

# Energy UK Response to Ofgem's Draft Consumer Vulnerability Strategy 2025

August 2019

## Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 680,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers around £84bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

This is a high-level industry response to Ofgem's draft Consumer Vulnerability Strategy 2025 (CVS); individual suppliers are also likely to submit their own responses. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

## Executive Summary

Energy UK welcomes the opportunity to respond to Ofgem's draft CVS, and is grateful for the engagement from Ofgem prior to publication.

We are pleased to see that Ofgem's priorities set out in the draft CVS are similar to the findings of the recently published Commission for Customers in Vulnerable Circumstances (CCVC) report, independently chaired by Lord Whitty, with Energy UK acting as secretariat. Energy UK agrees with the five priority themes set out in the CVS.

There are numerous examples of good practice currently operating in the market, as highlighted in the CCVC. For example, the Energy UK Safety Net - a voluntary code signed by the 6 largest suppliers with at its heart a promise to never knowingly disconnect a vulnerable customer for reasons of debt – which has had a significant impact on the decrease in disconnections.

It is important however to note that many of the innovative measures introduced by suppliers to support vulnerable customers predated the introduction of the price cap. Ofgem should take into account the impact of the Default Tariff Price Cap and Prepayment Meter (PPM) Price Cap on the ability of suppliers to offer services to customers in vulnerable circumstances. A relevant factor is the extent to which any proposals will drive further costs into suppliers' operating models, which will not be recoverable under the cap, as well as the cost to innovate.

The draft CVS also touches on the issue of affordability. Whilst Energy UK agrees that this is an issue that goes wider than just energy and is ultimately for Government to address, energy is still an essential service, therefore there is a role for suppliers and the regulator. We believe that Ofgem should explore in more detail the question of what the responsibility of energy suppliers is to those customers that simply do not have enough money to pay their energy bill, in particular their ongoing consumption. Suppliers are not responsible for customers' lack of income, and Ofgem should also therefore refer to BEIS' Fuel Poverty Strategy published on 23<sup>rd</sup> July 2019.

Energy UK also feels strongly that Ofgem should come forward with more detail on their planned approach to price comparison websites (PCWs) and third party Intermediaries (TPIs), with a focus on more effective regulation of them. An increasing number of customers use this approach to find an energy supplier, and so we would like to see Ofgem be clear on their position on a robust regulatory regime for PCWs. This is important as for example, some PCWs and TPIs do not consider the financial implications of a customer moving from a supplier who is part of the Warm Home Discount scheme to a supplier that isn't. Therefore, any cost savings can be wiped out by the fact the new supplier is not part of the scheme.

Also, Energy UK members welcome Ofgem recognising within the draft strategy that customers might not wish to be labelled as vulnerable. This is something our members have experienced first-hand during interactions with customers. While Ofgem does not intend to change their definition of vulnerable, we would encourage them to remain mindful of how the term can be interpreted now and in the future.

### **Specific Questions:**

#### **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)?**

Energy UK broadly agrees with the five priority themes and outcomes that Ofgem will aim for as set out in the CVS. We note the alignment between the themes identified by Ofgem and the findings of the CCVC.

We would like Ofgem to provide more detail around its plans on self-disconnection. There has been great progress made on disconnections for reasons of debt on credit meters, with Ofgem's most recent Vulnerability Report highlighting that there were only 17 disconnections for this in the UK last year. We would also highlight Energy UK's PPM principles that currently exist to provide additional protections for PPM customers, with 16 suppliers now signed up.

We do, however, recognise that the number of PPM customers self-disconnecting has not decreased in recent years, as borne out by a 2017 Citizens Advice survey on this, which stated that c.140,000 households self-disconnected. Of particular concern was that the survey found that only 9% of PPM customers who self-disconnected actually contacted their supplier. This, therefore, makes it hard for suppliers to actually be aware when a customer has self-disconnected, and means suppliers cannot offer the help and support the vast majority would like to.

It is important to recognise that there is no 'easy-fix' for this issue. With traditional PPMs suppliers have very limited information about customer behaviour based on vends, making it hard for suppliers to accurately monitor and identify self-disconnection and self-rationing. Based on what limited information they have at their disposal, suppliers then have to make difficult decisions about how and when to intervene in their customers' lives. We note that Smart PPMs will help suppliers to address these limitations. It should be noted however that self-disconnection can be a genuine choice in some cases, particularly gas in the summer and in holiday homes. Self-rationing can also be indicative behaviour of a customer simply seeking to be more energy efficient by reducing their consumption.

The CVS also does not currently distinguish between self-disconnection and self-rationing, which had previously been an area of focus for Ofgem, therefore it would be useful if Ofgem could offer more detail on this, and how self-rationing is defined.

It is important to note that a major factor as to why customers self-disconnect and self-ration is the wider issue of affordability, as Ofgem notes in the draft CVS. Suppliers are seeing more and more customers struggling to make ends meet. This is part of a wider discussion to be had around where responsibility lies. This is not simply an issue of energy prices or fuel poverty, but poverty more generally, and Ofgem, therefore, need to recognise this issue when considering self-disconnection and self-rationing. Within this are the problems that have been caused by the roll-out of Universal Credit, which highlight the wider role that Government has in this. We also note the role for improved energy efficiency, including better targeting of the ECO, as a long term, enduring solution to helping with the affordability of energy.

