the cap level, including those that would otherwise be priced below the cap.

According to the impact assessment analysis, under the first scenario the annual indirect impact amounts to £0 million for customers on default tariffs and £23 million for costumers on fixed tariffs. Under the second scenario, customers on default tariffs would experience an annual indirect impact of -£8 million, while the customers on fixed tariffs would experience an annual indirect impact of -£884 million.

We consider that the direct impact of the default tariff cap is estimated with a reasonable degree of certainty, subject to the assumptions such as changes to customer numbers and tariff prices in the absence of the cap. However, there is significant uncertainty surrounding the indirect impacts. These indirect impacts will depend on the response to the cap by suppliers and consumers, and the subsequent market dynamics.

In addition to the monetised benefits, there are impacts on consumers that are hard to monetise. For instance, customer engagement and switching rates might be affected by the reduced price dispersion between capped and uncapped tariffs, as well as through a 'protection factor' that might lead customers to believe that there is no need to switch supplier or tariff. At the same time, any such 'protection factor' could increase consumer confidence and engagement in the energy sector in the longer term.

The price cap also has potential effects on non-price competition. These are ambiguous: on the one hand, the price cap could reduce overall engagement and lead to lower incentives for suppliers to compete in any area; on the other, the reduced scope for price competition could encourage firms to compete in other ways, such as through customer service.

We have not monetised potential effects of the price cap on supplier efficiency, entry and innovation. We would expect the cap to incentivise suppliers to improve efficiency in order to compete, but the effects on entry and innovation are more uncertain. The cap could encourage suppliers to innovate more rapidly to remain competitive, and encourage the entry of firms with innovative new business models. But it could also reduce incentives to enter the market because of reduced opportunities to earn above normal profits.

Longer term, beyond the period of the cap, there should be benefits to customers of suppliers becoming more efficient as a result of the cap. However, there may also be potential longer term negative impacts when the cap is removed, due to legacy effects on engagement and competition.

Supplier Guaranteed Standards of Performance: decision on switching compensation

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☒ ***Reliability and safety***
☑ ***Quality of service***	☑ ***Benefit for society as a whole***	

Multiple sources of consumer detriment exist around the switching process. Rates of delayed and erroneous switches are too high, and suppliers can be sluggish in issuing final bills and refunding credit balances. This means that customers must take time and effort to address these problems when they occur and can act as a deterrent to switching.

Prior to this intervention, incentives for suppliers to switch customers quickly and without hassle were weak, and regulatory tools to address detriment were limited to enforcement action after the problems occured.

Ofgem's intervention

Ofgem decided on a work package that consists of a number of Guaranteed Standards of Performance which suppliers will be required to meet during a customer's switch, and in resolving an erroneous switch. After two tranches of standards are implemented (the first on 1 May 2019 and the second in late summer/autumn 2019), there will be further ones with a minimum of seven standards in total, covering delayed switches, prevention and resolution of erroneous switches, issuance of final bills and refund of credit balances.

Suppliers failing to meet the standards will be required to provide automatic compensation to customers who experience detriment whilst switching, establishing stronger incentives for suppliers to avoid detriment. This should reassure customers that they will be compensated if things go wrong during a switch, and should increase their willingness to engage with the market.

What is the impact on consumers?

The most significant impact will be a direct transfer of money from suppliers to consumers who suffer detriment.

The estimated aggregate benefits of introducing Guaranteed Standards considerably exceeds the aggregate relevant costs identified. We would expect to see £52.2 million worth of benefits, in excess of the relevant costs borne by suppliers, accruing to customers in the calendar year following implementation. Additional impacts beyond one year will depend on the frequency of consumers' switches, suppliers' reactions, and the resulting switching incidences. So, there is more uncertainty and less confidence around the magnitude of the impact in future years.

A secondary impact may be drawn from suppliers being incentivised to improve their systems, thereby reducing the incidence of detrimental events. We expect that this will be a longer-term impact of the proposal.

We have not attempted to quantify the indirect benefits in terms of improved consumer engagement arising from improved consumer confidence. These benefits could be significant, but in the current market context, with many changes and Ofgem actions expected to affect consumer engagement levels, we do not consider that it would be possible to isolate the impact of these proposals on consumer engagement.

Overall, we expect that fewer poor switching outcomes and compensation for consumers should together improve consumers' experience and perceptions of switching and, ultimately, increase consumer engagement in the market. By reducing the number of unreliable switches, consumers should be encouraged to engage in the market and switch more frequently between energy suppliers, which we would expect will make the market more competitive.

The level of compensation payments may mean that some poorly performing suppliers are affected in the short term if they fail to implement system changes, and the amount of compensation paid out could have an adverse effect on the economic viability of some poorly performing suppliers if Guaranteed Standards payments are incurred in the switching process. In extreme cases it is possible that this may cause some suppliers to leave the market, although we do not expect the effect on market concentration to be significant.

Trials to prompt customer engagement

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☒ ***Reliability and safety***
☒ ***Quality of service***	☒ ***Benefit for society as a whole***	

In response to the 2016 CMA Energy Market investigation, Ofgem designed a programme of work to understand the barriers to active engagement in the domestic retail energy market. Using techniques from behavioural science we developed various interventions designed to overcome these barriers, usually in the form of communications from incumbent suppliers to default tariff customers, and tested the impact of these interventions on switching behaviour using a series of randomised controlled trials.

Ofgem's intervention

These trials were carried out in conjunction with energy suppliers following the introduction of a new condition to the gas and electricity Standard Licence Conditions (32a). The trials that took place in 2018/9 were:

- The Cheaper Market Offers Communication trial carried out with five energy suppliers, which tested the impact of a letter or email (with and without a reminder). This communication provided salient information about the participants' current tariff, a personalised saving and sign posting to three cheaper market tariffs tailored to the individual's circumstances.
- Three collective switch trials that tested the impact of a series of three letters sent to customers signposting to a single cheaper, exclusive tariff, along with personalised savings infomation and enhanced switching support from a trusted third party price comparison service.
- An additional collective switch trial and one focusing on communications at the end of a fixed tariff. These trials have only recently finished and results are not available for this report. We expect to publish full results in autumn 2019.

What is the impact on consumers?

In each of these trials the participants had been on the default tariff for at least three months. They were sent communications prompting them to switch to a cheaper (often fixed term) tariff. It was up to the individual customer to choose to switch or not. Those that did generally saved money on their projected annual energy bills. As these were run as randomised controlled trials which included a control group who received no intervention, we are able to attribute these savings directly to the intervention tested.

The savings were calculated using participants' estimated annual spend on previous and new tariffs which were provided respectively by their incumbent and new energy suppliers. For each intervention, the savings of the participants who chose to switch were added up to form the total savings, as shown below.

Trial	Sample size (intervention group)	Number of switches (internal or external) in the intervention group	Savings made by the intervention group
Cheaper market offer communications trial	504,501	30,936	£7,450,687
Second collective switch trial	70,325	16,377	£2,330,756
Collective switch re-engagment trial	2,397	373	£55,168
Collective switch small supplier trial	1,311	250	£57,059

Note: The final results of these trials will be published in autumn 2019.

Decisions without quantified impact

Below we present three significant decisions affecting retail energy markets but for which the impact was not quantified.

Supplier of Last Resort

☒ *Lower bills*
☒ *Quality of service*
☒ *Reduced environmental damage*
☑ ***Benefit for society as a whole***
☑ ***Reliability and safety***

In the event of a supplier going out of business and a trade sale being unfeasible, Ofgem may run its Supplier of Last Resort (SoLR) procedure to find a new supplier for their customers. By running this process, we aim to ensure that customers' energy supplies are protected, consumer confidence in the market is maintained, and unpaid industry bills are minimised.

Ofgem's intervention

Table 3 – Suppliers exiting the retail energy market through the SoLR process

Supplier Name	Stopped trading	Appointed SoLR	Approximate Customer numbers
Iresa	Jul 18	Octopus	<100,000
National Gas and Power	Jul 18	Hudson/ Green Star	<100
GEN4U	Sep 18	Octopus	500
Usio Energy Supply	Oct 18	First Utility	7,000
Extra Energy	Nov 18	Scottish Power	129,000
Spark Energy Supply	Nov 18	Ovo	290,000
OneSelect	Dec 18	Together Energy	36,000
Economy Energy Trading	Jan 19	Ovo	235,000

Our Power Energy Supply	Jan 19	Utilita	31,000
Brilliant Energy	Mar 19	SSE	17,000

The table above sets out details of the ten failed suppliers in the 2018/19 financial year along with the SoLR which took on their customers.

All SoLRs have agreed to honour the domestic credit balances for customers of the failed supplier (including current customers at the time the supplier failed and previous customers who had an outstanding balance at the time of failure). Two SoLRs agreed to absorb all the costs of honouring these balances themselves whilst the rest will partly absorb these costs themselves.

The SoLR processes have ensured that all of the approximately 800,000 customers of failed suppliers have had continuity of service, and domestic customers' credit balances have been protected.

