



## Draft Consumer Vulnerability Strategy 2025

### Executive Summary

We broadly agree with Ofgem's Consumer Vulnerability Strategy 2025 ('the Strategy') and the outcomes it hopes to achieve over the coming years. However, we believe there are a number of other things Ofgem should consider, which we address below.

The creation of a level playing field for the market will be better for all customers, no matter their supplier or whether or not they are in a vulnerable situation. Effective competition cannot exist in any market where policy or regulation discriminates against established participants who have to operate on a non-level playing field as well as picking up the additional costs of imprudent suppliers that crash out of the market.

One of the biggest changes Ofgem can champion is for Warm Home Discount ("WHD") and Energy Company Obligation ("ECO") to be extended to cover all suppliers. When these schemes were first introduced, smaller suppliers had a much lower percentage of market share, and it would have been impractical to expect new entrants with few customers to participate; this is now not the case. The benefits to vulnerable consumers would not just be more effective competition (larger suppliers would be in a better position to compete with smaller ones), but there would be greater choice of supplier for WHD recipients.

As Ofgem itself recognises, vulnerable customers may be more expensive to serve; therefore, there needs to be a process whereby the additional cost is shared between suppliers on the basis of market share, to ensure these customers are as commercially viable as a non-vulnerable customer and help ensure effective competition. This would in turn encourage suppliers to invest in developing their processes and systems to be able to provide an adequate level of customer service to vulnerable customers, as Ofgem hopes to achieve.

The market entry regime must be much more stringent, to ensure that reckless and short-term practices and business models from some suppliers which has led to serious detriment to customers across the market does not continue. From 5 July 2019, the licence application process has been revised to require additional information from new entrants, and Ofgem has stated it will take a more robust attitude to issuing supply licences. Timing of the licensing process has also been amended, so that it is less likely that the 'supplier in a box' model will include a supply licence as standard. Ofgem must ensure that it takes full advantage of these changes and delivers a robust market entry regime, refusing licenses to those applicants who are not adequately funded or do not fully understand the market they are entering.

We firmly believe that the imposition of the price cap has constrained suppliers ability to finance their businesses and innovate in the market. This is particularly true for larger suppliers who have a greater proportion of vulnerable customers, who are assigned to the Direct Debit level of the cap regardless of their actual payment method; a cost not adequately accounted for in the cap methodology, leading to the erosion of the £12 per customer headroom. Suppliers have also had to finance the mutualisation process for Renewables Obligation ("RO") and Feed-in-Tariff, further eroding headroom. This, in addition to significant industry regulatory projects we are required to



invest in already, such as Half hourly settlement, faster and more reliable switching means suppliers ability to invest in other areas is severely limited.

E.ON agrees that the wider sharing of data both between energy suppliers and across regulated sectors could be beneficial to vulnerable customers, and is essential for targeting social schemes at fuel poor households and reducing administration costs. However, we have concerns regarding how a national database of customer data would be implemented and managed securely in line with data protection regulations. Information on a customer's vulnerability, including financial stability, is special category personal data and will require adequate protection. For example, the Data Control Company ("DCC") was established a number of years ago and was designed to adhere to National Infrastructure Security standards, as individual's personal data is shared and stored across sectors. Sharing information on customer's vulnerability, including financial stability, could potentially require a similar, or a higher level of data security to enable this proposal.

We believe Ofgem should work alongside the Information Commissioners Office ("ICO") to furnish suppliers in regulated sectors with overarching data sharing guidance, potentially through new data share protocols or codes of practice. Any sharing of special category personal data with other regulated industries will involve participants updating privacy policies. Greater clarity is needed about how this cross-sector data sharing would be funded. In conjunction with the above, BEIS has recently consulted on smart data;<sup>1</sup> E.ON is keen to understand how its proposals and the strategy will interlink to the Strategy over the coming years.

We answer the specific questions below.

### **Question 1**

***Do you agree with the five priority themes and the outcomes we will aim for (as set out in chapter 3-7 and annex 2)?***

1. E.ON is broadly supportive of the outcomes that the updated Strategy aims to achieve, however it is not clear for all of them specifically what is expected or how they will actually be monitored.