**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.**

Energy UK recognises that affordability is an issue that goes much further than just energy, and agrees that it is ultimately a matter for Government to address. However, as energy is an essential service there is still a role for both the regulator and suppliers, so we believe this is an area that Ofgem should still focus on.

Within this, there is a need to identify customers who won't pay rather than those that can't pay, and therefore a clearer indication of what the responsibility is of a supplier towards customers who simply cannot afford to pay for their energy. There is also an ongoing issue with unpaid gas and electric, defined by Energy UK and our members as an account where the collection process has been exhausted – the supplier can't execute a warrant, can't install a PPM, can't or won't disconnect due to policy reasons, and the customer has been in debt for over 90 days. Disconnection in theory can be an option but many suppliers have moved away from this for policy reasons. Energy UK are doing further work on this and will be submitting data to Ofgem soon.

The challenges that exist around affordability have placed an increased demand on debt advice services. The need to adequately fund these services risks creating a twofold cost for suppliers: firstly, through the initial cost of serving a customer who is in debt, and secondly through paying to fund advice services for indebted customers. This reinforces the importance of addressing the question of the degree of responsibility that energy suppliers should hold for those customers that simply do not have enough income to cover their energy bill.

We would like to see Ofgem and the Department for Work and Pensions (DWP) work together on the Third Party Deductions process, to review and remove any conflict between current obligations in the supply licence and the rules set out by DWP. This is specifically mentioned by Citizens Advice in its Supply and Demand report. The existing arrangements under Universal Credit, whereby Fuel Direct only operates as a debt repayment scheme rather than an ongoing payment scheme, risks making life more difficult for customers who would prefer to manage their finances through a more stable arrangement.

Ofgem should also focus on engaging with HMT on the proposed Breathing Space scheme in order to ensure the unique challenges faced by energy are incorporated in the policy and that it can be enforced.

**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?**

The CCVC came up with detailed recommendations for Ofgem as the energy regulator, a number of which Energy UK and our members agree with. We would like to see more detail from Ofgem as to whether they will commit to them and what further actions are being taken.

It is welcome that work is already underway by Ofgem which would meet some of the recommendations by the CCVC, such as reform of market entry requirements, making better use of powers to require information from suppliers as to how they will meet the needs of customers in vulnerable circumstances, and making key information more readily available. However, there remains two key recommendations from the CCVC that Energy UK believes Ofgem should focus their efforts on:

- Government and Ofgem should work together to ensure there is a robust and appropriate regulatory consumer protection regime in place for price comparison websites and automated switching services. – *Energy UK believe this a key recommendation, and would welcome further detail from Ofgem on their priorities for achieving this. Currently the CVS recognises the limits of PCWs but does not go into detail on further regulation, and we therefore do not believe what is currently in the CVS is enough. We would ask for more detail on Ofgem's position on a robust regulatory regime for PCWs.*
- Government and Ofgem should work together to ensure there is a robust and appropriate regulatory regime in place for all companies supplying domestic customers with energy. This includes district

heating, decentralised energy, heating oil, liquid petroleum gas (LPG) and solid fuels. – *A recently published Citizens Advice Report on this issue also came to a similar conclusion. Energy UK notes that the CVS mentions this by recognising that gas is typically the cheapest fuel for heating, and that those not connected to the gas network are more likely to be fuel poor. It also highlights the risk from the growth of heat networks. We would therefore call on Ofgem to ask Government to give them the power to regulate all fuels.*

**Question 4: Do you agree with our proposals for the first year of the strategy?**

Energy UK broadly agree with the proposals for the first year of the CVS but further detail would be useful. In particular, more detail on self-disconnection is needed, especially around whether self-rationing is still an area of interest for Ofgem, and what work will be done regarding traditional non-smart PPMs, where identification and monitoring is significantly harder.

We also are keen to point out that regulatory change being considered requires time to implement, especially where IT changes are required. Energy UK and our members would therefore like to see clear and realistic timescales laid out in the final strategy document.

Finally, as previously mentioned it is imperative that Ofgem recognise the pressure suppliers are under from the price caps currently in force. Energy UK and our members would like to see this reflected in further detail in the final version of the CVS. In particular, Ofgem want to see further innovation from suppliers, a point also made in the CCVC, however suppliers are keen to stress that this innovation ultimately costs money, and therefore there is a risk posed to this by price cap.

Energy UK members take their responsibilities towards customers in vulnerable circumstances seriously as shown by their engagement with the CCVC, and a commitment to take forward the recommendation of a new, independently monitored vulnerability Code of Conduct for energy suppliers.

**If you would like to discuss the above or any other related matters, please contact me directly on 0207 747 2957 or [tom.marsland@energy-uk.org.uk](mailto:tom.marsland@energy-uk.org.uk).**