In addition, once appointed, a SoLR may make a claim for a Last Resort Supply Payment (LRSP) from relevant distribution networks where Ofgem has given consent to the amount claimed. These payments are for the SoLR taking on the failing supplier's consumers and will be spread across other consumers. We have made one decision on a LRSP claim during the 2018/19 financial year. In December 2018, Octopus claimed for a LRSP of £13.8m, and we consented to a payment of up to £13.2m.

What is the impact on consumers?

When a supplier fails, it is important that continuity of supply is maintained for its customers to avoid wider negative effects on the market. For example:

(1) Until a failed supplier's contracts have been transferred, or deemed contracts are established with a SoLR, there is no practical way to prevent an existing customer from taking electricity or gas from the network. This will cause the network system operator to step in to perform a residual role of balancing the gas and electricity in the network. As the failed supplier will not be able to pay for the energy required to balance the networks in this way, these costs will be mutualised across other industry participants.

(2) If a supplier fails without urgent intervention, consumer trust and confidence in the energy market would be materially damaged.

Ofgem can ensure continuity of supply to the failed supplier's customers and prevent these wider negative effects by appointing an SoLR to supply the failed supplier's customers at very short notice. The exact circumstances of each SoLR case will differ and decisions around these appointments will depend on the circumstances. We consider each instance individually.

Customer communication rules changes

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☒ ***Reliability and safety***
☑ ***Quality of service***	☒ ***Benefit for society as a whole***	

We want consumers, including those in vulnerable circumstances, to get the right information, in the right form and at the right time, to enable them to understand their costs and consumption, to access and assess their options, and to take action where appropriate. Suppliers should have room, and be incentivised, to innovate and improve their communications, so consumers receive engaging, informative and accessible communications that are tailored to their characteristics and preferences.

Our previous detailed prescriptive rules around what, when and how suppliers communicate with their customers have led to a 'one-size-fits-all' approach. This has restricted supplier innovation and may not be meeting the needs of all consumers.

Ofgem's intervention

In December 2018, Ofgem introduced a package of enforceable principles and removed a large number of prescriptive rules relating to domestic supplier-customer communications. These changes mainly require suppliers to consider the information provided to customers, as well as the frequency of their communication, in order to adapt them to the circumstances and characteristics of the customers.

More specifically, suppliers are now required to:

- consider the overall frequency with which they provide billing information, bills and / or statements of account, and the form in which they do so to encourage and enable consumers to engage with them.
- gauge whether the information they currently provide to the customer is sufficient to make an informed tariff choice.
- consider the best way to inform customers that they can switch tariff and / or supplier, and that they might benefit financially from doing so.
- ensure consumers have the information they need in a timely manner, in order for them to understand and manage price changes, including when fixed-term contracts end.
- notify their customers where they make any change to the contract that is to the customer's disadvantage.

Ofgem also removed the requirement for suppliers to provide an Annual Statement.[14] We believe that there could be more effective ways of providing the information on costs and consumption, and we allow suppliers to be flexible over how and where they present this information, in order to make it more impactful for consumers.

What is the impact on consumers?

We have not quantified the impact on consumers. The change is not a change to policy intent. Rather it is a decision to rely more on principles that confirm and consolidate the policy intent of existing rules, while providing more scope for innovation. It places responsibility on suppliers to think about how best to deliver positive outcomes for customers.

[14] A written document provided to domestic customers at least once every 12 months, containing the required information of tariff, annual consumption and estimated annual costs, etc.

We expect this change to strengthen consumer protection, while making it easier for suppliers to innovate and come up with better solutions to communicate with customers and strengthen their engagement in the market.

Removal of the Whole of Market requirement

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☒ ***Reliability and safety***
☑ ***Quality of service***	☒ ***Benefit for society as a whole***	

Problem under consideration and rationale for intervention

Ofgem's Confidence Code sets out requirements that Price Comparison Websites (PCWs) must follow to be accredited members of the Code, and to display the Ofgem Confidence Code logo. The Code rules known as the 'Whole of Market' (WoM) requirement obligate accredited PCWs to use all reasonable endeavours to include price comparisons for all available domestic tariffs on the market, not just those that can be switched through their website.

This WoM requirement limits the ability of PCWs to exclusively show consumers the deals that earn them revenues (through the payment of commission by suppliers). Through the WoM requirement suppliers are able to 'free ride' by being displayed on PCWs without paying commission. If a consumer searches on a PCW and then switches to a non-fulfillable deal, the PCW would not receive any revenue from this switch. Therefore, PCWs' revenues may be higher if these rules were not in place. However, these rules also limit the incentives on PCWs to invest in advertising, or in innovative ways of making their energy comparison service easier for consumers to use.

The Competition and Markets Authority (CMA), as part of its Energy Market Investigation, found that the Whole of Market requirement could damage PCWs' incentives to participate in the domestic retail energy markets, and put forward a recommendation to enhance the incentives and ability of PCWs to participate in the markets and enable them to offer customers a better service. In order to strengthen PCWs' incentives to engage consumers, the CMA recommended to Ofgem:

- to remove the WoM requirement in the Confidence Code; and
- to introduce a requirement for PCWs accredited under the Confidence Code to be transparent over the market coverage they provide to energy customers.

Ofgem's intervention

In response to the CMA recommendation, in September 2017 Ofgem introduced a 'Partial Remedy', which enabled PCWs to display a Partial View (the display of fulfillable deals only, for which PCWs can facilitate the customer switch to these deals, and is paid a commission for doing so) as their default results page. Consumers could also access a Wide Results page,[15] showing non-fulfillable deals. The Partial Remedy also included an obligation on accredited PCWs to undertake consumer testing to assess whether consumers can access this page.

[15] It means all tariffs within the scope of requirement 2A(i) taking into consideration any opt-in filters selected by the consumer.

The Partial Remedy paved the way for the removal of the WoM requirement in July 2018. Since then, all accredited PCWs have the option of exclusively showing deals that consumers can switch to directly through their website provided they display a link to the Citizens Advice Comparison Tool (CACT). The CACT will give consumers the option of seeing a wider range of deals on the market than would be shown on an accredited PCW's Partial View.

In addition, all testing obligations placed on accredited PCWs in connection with the Partial Remedy have been removed.

What is the impact on consumers?

The removal of the Whole of Market requirement could lower bills and improve quality of service. It encourages greater customer engagement as PCWs are incentivised to offer better services. In addition, greater customer engagement could promote effective competition among suppliers.

This policy also fits with our stance of supporting innovation in technologies, systems and business models. The intervention should increase incentives for PCW investment, and for suppliers and PCWs to make more deals switchable through PCWs than the current Code rules. Removing testing obligations from the Code can also enable PCWs to focus more resources on improving and advertising their energy service.

However, we have not sought to quantify the impact of this intervention, as this would be subject to considerable uncertainty around consumer, PCW and supplier response to other CMA remedies and the default tariff cap.

Networks regulation and energy system measures

This section includes summaries of the major decisions affecting the transmission and distribution networks. Principally, these decisions aim to ensure that the network operators operate efficiently and do not abuse their monopoly position. Our work in this area also aims to promote efficient ways to deliver security of supply and support decarbonisation of energy supplies. Ofgem's key decisions in 2018-19 include: decisions on funding requests from transmission and distribution companies; confirming the final regulatory arrangements for recovering the efficient costs of the project Hinkley-Seabank; maintaining the original scope of the RIIO-ED1 price control.

Below are the quantified net present values (NPV) of the benefits we expect to result from our decisions to promote efficient operation of the networks, after adjustment for inflation and NPV reference year. We expect network measures and price controls to produce direct monetised benefits of around £89 million (**Table 4**).

Table 4 – Expected consumer benefits from network regulation activity (figures adjusted for inflation and social time preference, 2019 price year and NPV reference year)

Breakdown by type and decision	NPV value (£m)	Period of accrual	Annualized benefits (£m)
a. Direct Benefits	**89**		**2**
Hinkley Seabank Delivery Model	*89*	*2019-2069 (50 years)*	*2*
c. Additional monetised benefits	**136**		**68**
DCC Price Control	*136*	*2019-2020 (2 years)*	68
Total benefits (a+c)	**226**		**70**

Note: all figures are based on central case estimates and obtained by adjusting the monetised benefits reported in the impact assessments. The price year and NPV reference year are moved to 2019. See Section 6 for further details on the methodology and Table 11 for the list of adjustments made. The figure for the indirect benefits of price cap decision is calculated as the average of the low value scenario and high value scenario.

Decisions with quantified impact

There are two decisions relating to network regulation and energy system measures for which we can quantify the impact: Hinkley-Seabank delivery model, and DCC price control.

Hinkley-Seabank delivery model

☑ ***Lower bills*** ☒ *Reduced environmental damage* ☒ *Reliability and safety*
☒ *Quality of service* ☒ *Benefit for society as a whole*

The Hinkley-Seabank project (HSB) is an electricity transmission project to connect the proposed new Hinkley Point C nuclear power station to the GB transmission network. HSB has been progressed through the planning process by National Grid (NGET) as the transmission owner (TO) for England and Wales. The capital cost of the project was estimated by NGET in 2018 at close to £650m.

