

National Energy Action (NEA) response to Ofgem's Consultation "Proposals to improve outcomes for consumers who experience self-disconnection and self-rationing"



Action for Warm Homes

About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. To achieve this, we support the following Ofgem priorities:

- **Driving a step change in customer service for vulnerable groups and improving identification of vulnerability** by enhancing awareness of the Priority Services Register (PSR) and through our training courses, including "Identifying Fuel Poverty and Vulnerability", each year we train approximately 3,000 frontline staff, who will go on to help an estimated one million people
- **Encouraging positive and inclusive innovation through innovation projects** by ensuring exemplar network innovation projects are developed, disseminated fully and encouraging network companies to ensure fuel poor and vulnerable households directly benefit from these innovation competitions and allowances
- **Ensuring a fair and functioning energy market;** through regular engagement with Ofgem, NEA, alongside other consumer groups have helped secure key improvements³ in the treatment of low income and vulnerable households. Most recently, this has included pushing Ofgem to commit to refining their distributional analysis tools to ensure that their decisions are fair and equitable
- **Working with partners to tackle issues that cut across multiple sectors** within our project with Northumbrian Water to identify the options for jointly combating water and fuel poverty together, bringing learnings and insights across two essential services

Background to this response

Despite some limited, but welcome, progress⁴, cold, damp and unhealthy homes continue to cause shocking levels of unnecessary hardship and premature mortality. In 2017/18, excess winter deaths exceeded 50,000 across the UK, and NEA estimates that 17,000 people died because they were unable to keep adequately warm at a reasonable cost. On average, across the UK, at least 11,400 people die each year due to a cold home.⁵ Within the proposals Ofgem recognise self-disconnections and self-rationing are significant GB wide issues in the energy market, and NEA is pleased that Ofgem is looking to address the scale of self-disconnections and noted NEA's research on the impact it we fail to act⁶.

Summary of our response

NEA warmly welcomes Ofgem's consultation on self-disconnection and self-rationing. The proposals made in this consultation will undoubtedly have a material affect on the number of customers that self-disconnect and self-ration. They are broadly in line with a number of suggestions that NEA made within our response to the preceding "Prepayment Self-Disconnection and Self-Rationing: A Call for Evidence".

A key recommendation that NEA made in the call for evidence was for Ofgem to "address an unacceptably large variance in efforts to reduce the risk of self-disconnection and self-rationing across different energy suppliers depending on their size and capacity", and for Ofgem to "stress its willingness to regulate all licensees if voluntary attempts to encourage greater participation of industry-led protocols fail to reduce this variance". The proposals within the consultation to create new licence conditions for all suppliers reflecting the need to offer Emergency Credit, Discretionary Credit and to adhere to the ability to pay principles are all welcome and should lead to a more consistent provision of service across the industry. It is particularly important that once these new licence conditions have been created, Ofgem actively monitors adherence to them and takes action where there are compliance issues.

Although this marks good progress in reducing the number of self-disconnections, NEA is not satisfied that Ofgem is going far enough to reduce the number of self-disconnections and level of self-rationing. As we have previously stated in our response to the Ofgem Consumer Vulnerability Strategy 2025, there would be merit in Ofgem setting a challenging target to eliminate self-disconnections by the end of the strategy period (2025). In order to support this, Ofgem should also respond to the recommendations that NEA have previously outlined in our response to the CVS 2025 and call for evidence that preceded this consultation:

- Enhance monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- Investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy. Ofgem's work on updating network charging regimes must not create a negative distributional impact for electricity prepayment customers.
- Work with the CMA to extend the prepayment cap past 2020 to reflect the fact that the rollout will not have been substantively completed by this time
- Suppliers should be required to ensure that all customers have greater access to services to check benefits entitlements before debt repayment plans are agreed or signpost appropriate income maximisation services when repayment plans are reviewed.

In addition, to achieve the best outcomes for vulnerable customers and reduce the risk of self-disconnection and energy rationing, both Ofgem and the UK Government need to undertake key actions and must take every opportunity to work together. NEA recently welcomed the joint approach to the 'Flexible and Responsive Energy Retail Markets' which also presents a key opportunity to address critical issues which effect consumer protections and vulnerable customers. Above all, NEA stressed the need for the UK Government to ensure the Warm Home Discount scheme continues and how essential it is to extend the scheme past 2021. Without certainty over the future of the scheme, NEA (and a wide range of other organisations) will not be able to maintain our work to award grants, fuel debt advice and wider services which save lives. This is despite industry initiatives often providing better value for money than switching or even direct yearly rebates which are the main focus of the current programme. NEA also recommended the Warm Home Discount scheme should be expanded and reformed so that the broader group receive automatic payments in a similar way to the core group does. This can be achieved in a cost neutral way whilst protecting the vital support provided within industry initiatives. The Warm Home Discount and Energy Company Obligation supplier obligation thresholds should also be reduced further, with smaller suppliers carrying the whole obligation (unlike the current WHD obligation, where smaller suppliers only have the core group obligation). We are hope Ofgem will increase the flexibility within delivering the "industry initiative" part of the Warm Home Discount, something that will become much more important when all suppliers are obligated to deliver the scheme. Finally, there is an urgent need for Ofgem and the UK Government to develop a clear work stream on what protections will remain in place to support low income consumers that can't engage in the market once the market-wide cap is removed.