We elaborate here:

- a. Outcomes 1a and 3d. Suppliers are already obligated to seek to identify vulnerable customers and maintain the Priority Service Register ("PSR") under both SLC0 and SLC26. It is not clear what these outcomes will achieve beyond existing obligations. E.ON already has an industry leading system which goes beyond PSR requirements to capture customer vulnerabilities and offer relevant services (Care and Assessment Tool, also known as CAST).
- b. Outcome 1b – The outcome here is for an "improvement to support customers to self-identify". Ofgem proposes that it will be evidenced by "Innovative approaches"; however, it is not clear how Ofgem will quantify an improvement, nor how it will be measured? How is "innovative" defined? The same applies for outcome 4b, what would constitute an innovative measure?
- c. We are not clear how the sharing of good practice case studies will allow Ofgem to identify suppliers who do not have systems which allow better targeting/tailoring of

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<sup>1</sup> [Smart data: putting consumers in control of their data and enabling innovation](#)



customer service (outcome 3b). Sharing case studies might also discourage innovation as a supplier would lose the ability to differentiate itself in the market.

- d. The way in which Ofgem proposes to measure the success of outcome 4a is very prescriptive; it should be for suppliers to decide how they innovate.
2. E.ON agrees that data, either singularly or collectively, can be used to better support customers in vulnerable situations; however there are concerns that data sharing across regulated industries poses a potential data security risk. The scale of change, cost and inability to implement this at pace should all be considered. How does Ofgem propose to implement this infrastructure? There is also significant opportunity for Government (particularly the DWP), local authorities, GPs, MPs etc to assist in creating mechanisms to share information; this should not be left to regulated industries alone.
3. Ofgem has recognised the challenges that suppliers face in identifying customers who are at risk of self-disconnection on a traditional prepayment meter. Traditional prepayment meters do not provide real time information; we do not receive an alert at the time a meter goes off supply so are not able to provide reliable data in relation to self-disconnections. Our own contact data shows that contact rates with these customers is exceptionally low (c.2%) and when we do make contact customers express frustration as their vending behaviour reflects their lifestyle choice and they do not value the intervention from us. This leads us to believe that a lighter-touch approach is required. We are working hard to make better use of data analytics to find new and innovative ways to identify customers genuinely in need of support.
4. E.ON would also like to see more customers becoming energy debt free; this is not only desirable for customers but will also help us become a more efficient business. We believe it is important to aim for any debt to be cleared at a rate that is affordable; however, it is not in the customer's (or suppliers') interests for energy debt to be spread over several years. There will always be situations where customers fail to engage and would rather deal with a third party.
5. For theme 5a we would welcome further clarity from Ofgem on its vision, in particular:
  - a. How this will be funded? As we have already stated, there is already an unlevel playing field in terms of the additional costs of vulnerable customers, all suppliers should bear this cost based on market share.
  - b. Is there an intention to utilise the vulnerability service,<sup>2</sup> which is already established to provide a platform for all organisations who work with vulnerable customers to provide protection from debt and financial distress?
  - c. Suppliers should still have the right to refuse to work with organisations in the third sector where it is not appropriate.

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<sup>2</sup> <https://www.vulnerabilityregistrationservice.co.uk/>

- d. How does Ofgem envisage this proposal working alongside the breathing space<sup>3</sup>, BEIS smart data proposals and recommendations from Commission for Customers in Vulnerable Circumstances (“CVCC”).
6. On Outcome 5c we believe Ofgem should consider the following:
- a. A recent report by The UK Energy Research Centre (“UKERC”) highlighted that low-income households are hit hardest by the current funding arrangements of social and environmental government programmes, as the poorest households spend 10% of their income on heat and power in their homes, whereas the richest households only spend 3%. Funding the costs from general taxation would lower the burden on the poorest households. Analysis by UKERC shows that it would reduce costs for 70% of UK households, with the poorest households paying nothing, saving them £102 a year, while the richest households would pay an additional £410 a year.<sup>4</sup>
  - b. E.ON’s view is that the funding pot should be increased from the current £640m, but this should be financed by government rather than energy customers. This can be achieved by targeting Winter Fuel Payments at the most vulnerable, which could save around £800m, and using around £500m of the health budget to proactively make homes warmer and safer for health vulnerable households, creating a c.£2bn combined fund.
  - c. The supplier obligation should remain in place to deliver £2bn p.a. of measures, with no exemptions for any small supplier. The current trading model allows those suppliers who do not want to deliver the obligation to find a contractual solution which allows other suppliers to deliver on their behalf, thereby keeping administration costs low.
  - d. The current restriction that prevents a supplier meeting no more than 25% of its total home-heating cost reduction obligation from flexibility eligibility (statement from a local authority identifying households that meet the eligibility criteria) should be lifted, so that more measures can be installed in homes identified by local authorities as living in fuel poverty. We believe local authorities are better placed to identify vulnerable households in their community, allowing more flexibility will also help to reduce search costs which will, in turn, reduce the cost of ECO for customers.