In January 2018 we confirmed that efficient costs for delivery of HSB will be recoverable from consumers under the final regulatory arrangements for the project (referred to as the "delivery model").

Ofgem's intervention

In July 2018 we confirmed our decision to apply the "Competition Proxy Model" (CPM) as the delivery model for the HSB project. CPM is a regulatory model that seeks to replicate the consumer savings that we expect would be delivered through a competitive process for construction, operation and financing of the project. We said that doing this would unlock significant savings for consumers in comparison with the status quo Strategic Wider Works (SWW) approach under the price control regime (RIIO). We set out our expectation that the CPM would drive these savings by:

- locking in low long-term project-specific debt and equity returns (as observed in the market for other similar projects) throughout the construction period (ie while the project is being built) and a 25 year operational period (ie after the project has been built); and by

- allowing for a higher project-specific level of gearing than would be appropriate across NGET's wider portfolio of price control assets under RIIO.

The CPM involves:

- funding HSB through a fixed[16] 25-year revenue term following construction, with some revenue allowance during construction to cover servicing debt during the construction period;

- setting the efficient capital and operational cost allowances for the project through an Ofgem cost assessment process in mid 2019 and Post-Construction Review, expected in 2024;

- including a 'sharing factor' incentive to incentivise NGET to minimise capital costs; and

- providing protection for NGET from the costs associated with certain high impact, low probability risks, if these occur.

What is the impact on consumers?

According to our July 2018 impact assessment the indicative saving to consumers from implementing CPM for HSB is £52m-103m (in Net Present Value terms over the duration of the revenue term) compared to the status quo SWW approach under RIIO. The effect of this saving will be to lower the transmission charges element of consumer electricity bills associated with the HSB project. There is inherent uncertainty around future RIIO regulatory arrangements over the approximately 30 year period where revenue will be recovered for HSB. This is due to wider uncertainty around future market conditions and allowances under future price controls. For this reason, the above savings range is provided as an illustration only at this stage. Nevertheless, we consider that this illustrative range represents, in both absolute and percentage terms, a clear indication that the implementation of the CPM for HSB is

[16] Indexed to inflation and also subject to limited price reopeners during the operational period to cover certain high impact, low probability risks, if these occur.

likely to yield savings to consumers, even when future market movements are considered.

We anticipate confirming the revenue allowances for HSB in late 2019. At that point we will confirm the capital and operational cost allowances, as well as allowed financing costs. The allowed financing costs will be determined based on our published CPM methodology, with costs adjusted for contemporary market rates. We will also confirm which costs will be subject to the Post-Construction Review.[17] Finally, we will confirm our latest view on expected savings for consumers from applying CPM on HSB compared to the status quo SWW approach under RIIO.

DCC Price Control

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☑ ***Reliability and safety***
☑ ***Quality of service***	☒ ***Benefit for society as a whole***	

The Data Communications Company (DCC) provides the centralised smart metering communications infrastructure across Great Britain, linking smart meters in homes and small businesses with energy suppliers, network operators and other third parties.

Ofgem's intervention

To improve value for money for consumers, Ofgem regulates DCC's revenue through an annual price control which assesses DCC's performance, and whether its costs in the previous year were economic and efficient.

DCC's customers, which include energy suppliers, have an important role to play in scrutinising its costs because they are particularly well-placed to judge value for money. This year, Ofgem found that DCC's customers are not always offered the right opportunities to inform or understand its decisions. Ofgem expects DCC to take its customers' views into account in its decision-making in future.

Also this year, DCC did not incorporate any efficiency and headcount reduction plans in its price control submission, despite it moving into its operational phase. Ofgem expects to see efficiency plans as the organisation matures and enters a steady state operation once its core systems have been built.

The impact on consumers

Ofgem disallowed £1.3 million of DCC's costs from last year, which will be transferred back to its customers and passed on to final consumers. Ofgem also disallowed £132.5 million costs from DCC's current forecast because it did not provide sufficient justification for these costs.

Additionally, by setting expectations on DCC to have greater customer involvement in its decision making, and to find internal efficiencies, Ofgem aims to improve the

[17] The review will assess whether any qualifying risks have eventuated, and if so, establish the efficient level of funding; reconcile the remaining actual cost incurred during construction; and finalise the ongoing operational costs for the project.

efficiency of DCC's services. This should help to reduce the costs of the smart metering infrastructure, to the benefit of end consumers.

Decisions without quantified impact

Below we present three significant network regulation and energy system decisions for which the impact was not quantified.

RIIO-1 price control reopeners

☑ ***Lower bills***	☑ ***Reduced environmental damage***	☑ ***Reliability and safety***
☑ ***Quality of service***	☒ ***Benefit for society as a whole***	

The current RIIO price controls for electricity transmission and gas transmission (RIIO-T1) and gas distribution (RIIO-GD1) run from 1 April 2013 to 31 March 2021. As part of determining these price controls, Ofgem set cost allowances for the companies to carry out their functions. For some of the cost categories there was uncertainty about expenditure requirements at the time of setting allowances (eg uncertain need, costs or volumes). Therefore, the price controls included reopener mechanisms to allow these cost allowances to be determined at a later date when there was greater certainty. Many of these reopener mechanisms included a window in May 2018 when the network companies could propose expenditure allowance adjustments in prescribed areas of costs.

These reopeners covered the following areas:

- One-off asset health costs (Gas Transmission)
- Industrial emissions costs (Gas Transmission)
- Enhanced physical site security costs (Gas Transmission, Electricity Transmission and Gas Distribution)
- Enhanced security costs (IT systems) (Gas Transmission and Electricity Transmission)
- Street Works costs (Gas Distribution)
- Quarry and loss development claim costs (Gas Transmission)

Ofgem's intervention

Ofgem received nine reopener requests from four different companies (National Grid Electricity Transmission, National Grid Gas Transmission, Cadent Gas and Wales and West Utilities).

The total net funding request was for £408m (2009/10 prices) across the six reopener areas. We decided to increase price control allowances by £208m. The majority of thes funding that was disallowed was because it was either deemed out of scope of the reopener (and therefore deemed to be funded already), or in excess of what was required to undertake the activity. Some of the disallowed sums will be considered again later in the price control.

What is the impact on consumers?

Ofgem's role in assessing these reopeners and determining revised price control allowances is to promote the consumer interest primarily through lower bills, but also through consideration of reduced environmental damage, of reliability and safety, and of quality of service. The requested funding that was not awarded may result in lower price control revenues than would have been the case if we had allowed these cost allowances in full, from 2019/20 onwards for a period of 45 years (this is the regulatory asset life used by our financial models to turn allowances into revenues). However, we do not intend to quantify the impact on consumers from this disallowance of requested funding, because of the conceptual challenge of defining a counterfactural to benchmark the impact of disallowance (eg based on companies' requested funding, or on the RIIO1 determination in 2013), and because of the difficulty of quantifying the impacts on consumers from providing or not providing allowances for these investments.

Consumers in aggregate will pay £208 million for the activities covered by the allowed reopener requests. We expect them to provide the following benefits for consumers:

- one-off asset health costs (Gas Transmission): This reopener provided funding to replace a pipeline on the bed of the river Humber with a tunnelled replacement. This replacement will improve the safety of the gas transmission system and also improve the resilience of the gas transmission system by reducing the risk of interuptions to gas from the Easington terminal.
- industrial emissions costs (Gas Transmission): This reopener provided funding for the Wisbech compressor site to help ensure it remains compliant with emissions legislation. We will also revisit the need and costs of further emissions-related works at the St Fergus and Hatton sites later in the price control. These works should provide environmental benefits.
- enhanced physical site security costs (Gas Transmission, Electricity Transmission and Gas Distribution): This reopener provided funding for works necessary to improve the physical security of key infrastructure sites. These works will benefit consumers through increased resilience and reduced risk of disruptions to supply.
- enhanced security costs (IT systems) (Gas Transmission and Electricity Transmission): This reopener provided funding for data centre investments and cyber security enhancements. These works will again improve the resilience of the energy system and reduce the risk of disruptions to supply.

Mid-Period Review for RIIO-ED1

☑ Lower bills ***☑ Reduced environmental damage*** ***☑ Reliability and safety***
☑ Quality of service ***☑ Benefit for society as a whole***

RIIO-ED1 sets the outputs that the electricity Distribution Network Operators (DNOs) must deliver, and the revenues they are allowed to collect, between 1 April 2015 and 31 March 2023.

The eight-year price control settlement includes a number of uncertainty mechanisms to account for the fact that some outputs and funding cannot be set with certainty at the start of the period.

One of these uncertainty mechanisms is the Mid-Period Review (MPR) of outputs. This mechanism is in place to allow for material changes to outputs where there have been clear changes in either government policy, or consumers' and network users' needs. It also allows for the introduction of new outputs and existing outputs to be adjusted, to meet the needs of consumers and other network users. Ultimately, the MPR aims to ensure consumers continue to receive the services they expect at an efficient cost.

In December 2017, we consulted on whether to launch an MPR for RIIO-ED1. In this consultation, we sought views on whether to maintain the scope of the ED-MPR as defined in the RIIO-ED1 Strategy Decision, or to extend the scope of the review.

We highlighted a number of issues, including clear changes in government policy and others related to financial and incentive performance and design, that could be considered within the scope of the MPR (as it was defined in the RIIO-ED1 Strategy Decision). We consulted on whether these issues warranted extending the scope to capture these additional issues.

Ofgem intervention

Having considered respondents' views, Ofgem decided to retain the original MPR scope. As a result, we did not launch an MPR for the RIIO-ED1 price control and did not review the corresponding scope.

The impact on consumers

As detailed in the Impact Assessment that accompanied the MPR decision, not carrying out a MPR for RIIO-ED1 did not result in any direct costs or benefits to consumers. However, deciding not to extend the scope beyond the definition given in the Strategy decision avoided a number of costs, as set out in Table 5 below.

Table 5 - Costs and Benefits of MPR Options

£m (2012-13 prices)	Total potential Costs	Total potential Benefits	NPV for consumers
Option 1 - maintain scope (no MPR)	0	0	0
Option 2 - slight extension of scope	360	64	-296
Option 3 - wide extension of scope	360	682	322

As this table shows, the initial analysis suggested that Option 3 would yield the greatest benefit for consumers. However, a number of stakeholders expressed concerns about the effect of such a decision on confidence in the regulatory regime. They pointed out that expanding the scope (as suggested under Options 2 and 3) would constitute a reopening of the price control, and that this could affect confidence in the regulatory framework, increasing the financing costs of network companies. To determine whether this would be the case, we analysed the impact of a range of increases to network companies' cost of equity and cost of capital. This suggested that a small increase in the cost of capital, and a slightly larger increase in the cost of equity, would result in non-negligible costs to consumers. Table 2 shows this impact, along with the sensitivity tests that we conducted – i.e. what increase in the cost of capital or the cost of equity would be required to remove all the NPV benefits from Option 3 (see Table 5).

Table 6 - Regulatory confidence relating to ED-MPR

(2012-13 prices)	Total potential cost	Present value of costs
Increase in cost of equity – 10 to 100 basis points (0.1% - 1.0%)	£150-£1,500m	£126m - £1,264m
Increase in cost of capital – 10 to 100 basis points (0.1 – 1.0%)	£375-£3750m	£316m - £3,161m
Sensitivity tests		
Increase in cost of equity to remove +NPV		~20 basis points

Increase in cost of capital to remove +NPV	~9 basis points

We considered that continuing with the scope as originally defined would help to maintain the stability of the regulatory regime and regulatory confidence. This should allow companies to attract global investment and support innovation and reliability. Long-term investment in energy networks is central to maintaining assets and network resilience, and keeping costs as low as possible.

Changes to Stakeholder Engagement Incentive Guidance

☒ *Lower bills* ☒ *Reduced environmental damage* ☒ *Reliability and safety*
☑ ***Quality of service*** ☑ ***Benefit for society as a whole***

RIIO-ED1 sets the outputs that the electricity Distribution Network Operators (DNOs) must deliver, and the revenues they are allowed to collect, between 1 April 2015 and 31 March 2023. RIIO-GD1 and RIIO-T1 set outputs to be delivered and revenues that can be claimed by Gas Distribution Network Operators (GDNs) and Transmission Owners (TOs) between 1 April 2013 and 31 March 2021.

To deliver an efficient network that embraces wider social and environmental objectives, DNOs need to engage with a range of stakeholders. Key stakeholders will include parties that are affected by, or represent those affected by, decisions made by the network companies. We expect network companies to pay particular attention to stakeholders that represent the interests of vulnerable consumers, as defined in Ofgem's Consumer Vulnerability Strategy.

The Stakeholder Engagement Incentive (SEI) and Stakeholder Engagement and Consumer Vulnerability (SECV) incentives were introduced in 2013-14 and 2015-16 respectively, to drive network companies to engage with and meet the needs of their stakeholders. In addition, the SECV aims to drive DNOs to commit to addressing consumer vulnerability issues. Each year, network companies submit an annual report to Ofgem detailing their engagement activities and the resulting outcomes. An independent Panel then assesses network companies' reports and determines the financial reward (if any) for each network company.

The independent Panel has observed general improvements since the SEI and SECV incentives were introduced. Stakeholder engagement is increasingly embedded in the businesses. With regard to the SECV, DNOs have consistently included consumer vulnerability as a priority in their strategies. DNOs have also demonstrated how varied vulnerability can be, with companies expanding their Priority Services Registers (PSRs) and regularly updating their vulnerable customer data. However, the Panel feels that more work is required in rolling out effective initiatives that have delivered positive outcomes. In addition, the Panel expects DNOs to explain more clearly how projects have developed from one year to the next.

Ofgem's intervention

The review of the SEI and SECV guidance documents aimed to identify areas of improvement within the application and assessment processes, to introduce changes which would better enable network companies to demonstrate the progress they have made, and to equip the Panel to assess network companies' performance better. These changes should enable the Panel to determine the quality of strategies that network companies have in place to address activities under the incentives as well as the outcomes delivered.

The amended SEI and SECV guidance documents introduce a Panel Report to create alignment with the processes followed for other incentive schemes in RIIO. The Panel Report, as a public document, brings improved transparency by providing all network companies with substantial feedback on their performance, highlighting best practice and improvement areas as well as facilitating comparisons of activity between companies.

The impact on consumers

The modified guidance documents take effect from April 2019. We expect that the changes made therein will benefit consumers by driving increased efforts to produce and implement initiatives that will significantly enhance the quality of services available to consumers. In addition, a public-facing Panel Report is intended to strengthen engagement and provide more clarity on the commitments offered by network companies.

Enforcement and Compliance activity

As part of our duty, we regulate the way in which energy businesses behave. Our enforcement arm identifies and responds to conduct in the gas and electricity markets which may be unlawful, anti-competitive, or otherwise harm consumer interests. Our work includes investigating and acting against:

- alleged anti-competitive agreements and abuse of dominant positions
- potentially unfair terms in consumer contracts and consumer notices,
- non-compliance with relevant licence conditions and requirements
- non-compliance with consumer protection provisions
- misleading marketing provisions.

For the enforcement decisions taken in the period April 2018 to March 2019, we estimate direct consumer benefits to be about £5.6 million. For our compliance decisions taken over the same time period, we estimate direct benefits of £1.2 million.

Enforcement cases

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☑ ***Reliability and safety***
☑ ***Quality of service***	☑ ***Benefit for society as a whole***	

We break down the impact of enforcement activities on consumers into four main areas.

- Past detriment: Past harm caused to consumers by breaching parties.
- Additional redress: paid to consumers or charities over and above the identified / quantified detriment.
- Avoided detriment: Future harm that would been caused by breaching parties had Ofgem not intervened. Our approach is based on that used in similar reports by other authorities such as the Competition and Markets Authority (CMA) and the Dutch Authority for Consumers & Markets (ACM).
- Deterrence: Future harm to consumers by other parties avoided as a result of the threat of Ofgem’s intervention

The impact of the first three areas rely on rules of thumb to assess the likelihood and the duration of the violation in future. We construct our rules of thumb based on the type of case (eg mis-selling, transfer blocking, IT problems, price increase, and competition) and on the nature of companies’ behaviours (eg self-reported, accidental, and deliberate). The time period considered to assess the future avoided detriment ranges from zero (self-reported cases) to six years, for the most severe deliberate breaches.

Our methodology treats each area separately. For the purpose of this report, we will use the same methodology to calculate past and avoided detriment but we do not calculate deterrence because it is difficult to do so. By not accounting for deterrence, we are excluding one of the main indirect benefits associated with enforcement activities. The threat of enforcement actions increases the expected costs of a breach to business and individuals, making infringement behaviours less attractive.

Between April 2018 and March 2019, Ofgem completed four cases (see **Table 7**) which directly benefited consumers through financial redress via alternative action.

Table 7 - Enforcement cases closed between April 2018 and March 2019 which directly benefited consumers

Company	Breach areas	Case closed	Notes	Total (2018£, thousands)
SSE	Annual Statements	Jun-18	SSE paid £1,000,000 to the voluntary redress fund for providing inaccurate information to pre-payment meter customers in their Annual Statements. Detriment was calculated as between £13,000 and £120,000	1,000
British Gas	Switching	Aug-18	British Gas paid redress of £747,403[18] direct to affected consumers and £1,050,229 to the voluntary redress fund for issuing incorrect terms and conditions to some customers, incorrectly charging some customers termination fees and failing to apply fixed term supply contract prices to some customers' final bills in the protected period following a switch. Detriment was £847,418.	1,798
EDF	Smart metering	Jun-18	EDF paid £350,000 to the voluntary redress fund for failing to meet its smart metering annual milestones.	350
SSE	Feed-in Tariff	Feb-19	SSE paid £250,000 to the voluntary redress fund for overstating generation payments in its Feed-in Tariff (FIT) annual submissions.	250
Cadent	Guaranteed Standards	Jun-18	Cadent paid £1,660,050 in compensation to customers affected; and paid £278,050 to the voluntary redress fund for issues relating to the reinstatement of customer premises	1,938
NGN	Guaranteed Standards	Jun-18	NGN paid £247,440 in compensation to customers affected; and paid £15,000 to the voluntary redress fund for issues relating to the reinstatement of customer premises	262

We also completed four cases (see **Table 8**) which indirectly benefited consumers through financial payments via alternative action. The money received reduced the liabilities of other suppliers, which should be passed to consumers.