### **Question 2**

***Do you agree with our approach on affordability? While we recognise this is a concern for many consumers in vulnerable situations, we think addressing wider affordability pressures is mainly a matter for government to address.***

7. E.ON does agree with this approach, and also agrees that wider affordability issues are a matter for government and not the private sector.

### **Question 3**

***What more could be done through energy regulation to assist consumers in vulnerable situations in the longer term? How should any such further measures be funded?***

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<sup>3</sup> [Breathing space scheme: call for evidence response](#)

<sup>4</sup> <http://www.ukerc.ac.uk/publications/funding-a-low-carbon-energy-system.html>

8. E.ON disagrees that there is any need for any further regulatory intervention in the supply licence; there is already sufficient obligations in standard licence condition 0 and elsewhere.
9. As we call out above, ECO and WHD should be extended to all suppliers and we believe that Ofgem should champion this change. Those suppliers who are more experienced in managing schemes are willing and able to manage obligations on behalf of smaller suppliers. There is no reason, therefore, for any supplier to be excluded from the scheme, given the benefit to customers and to competition.
10. We welcome Ofgem's view that new entrants to the market must have a clear understanding of vulnerability and how vulnerable customers interact with them; this will help ensure new suppliers are ready and able to deliver social obligations such as ECO and WHD. Ofgem must ensure that it delivers a robust market entry regime, refusing licenses to those applicants who are not adequately funded or do not fully understand the market they are entering.
11. Ofgem should continue to monitor suppliers once they are licensed. As part of the Supplier Licensing Review<sup>5</sup>, Ofgem is looking to put in place ongoing reporting to ensure new entrants and other suppliers continue to be adequately funded and fit and proper to run an energy supply business. We urge that this be completed as soon as possible.
12. As outlined in the Commission for Customers in Vulnerable Circumstances Report<sup>6</sup>, Ofgem should make better use of existing powers and respond to all reports of non-compliance in a timely and robust manner. This will help support the recommendations which are already in licence.
13. Ofgem should work with the Government to put in place a regulatory regime for third party intermediaries ("TPIs") and price comparison websites ("PCW") as well as auto-switching services now that the occurrence of these is increasing.
14. We would welcome more proactivity from the government and Ofgem to support positive messaging around smart metering; we are still experiencing lots of objections and misinformation from consumers when it is our belief smart will provide great benefits for many consumers in vulnerable situations.
15. We support the continuation of the Fuel Poor Network Extension Scheme (FPNES). In the longer-term we believe energy efficiency in combination with heat pumps would be the best option for households off the gas grid; however, the current lack of financial incentives and prohibitive technology costs prevent vulnerable, rural customers from receiving the support they need to transition to net zero.

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<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/05/update\\_slr\\_ongoing\\_and\\_exit\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/05/update_slr_ongoing_and_exit_final.pdf)

<sup>6</sup> <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7140>

16. We therefore agree with Ofgem that the FPNES should continue until the next RIIO-2 review in 2021. We believe that, as a condition of receiving the FPNES, a first-time central heating system must be adequately sized to allow a heat pump to be installed at some stage in the future. Heat pumps operate best at lower flow temperatures. If gas boilers were optimised during the installation process, they would also operate at lower flow temperatures. This would make it easier for a heat pump to be installed at some stage in the future as the radiator system would already be sized correctly for the home.
17. New financial incentives should be provided for in the run up to 2025, to encourage housebuilders to go early and install non-gas connected heating solutions e.g. bonus payment for each low carbon heating solution installed.
18. It will in the short term require a continuation of financial incentives to persuade more customers to adopt lower carbon heating solutions such as heat pumps. This could be in the form of the current Renewable Heat Incentive or a new approach such as a fossil fuel heating scrappage scheme which would help reduce the capital cost of the heat pump.
19. However, in the longer term, carbon intensity standards should be regulated and tightened, providing clear signals for heat manufacturers to innovate and develop affordable low carbon alternatives.
20. We agree with Ofgem's view that, if the provision of social tariffs were to be revisited, the future of WHD, which replaced social tariffs, would need to be considered in any decision-making process. Re-focusing the Winter Fuel Payments at the most vulnerable could provide a further £800m in support of ECO, WHD or social tariffs.

#### **Question 4**

##### ***Do you agree with our proposals for the first year of the strategy?***

21. Yes, we agree with the proposal. We would encourage Ofgem to also create a plan/timetable going out to 2025 for the other outcomes so that suppliers know what is expected of them and can more effectively plan, given the scale of some of the proposed changes particularly on data sharing.