Table 8 - Enforcement cases closed between April 2018 and March 2019 which indirectly benefited consumers

Company	Breach areas	Case closed	Notes	Total (2018£, thousands)
Foxglove	Feed-in Tariff	Feb-19	Foxglove paid £497,691.80 to pay off its outstanding Feed-in Tariff debt, which was used to reduce the mutualisation amount due from other suppliers.	498
Eversmart	Renewables Obligations	Mar-19	Eversmart paid £439,149.82 to pay off its outstanding Renewables Obligations debt, which was used to reduce the mutualisation amount due from other suppliers.	439
Economy Energy	Renewables Obligations	Nov-18	Economy Energy paid £4,000,000 towards its outstanding Renewables Obligations debt, which was used to reduce the mutualisation amount due from other suppliers.	4,000
SSE	Feed-in Tariff	Feb-19	SSE paid £455,705 in interest to the Feed-in Tariff (FIT) levelisation fund for overstating generation payments in its FIT annual submissions.	456

[18] British Gas also paid another £847,418 direct to affected customers before the investigation was opened.

In addition, we issued four provisional orders and one final order (see **Table 9**) which directly benefited consumers.

Table 9 - Enforcement provisional orders issued between April 2018 and March 2019 which directly benefited consumers

Company	Breach areas	Order Issued	Order revoked	Notes	Total (2018£, thousands)
npower	Collective Switch Trial	Sep-18	Mar-19	npower refused to comply with the direction requiring its participation in the Active Choice Collective Switch Autumn Trial ("the trial"). As a result of issuing the provisional order and enforcing this through the courts, npower participated in the trial. This improved the quality of the trial and its findings, and promoted more consumer switches in the trial.	Unquantified
E (Gas and Electricity)	Switching	Jan-19	Feb-19	The provisional order prevented E (Gas and Electricity) from completing the transfer of former customers of Economy Energy Trading Limited, which had ceased trading, after OVO Energy Limited was appointed by the Authority to take on the supply of electricity and gas to those customers. This prevented customer confusion as they were potentially switching to two different suppliers.	Unquantified
Economy Energy	Customer Service	Jan-19	Jan-19	The provisional order set requirements for improving customer service. The impact was limited as Economy Energy ceased trading shortly afterwards.	Unquantified
Solarplicity	Customer Service	Feb-19	Ongoing	The provisional order set requirements for improving customer service.	Unquantified

We also issued one final order (see **Table 10**) which indirectly benefited consumers.

Table 10 - Enforcement final orders issued between April 2018 and March 2019 which indirectly benefited consumers

Company	Breach areas	Order issued	Order revoked	Notes	Total (2018£, thousands)
URE Energy	Renewables Obligations	Mar-19	Ongoing.	The final order required URE to pay its outstanding Renewables Obligations debt of £209,000, which would reduce the mutualisation amount due from other suppliers.	209

A further six cases were concluded without securing consumer redress. The npower AMR case resulted in a penalty of £2.4 million, which was paid to HM Treasury. Investigations into Economy Energy for mis-selling and missed Renewables Obligations payments, Spark for missed Renewables Obligations payments, Iresa for customer service issues and Extra Energy for customer service issues were all closed without penalty when the supplier’s licence was revoked.

Overall, Ofgem agreed redress payments totalling £5.6 million, which are the direct benefits to consumers. Ofgem also secured payments of £5.6 million which provided indirect benefits to consumers.

What is the impact on consumers?

We estimate the realised consumer benefits to be about £11.2 million from the enforcement decisions taken by Ofgem in the period April 2018 – March 2019.

Compliance cases

☑ ***Lower bills***	☒ ***Reduced environmental damage***	☑ ***Reliability and safety***
☑ ***Quality of service***	☑ ***Benefit for society as a whole***	

Compliance cases vary in both their nature and scope, ranging from significant (financial) detriment to consumers to minor omissions on suppliers' websites. Between April 2018 and March 2019 we investigated 59 potential compliance issues. Of these we opened 32 as compliance cases. In the same period we closed 61 compliance issues, 23 of which were formal compliance cases.

The majority of compliance cases do not lead to any monetary consequences, but instead result in changes to supplier behaviour. Between April 2018 and March 2019, outcomes of compliance cases included the following:

- Improvements to customer service, such as complaints resolution and ease of contact
- Changes to supplier terms & conditions
- Changes to information provided on supplier websites
- Upgrades to supplier systems
- Changes to supplier training practices
- Compensation paid to consumers
- Compensation paid to our redress fund
- Discontinuation of tariffs with large upfront payments

The combined impact of compliance cases with a monetary element is as follows:

Type of impact	**Value** **(2018£, thousands)**
Refunds paid to customers	£544
Compensation payments to consumers	£383
Redress payments to the Energy Industry Voluntary Redress Fund	£318
Avoided costs to consumers	£0
Total	*£1,245*

Refunds paid to customers

This value is the total of all money refunded to consumers across all compliance cases where refunds were made. Refunds apply where customers were charged incorrectly, but the supplier refunded this money once the non-compliance had come to light. This item does not include additional money paid to customers as compensation or goodwill.

Compensation payments to consumers

This value is the total of all compensation paid directly to consumers across all compliance cases where such payments are made. The amount of compensation payments is determined by the detriment caused to consumers. In cases of direct financial harm, the compensation payment will not include any direct refunds as these are listed separately, but it will capture any goodwill payments made by the supplier. In cases where consumer detriment was of a non-monetary nature suppliers may make compensation payments to offset the harm caused to consumers. The level of such compensation payments is set through negotiation with the supplier.

Redress payments to charities

Suppliers are not able in all cases to compensate consumers who suffered a detriment directly, for example because consumers have since left supply. Where a supplier is unable to compensate all affected consumers, we can direct them instead to pay an equivalent sum into the Energy Industry Voluntary Redress Fund (EIVRF). The EIVRF is managed by the Energy Savings Trust who disburse monies paid into the fund to charities working on energy related topics.

Avoided costs to consumers

Sometimes we can prevent a supplier from taking certain actions that would have imposed costs on consumers, for example through raising a tariff. When this happens, we estimate the costs consumers would have faced in the absence of our intervention.

Impact on vulnerable consumers

Protecting the interests of existing and future energy consumers is at the heart of everything Ofgem does. As part of this objective, we are duty bound to take particular account of the interests of those who are in vulnerable situations; for example those who are disabled, chronically sick, of pensionable age, on low incomes, and those living in rural areas. We incorporate this explicitly in one of our five strategic consumer outcomes – benefits for society as a whole including support for those struggling to pay their bills.

In our 2018-19 Forward Work Programme, a key priority for the year was enabling a better functioning retail market that works for all, which included meeting the specific needs of people in vulnerable circumstances. In this section, we consider the progress we have made towards this aim through the actions we have taken and decisions we have made.

One of the main focuses of our actions and decisions is to improve outcomes for vulnerable consumers. This can range from monitoring and reporting activity, through to placing requirements and incentives on businesses to provide appropriate support to vulnerable consumers. As shown earlier in the report, Ofgem also makes decisions that have a broader range of aims, including lowering bills and delivering benefits to society as a whole. Vulnerable consumers can be expected to benefit considerably from such decisions, and in some cases more so than other groups of consumers.

We want to show more clearly the impact that our decisions are expected to have for consumers in vulnerable situations. This new section, which identifies Ofgem's actions and decisions that support better outcomes for consumers in vulnerable circumstances, is a start. We intend to build on this section in future reports as we further develop our framework to assess distributional impacts of policy changes. For now, the majority of our analysis of impacts on consumers in vulnerable circumstances is qualitative.

Understanding outcomes for vulnerable consumers

If we are to improve outcomes for all consumers, then it is critical that we understand the complex range of characteristics and circumstances that can make some consumers vulnerable. We set out our understanding of these issues in our draft vulnerability strategy, which we consulted on in June 2019.[19]

We continuously analyse the latest available information and evidence, and report regularly on how energy markets are working for consumers in vulnerable circumstances. We do this through our Annual Vulnerability Report and our State of the Market Report.

Our vulnerability strategy

We first published our Consumer Vulnerability Strategy in 2013. This strategy guides Ofgem's approach to understanding vulnerability – through evidence, research and market analysis – to help us set our priorities, develop and implement interventions and assess their effectiveness. It also guides our expectations of the way in which supply and distribution companies embed consideration of consumer vulnerability when they design and deliver products and services.

Based on this strategy, we have strengthened protections and introduced incentives to encourage energy suppliers and distribution network companies to focus on supporting

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[19] https://www.ofgem.gov.uk/publications-and-updates/draft-consumer-vulnerability-strategy-2025

and empowering vulnerable consumers. We have also worked with other regulators to improve and share data that can be used to support vulnerable consumers. Actions taken as part of this strategy include:

- Introducing the overarching enforceable vulnerability principle into the domestic Standards of Conduct to hold suppliers to account for treating consumers in vulnerable circumstances fairly.
- Incentivising distribution network companies through our RIIO-1 price controls to undertake a number of activities such as providing funding to connect fuel-poor households to the gas grid, innovative communication methods during blackouts and staff training on vulnerability.
- Working with UKRN and Ofwat on data sharing to support consumers in vulnerable situations.

We are currently consulting on our proposed updated Consumer Vulnerability Strategy, which will cover the next few years as the energy market transitions to smarter technologies and new business models. This should help to ensure that consumers in vulnerable circumstances are not left behind and are able to experience the positive effects of market change.

The updated strategy sets out five priority areas where improvements can be made for consumers in vulnerable situations.
These are:

- Improving identification of vulnerability and smarter use of data.
- Supporting those struggling with their bills.
- Driving significant improvements in customer service for vulnerable groups.
- Encouraging positive and inclusive innovation.
- Working with partners to tackle issues that cut across multiple sectors.

Reporting on outcomes for vulnerable consumers

We report regularly on how the energy markets work for consumers in vulnerable circumstances. We do this mainly through our Annual Vulnerability Report and our State of the Market Report. The Annual Vulnerability Report presents a view of the extent to which vulnerable consumers are experiencing positive outcomes in the energy market.[20] The report examines trends relating to debt levels and debt repayment rates, prepayment meters, disconnections and support for vulnerable consumers in England, Scotland and Wales. The report also details the performance of distribution network companies under the relevant RIIO incentive schemes, which encourage distribution network companies to address consumer vulnerability issues.

The State of the Market Report assesses how well energy markets are working for consumers. It includes a focus on affordability of domestic energy, particularly in relation to vulnerable consumers. It considers analysis of the latest energy bills, an

[20] Vulnerable consumers in the energy market: 2018
https://www.ofgem.gov.uk/system/files/docs/2018/11/vulnerability_report_2018.pdf

assessment of fuel poverty rates in England, Scotland and Wales, and a summary of recent trends in outcomes such as debt and disconnections. We also consider why the market may not be working well for certain groups of consumers, such as those in vulnerable circumstances, and look at the range of support that is available to these customers.

The remainder of this section is structured around the four relevant priorities set out in our draft updated strategy.[21]

Priority Area 1: Improving identification of vulnerability and smarter use of data

We want a market that is accessible, inclusive, and responsive to the needs of vulnerable consumers. We recognise that consumer vulnerability is complex, can be caused by many factors, and can be transient. However, for vulnerable consumers to be supported in the energy market, energy companies need to have appropriate policies and procedures in place for identifying vulnerable consumers.

Our decision on Gas Discretionary Reward Scheme (DRS) rewards gas distribution network companies (GDNs) for improving the identification of vulnerable consumers and designing solutions to support them.

Gas Discretionary Reward Scheme (DRS)

Ofgem is committed to evaluate GDN performance on delivering social, carbon monoxide safety and environmental outputs through the DRS three times during the eight year RIIO-GD1 price control. In 2018, Ofgem undertook the second DRS assessment of RIIO-GD1 and looked at the initiatives put forward between 2015 and 2018.[22] Through this assessment, Ofgem awarded a total of £0.7 million to the GDNs for best practice initiatives which help to address social issues, including:

- The development of energy solutions for the fuel poor
- Initiatives taken to facilitate sustainable energy solutions to the fuel poor by building partnerships with other parties in the sector (eg electricity distributors, suppliers, technology providers, local councils, agencies)
- Initiatives aimed at improving the knowledge that the company has regarding vulnerable and fuel poor customers in their service area.

The money awarded will be added to the GDNs’ 2019/20 revenues. This provides some evidence that the scheme has been successful in encouraging GDNs to adopt initiatives for addressing a range of social issues.

Priority Area 2: Supporting those struggling with their bills

We want to make sure that consumers pay a fair price for their energy and that those who struggle to pay their bills are adequately supported. We do this through a range of policies, which currently includes price protection and placing obligations on energy companies to support those who are struggling to meet their energy needs. As the market evolves, we aim to ensure that the protections for those who struggle to afford energy are adequate.

The default tariff cap, effective from January 2019, has directly reduced bills for hundreds of thousands of consumers in vulnerable circumstances.

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[21] We do not have decisions to report this year in relation to the fifth priority of working with partners.
[22] https://www.ofgem.gov.uk/publications-and-updates/decision-riio-gd1-gas-discretionary-reward-scheme-2015-18

Default tariff cap

The default tariff cap provides protection for a large number of consumers who face a range of vulnerable circumstances. This includes the approximately 800,000 customers in receipt of the Warm Home Discount (WHD), who were previously protected by the vulnerable customer safeguard tariff. These customers have now been protected at the direct debit level of the cap, and we estimate annual savings of around £60m.[23]

We know that less engaged consumers have an above average likelihood of having a range of other characteristics that might indicate vulnerability. For example, 44% of consumers in social grades D or E have never switched, compared with just 23% of those in social grades A or B. A similar relationship exists for consumers on low incomes.[24]

On average, households with the lowest incomes spend less in absolute terms on energy than higher-income households. We might therefore expect that the absolute savings levels for lower income customers to be, on average, lower than that of the higher income consumers. However, energy bills take up a significantly higher proportion of income for poorer households, so we can expect lower income consumers to have felt a greater benefit from the retail price cap.

To illustrate the distributional impact of the price cap on consumers across each income decile, we apply the savings per unit of gas and electricity consumption of a consumer with typical energy usage to four levels of consumption for each income decile. Given data limitations, we make simplified assumptions for this illustration, and the results should be read with caution and they are not directly comparable to the overall impact assessment of the price cap.[25]

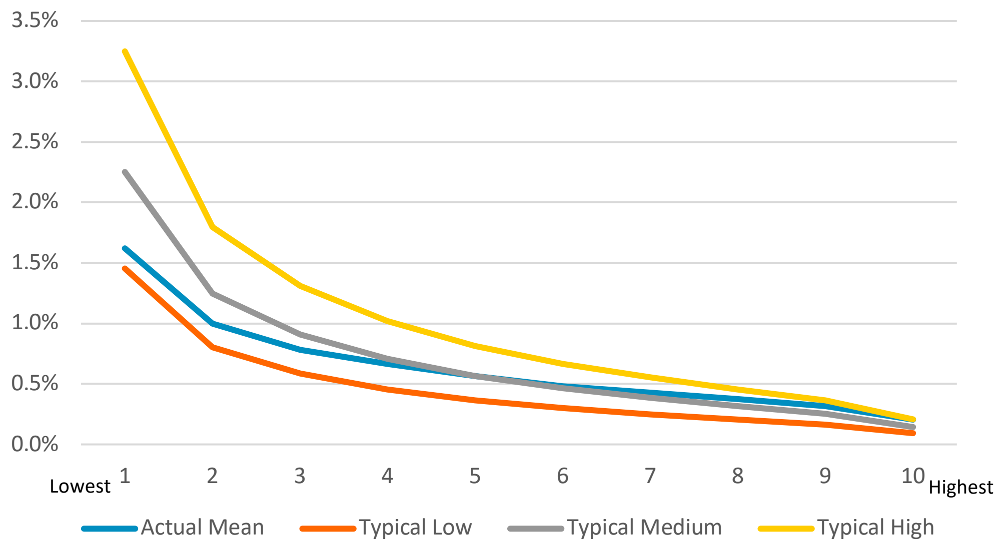
Figure 1 shows that, for all four consumption levels, the savings from the price cap account for a higher proportion of household income among lower income deciles. In particular, for the consumers in the lowest income decile with a typical high energy usage, which is the group most likely to struggle to pay their energy bills, the annual savings from the price cap could amount to 3.25% of the household income.

Figure 1 – Possible annual savings as share of income: by income deciles

[23] We assume as our counterfactual that in the absence of the default tariff cap, the vulnerable customer safeguard tariff would have been in place for WHD customers only until December 2019, but that beyond this these customers would continue to be covered by similar price protection.

[24] https://www.ofgem.gov.uk/system/files/docs/2018/10/state_of_the_energy_market_report_2018.pdf

[25] The gas and electricity consumption of a typical consumer are 12,000 kWh and 3,100 kWh, and the corresponding annual savings are £80 and £51, respectively. The average annual gas and electricity consumption and average household disposable income by income decile are based on Centre for Sustainable Energy (CSE) DIMPSA Dataset in 2013. The average annual energy consumption and average household disposable income by income decile are adjusted to year 2017 by the rate of population energy consumption and average household disposable income, using BEIS ECUK and ONS datasets.



Note: The four lines represents different energy consumption levels: 'Actual Mean' is based on the actual mean volume of energy consumption across income deciles, while 'Typical Low', 'Typical Medium' and 'Typical High' are based on the Typical Domestic Consumption Values (TDCVs), which are industry standard values for the annual gas and electricity usage of a domestic consumer.

Priority Area 3: Driving significant improvements in customer service for vulnerable groups

Customer service cuts across various areas of the energy market – service design, method of communication, accessibility, billing, metering, sales and marketing. We want customer service to improve and to be tailored to specific groups of consumers, including those in vulnerable circumstances.

Our decision on switching compensation and changes to customer communication rules should help to drive up the standard of customer service to vulnerable consumers.

Switching compensation

Switching compensation should help to ensure that consumers seeking to engage with the market receive adequate protection and redress when things go wrong. Vulnerable consumers may engage less and so switch less. In addition, vulnerable consumers may not be any more or less likely to have something go wrong with their switch. In this case, switching compensation could potentially deliver less benefit to vulnerable consumers compared to other groups. However, vulnerable consumers can be most severely affected when problems do occur. Their circumstances may mean that they find situations such as long delays, or instances of erroneous switches and double billing, particularly stressful to cope with and to put right.

A particular issue for some vulnerable customers and pre-payment meter customers is that their credit may be held by a supplier after a switch, and delay with a refund can cause customer cash flow problems, resulting in significant hardship. Therefore, we have introduced a new performance standard to require losing suppliers to refund credit balances within two weeks of sending the final bill to the consumer. Losing suppliers who fail to refund credit balances within two weeks of the final bill should compensate the consumer.

We also recognise that some switches involving vulnerable consumers may be more complex than others, for instance the Switching and Change of Tenancy arrangements for social housing properties, which can have complex switching and 'move-in' arrangements. Our introduced timeframe of 21 days for suppliers to complete the switch should be adequate to ensure timely transition and continuous provision of energy to consumers in these circumstances.

Changes to customer communication rules

The vulnerability limb of the Standards of Conduct already requires suppliers to identify consumers in vulnerable situations and respond to their needs. In combination with the new principles, this makes it clear that suppliers have a responsibility to provide customers they identify as needing additional help with relevant information about the support available. Suppliers should also think about the ways in which they provide information as well as the frequency. They should consider customers' circumstances and should have special regard for those in a vulnerable situation.

For example, becoming aware that a customer is in a vulnerable situation could enable suppliers to identify the most effective timing of communication so that customers could benefit from the opportunity to weigh up the options available to them. Further, when customers are having difficulties paying their bills, suppliers could adapt the form and frequency of billing to assist them. For customers who are making debt repayment, suppliers could provide relevant billing information to help them understand what they are paying and why, and what their outstanding debt balance is. In addition, for consumers in certain vulnerable situations who need more advance notice (such as those going through bereavement or experiencing dementia) suppliers should simplify the billing information and communicate with them early to ensure they are able to understand and have enough time to take action if they choose to.

Priority Area 4: Encouraging positive and inclusive innovation

With the changes to the energy system driven by digitalisation and decarbonisation, it is important that innovation is harnessed to deliver better outcomes for consumers in vulnerable situations. We encourage inclusive innovation as much as possible and have mechanisms in place to understand whether innovation is delivering for the most vulnerable.

Our decision on changes to stakeholder engagement incentive guidance could encourage positive and inclusive innovation for vulnerable consumers.

Changes to Stakeholder Engagement Incentive Guidance

Stakeholder Engagement and Consumer Vulnerability (SECV) incentives were introduced in 2015-16, to drive network companies to engage with and meet the needs of their stakeholders. The SECV aims to drive DNOs to commit to addressing consumer vulnerability issues, and DNOs have consistently included consumer vulnerability as a priority in their strategies.

The amended SECV guidance bring the assessment of consumer vulnerability within the remit of the Panel that assesses the network companies' performance, which would provide an opportunity for the Panel to assess the DNOs' performance more holistically.

DNOs' activities in relation to consumer vulnerability are closely linked to their wider stakeholder engagement activities and the Panel's broader and more outcomes-focused assessment means it is best placed to understand how network companies are performing and progressing year on year.

Methodology

Our analysis has been subject to our internal quality assurance (QA) process and reviewed by an external expert, Dr Christopher Decker of the University of Oxford.[26]

The analysis draws on the results of impact assessments (IA). Impact assessment is a tool to strengthen decision-making. There is a statutory requirement to publish IAs where there are significant impacts from policy changes. Our approach strives to quantify impacts as thoroughly as possible and in monetary terms where we can, and to ensure consistency in how they are presented.[27] All IAs are subject to internal QA and peer review. Our processes to strengthen our analysis also include the use of analytical panels and greater input from academics (individual review and panels) to provide third party views. Often an initial IA will accompany a policy consultation and stakeholders will have an opportunity to check analytical assumptions and to help fill evidence gaps. IAs provide a structural and transparent framework for understanding the estimated impacts of policies and enable comparisons between projects. Therefore, ex ante IAs of expected impact are a good way to assess our expected policies' impact on consumers.

However, due to differences in the way benefits are calculated, we make some adjustments to enable comparability between results. These are:

Inflation adjustment

Ofgem's impact assessments use a range of years to express the monetised value of benefits and costs to consumers. For example, most impact assessments relating to network companies use 2013 prices, since this allows easier comparison with previous figures published as part of the RIIO price controls. Others use the price levels in the year they were published.

- To ensure all figures are comparable, we expressed the figures published in the impact assessments in 2019 prices, and adjusted them using the GDP deflator forecast produced by Treasury.[28] It is now our preferred way of making inflation adjustment for consumer impact because: 1) GDP deflator is the most comprehensive measure of inflation compared to other indicators, eg CPI/CPIH or RPI; 2) The Treasury's Green Book[29] recommends to adjust costs and benefits from nominal to real terms using the GDP deflator growth rate.

  In the last report we applied a constant inflation rate of 2.3%, which is the long term forecast published by the Office for Budget Responsibility. However, based on our lessons-learned review, we found that applying this constant inflation

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[26] Dr Decker is a Research Fellow in Law and Economics in the University of Oxford and a Director of Regulatory Economics Limited, a private consultancy firm which undertakes advisory work mainly for governments and other public bodies. Consistent with the purposes of the review exercise, we asked Dr Decker to confirm: the reasonableness of our assumptions and methodologies for aggregating qualitative impact and for the chapter on vulnerable consumers; the appropriateness of the time period used to assess consumer impacts; and the reasonableness of our presentation of the benefit to consumers. He was not asked to review or comment on the underlying assumptions where these were based on analysis carried out as part of a formal Impact Assessment, nor was he asked to review the calculations that underlie the estimates presented in the report.
[27] For detail on how Ofgem carries out impact assessments, see our published Impact Assessment Guidance:
https://www.ofgem.gov.uk/system/files/docs/2016/10/impact_assessment_guidance_0.pdf
[28] Source: Office for Budget Responsibility, *Historical official forecasts database*.
http://obr.uk/data/
[29]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf and http://cdn.obr.uk/FSR_Jan17.pdf

rate could overestimate net consumer benefits. So, we switch to using the GDP deflator to adjust consumer impacts for the purpose of this report.

NPV adjustment

Net present value (NPV) figures are necessarily taken from one point of reference (i.e. the 'present' part of the value is a certain point in time). For example, an NPV calculation based on 2017 and another based on 2018 are not directly comparable – since any benefits are one year closer in 2018.

To ensure all figures are comparable, we have taken 2019 as the point at which we will calculate NPVs from, and discounting or un-discounting using a real discount rate of 3.5%, in line with Treasury's Green Book.

NPV calculations

Some impact assessments contain figures for consumer benefits, which are not expressed as an NPV. This is the case for the decisions *Switching compensation*, *RIIO-1 price control reopeners*, DCC price control, *Enforcement and compliance cases*. Where this is the case, we have calculated an NPV figure using the inflation rate and 3.5% discount rate described above.

Scenarios

Some of our impact assessments contain different scenarios, which consider how consumer benefits would change, depending on other variables. We have used the scenarios, corresponding to low, central and high benefits. The central scenario is defined as the most likely, based on the assumptions.

The results of our adjustments to individual decisions are set out in **Table 11**:

Table 11 - Adjustments to benefit figures

Decision	Consumer impact from impact assessment (price year and NPV reference year as in published IAs)	Adjustments made	Adjusted impact (2019 as price year and NPV reference year)	Period in which benefits occur	Annualized benefit
Default tariff cap	NPV from impact assessment: £2,269m (direct benefits) - £1091m – £28m (indirect benefits) Price year: 2018 NPV reference year: 2018	Inflated from 2018 to 2019 prices NPV reference year changed from 2018 to 2019	Adjusted NPV: £2,395m (direct benefits) -£561m (central estimate, indirect benefits)	2019-2020 (2 years)	£1,198m direct benefits -£281m indirect benefits
Switching compensation	No NPV from impact assessment Estimated annual benefits: £52m Price year: 2017 NPV reference year: 2019	Inflated from 2017 to 2019 prices NPV reference unchanged	Adjusted annual direct benefits: £54m	2019 (1 year)	£54m direct benefits

Trials to prompt customer engagement	£10m direct benefits Price year: 2018 NPV reference year: 2019	Inflated from 2018 to 2019 prices NPV reference year unchanged	£10m direct benefits	2019 (1 year)	£10m direct benefits
SOLR	No monetised benefits identified	-	-	-	-
Changes to Customer Communication rules	No monetised benefits identified	-	-	-	-
Removal of WoM requirement	No monetised benefits identified	-	-	-	-
Hinkley Seabank Delivery Model	NPV from impact assessment: £53-£102m Price year: 2017 NPV reference year: 2016	Inflated from 2017 to 2019 prices NPV reference year changed from 2016 to 2019	Adjusted NPV of direct benefits £89m (central estimate)	2019-2069 (50 years)	£2m direct benefits
DCC Price Control	Funding increases not allowed amounting to £134 Price year: 2018 NPV reference year: 2019	Inflated from 2018 to 2019 NPV reference year unchanged	Adjusted cash amount £136m (additional monetised benefits)	2019-2020 (2 years)	£68m additional monetised benefits
Mid-Period Review RIIO-ED1	No monetised benefits identified	-	-	-	-
Changes to Stakeholder Engagement Incentive Guidance	No monetised benefits identified	-	-	-	-
Enforcement cases	£6m direct benefits £6m indirect benefits Price year: 2018 NPV reference year: 2019	Inflated from 2018 to 2019 prices NPV reference year unchanged	£6m direct benefits £6m indirect benefits	2019 (1 year)	£6m direct benefits £6m indirect benefits
Compliance cases	£1m direct benefits Price year: 2018 NPV reference year: 2019	Inflated from 2018 to 2019 prices NPV reference year unchanged	£1m direct benefits	2019 (1 year)	£1m direct benefits

Finally, there are four 'health warnings' surrounding the results in this report:

- 'Lumpiness' of impacts. One decision this year (Default tariff cap) accounts for more than 70% of the aggregate consumer benefits identified. This dwarfs the impact of the other decisions we make, even though they all remain significant. We should therefore expect our overall impact to be highly dependent on whether we make high financial-impact decisions in a given year, and on the actual effects of these decisions.

- The decisions were taken during the financial year 2018/19, however they have different starting years and cover different periods of time. The estimated aggregate impact from Ofgem activities, in the form of a net present value, may differ significantly from the aggregate benefits calculated on a yearly basis.
- Uncertainty remains a factor in estimating the impact of our work, particularly for the indirect benefits identified in this report, which rely on the behaviour of other parties. This is a general problem with any kind of forecasting and not specific to our report.
- Establishing the counterfactual. One of the most challenging aspects of assessing impacts is establishing the counterfactual. The counterfactual is what happens in the absence of a policy, project or programme. Most of our impact assessments use the "do nothing" scenario as the counterfactual. In the case of DCC Price control decisions, we have limited ourselves to stating the impact as the value of the disallowed revenue allowances for DCC, because the counterfactual here is without Ofgem's decisions to reject funding allowances, where the DCC's funding would be the requested amount, and funding reduction is the direct result of Ofgem's rejection decision.

Appendix – links to source documents

Default tariff cap

Default tariff cap – Final Impact Assessment
https://www.ofgem.gov.uk/system/files/docs/2018/11/appendix_11_-_final_impact_assessment.pdf

Decision – Default tariff cap – Overview document:
https://www.ofgem.gov.uk/system/files/docs/2018/11/decision_-_default_tariff_cap_-_overview_document_0.pdf

Switching compensation

Supplier Guaranteed Standards of Performance for Switching – Impact Assessment
https://www.ofgem.gov.uk/system/files/docs/2018/11/impact_assessment.pdf

Supplier Guaranteed Standards of Performance: Decision on Switching Compensation
https://www.ofgem.gov.uk/system/files/docs/2018/12/way_forward_on_supplier_guaranteed_standards_or_switching_and_si_consultation_on_a_statutory_instrument_to_bring_them_into_force.pdf

Supplier of Last Resort

Last Resort Supply Payment Claim from Octopus Energy
https://www.ofgem.gov.uk/system/files/docs/2019/01/octopus_last_resort_supply_payment_claim_-_final_decison.pdf

Utilita Energy Limited as Gas and Electricity Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/utilita-energy-limited-gas-supplier-last-resort

https://www.ofgem.gov.uk/publications-and-updates/utilita-energy-limited-electricity-supplier-last-resort

Ovo Electricity Ltd as Electricity and Gas Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/ovo-electricity-ltd-electricity-supplier-last-resort

https://www.ofgem.gov.uk/publications-and-updates/ovo-gas-ltd-gas-supplier-last-resort

Appointment of Together Energy as Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/appointment-together-energy-supplier-last-resort

Direction to appoint OVO Electricity Ltd as Electricity and Gas Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-ovo-electricity-ltd-electricity-supplier-last-resort

https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-ovo-gas-ltd-gas-supplier-last-resort

Direction to appoint ScottishPower Energy Retail Limited as Gas and Electricity Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-ovo-gas-ltd-gas-supplier-last-resort

https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-scottishpower-energy-retail-limited-electricity-supplier-last-resort

Direction to appoint First Utility Limited as Gas and Electricity Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/direct-appoint-first-utility-limited-gas-supplier-last-resort

https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-first-utility-limited-electricity-supplier-last-resort

Direction to appoint Octopus Energy Limited as Gas and Electricity Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-octopus-energy-limited-gas-supplier-last-resort-0

https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-octopus-energy-limited-electricity-supplier-last-resort-0

Direction to appoint Hudson Energy Supply UK Limited as Gas Supplier of Last Resort
https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-hudson-energy-supply-uk-limited-gas-supplier-last-resort-25-july-2018

Direction to appoint Octopus Energy Limited as Gas and Electricity Supplier of Last Resort
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https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-octopus-energy-limited-electricity-supplier-last-resort

Changes to customer communication rules

Decision to modify the electricity and gas supply licences to introduce five narrow principles and remove certain prescriptive customer communications rules
https://www.ofgem.gov.uk/system/files/docs/2018/12/final_decision_-_customer_communications_rule_changes.pdf

Removal of the Whole of Market requirement

Impact assessment for decision on Whole of Market removal
https://www.ofgem.gov.uk/system/files/docs/2018/07/impact_assessment_wom_removal_-_16_july_002.pdf

Decision on implementing the CMA's recommendation to remove the Whole of Market requirement
https://www.ofgem.gov.uk/system/files/docs/2018/07/decision_letter_-_confidence_code_wom_-_16_july.pdf

Hinkley-Seabank Delivery Model

Hinkley Seabank: Decision on delivery model and Impact Assessment
https://www.ofgem.gov.uk/system/files/docs/2018/07/hinkley_seabank_project_decision_on_delivery_model.pdf

RIIO-1 price control reopeners

Decision on RIIO-1 price control reopeners
https://www.ofgem.gov.uk/publications-and-updates/decision-riio-1-price-control-reopeners-may-2018

DCC Price Control

DCC Price Control: Regulatory Year 2017/18
https://www.ofgem.gov.uk/system/files/docs/2019/02/dcc_price_control_decision_ry1718.pdf

Mid-Period Review for RIIO-ED1

RIIO-ED1 Mid Period Review – Impact Assessment
https://www.ofgem.gov.uk/system/files/docs/2018/04/riio-ed1_mid-period_review_impact_assessment.pdf

Decision on a Mid-Period Review for RIIO-E1
https://www.ofgem.gov.uk/system/files/docs/2018/04/decision_on_a_mid-period_review_for_riio-ed1_0.pdf

Changes to Stakeholder Engagement Incentive and Stakeholder and Consumer Vulnerability Incentive Guidance

Direction issuing the Stakeholder Engagement Incentive Scheme Guidance for RIIO-GD1 and RIIO-T1
https://www.ofgem.gov.uk/system/files/docs/2018/12/direction_to_issue_the_sei_guidance_document.pdf

Direction issuing the Stakeholder Engagement and Consumer Vulnerability Incentive Guidance for RIIO-ED1
https://www.ofgem.gov.uk/system/files/docs/2018/12/direction_to_issue_the_secv_guidance_document.pdf

Gas Discretionary Reward Scheme 2015-18

Decision RIIO GD1 Gas Discretionary Reward Scheme 2015-18
https://www.ofgem.gov.uk/system/files/docs/2018/10/2018drsdecisionfinal.pdf

Customer engagement trials

Notice of reasons to issue direction under SLC 32A – CMOC
https://www.ofgem.gov.uk/publications-and-updates/notice-reasons-issue-direction-under-slc-32a-cmoc

Notice of reasons to issue direction under SLC 32A – Collective Switch
https://www.ofgem.gov.uk/publications-and-updates/notice-reasons-issue-directions-under-slc-32a-active-choice-collective-switch