Our response to this consultation

Question 1: Do you agree with our proposal to require suppliers to identify prepayment self-disconnection and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

We agree with the proposal to identify prepayment self-disconnection and the associated proposed licence conditions. Ofgem should monitor the number of households identified as self-disconnecting on an ongoing basis in order to track the effectiveness of measures taken against self-disconnection, so that future decisions can be made as to whether further proposals need to be made to help prepayment customers who have not been able to top up their meter when it runs out of credit.

Question 2: Do you agree with our proposal to require suppliers to identify self-rationing and the associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

Whilst agreeing with the principle of this proposal and licence condition, NEA feels that the proposed definition in the licence condition is needlessly broad. The proposed definition of: "*When a Domestic Customer deliberately limits its [gas/electricity] use to save money for other areas*" could legitimately apply

to any household that who reduces their consumption in any way, be it through more energy efficiency appliances, a more thermally efficient house, or just following energy efficiency advice.

A more suitable description would relate the actual usage of the household to the expected usage of the household, based on best available data. This is especially important over winter, when heating might be used less than the required amount in order to keep a home adequately warm. This is explored in great detail in the BEIS special article “Comparison of theoretical energy consumption with actual usage”.

Question 3a: Do you agree with our proposal to require suppliers to offer emergency and friendly credit functions for all customers?

Question 3b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

Question 4a: Do you agree with our proposal to require suppliers to offer discretionary credit for customers in vulnerable circumstances?

Question 4b: Do you agree with our associated proposed licence conditions? Please refer to Appendix 1 for the draft licence conditions.

Question 5: Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence?

Yes. We agree with these proposals and the associated licence conditions. They should help to create a more consistent provision of service across the industry.

Question 6: Do you agree with our proposal to update the Ability to Pay principles to reflect changes in supplier debt recovery practices? Are there other changes that we should implement?

We welcome the intention to update the principles to reflect developments in the market. It is important that they are kept up to date. Suppliers should also be required to ensure that all customers have greater access to services to check benefits entitlements before debt repayment plans are agreed or signpost appropriate income maximisation services when repayment plans are reviewed. Although these areas would mark good progress in reducing the number of self-disconnections, NEA is not satisfied that Ofgem is going far enough to reduce the number of self-disconnections and level of self-rationing. As we have previously stated in our response to the Ofgem Consumer Vulnerability Strategy 2025, there would be merit in Ofgem setting a challenging target to eliminate self-disconnections by the end of the strategy period (2025). In order to do this, Ofgem should do a number of things that NEA have previously outlined in our response to the CVS 2025 and call for evidence that preceded this consultation:

- Enhancing monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- Investigating the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy. Ofgem's work on updating network charging regimes must not create a negative distributional impact for electricity prepayment customers.
- Working with the CMA to extend the prepayment cap past 2020 to reflect the fact that the rollout will not have been substantively completed by this time

These protections are particular important when responding to severe winter weather. NEA's research gathered feedback from agencies 'on the front line' during the 'Beast from the East'⁷. Our call for evidence sought to better understand the challenges brought by specific local conditions, identifying what worked well and where there are still clear gaps preventing suitable levels of support for those most at risk from seasonal variations or extreme temperatures. The main findings were as follows:

- There is a lack of local emergency sources of funding/risks now that crisis loans within local authorities are discretionary
- Large variance in cold weather planning and support households receive locally and nationally
- There is not enough visibility of support services provided nationally or locally and risks on relying on non-recurrent or supplier-led programmes
- Advice campaigns did not start early enough & lack of multi-channel or multilingual resources to provide guidance for coping with cold weather and where to go for support
- Cold weather payments did not prevent vulnerable households from slipping into crisis

- Little standardisation of emergency credit/fuel vouchers or extensions or variations offered to existing fuel debt repayment plans in such circumstances
- Variance in unregulated fuel sector in identifying consumers vulnerable to cold-related ill health and prioritising them for fuel deliveries

In response our UK wide recommendations, we noted the need for energy suppliers and local authorities to improve access to adequate emergency credit for pre-payment customers and crisis loans during severe cold weather and ensure oil and LPG sector do more to ensure the most vulnerable are not left without access to fuel during extreme cold weather. It is therefore critical that all suppliers are able to offer discretionary credit for customers in vulnerable circumstances. In addition, to achieve the best outcomes for vulnerable customers and reduce the risk of self-disconnection and energy rationing, both Ofgem and the UK Government need to undertake key actions and must take every opportunity to work together. NEA recently welcomed the joint approach to the 'Flexible and Responsive Energy Retail Markets' which also presents a key opportunity to address critical issues which effect consumer protections and vulnerable customers. Above all, NEA stressed the need for the UK Government to ensure the Warm Home Discount scheme continues and how essential it is to extend the scheme past 2021. Without certainty over the future of the scheme, NEA (and a wide range of other organisations) will not be able to maintain our work to award grants, fuel debt advice and wider services which save lives. This is despite industry initiatives often providing better value for money than switching or even direct yearly rebates which are the main focus of the current programme. NEA also recommended:

- The Warm Home Discount scheme should be expanded and reformed so that the broader group receive automatic payments in a similar way to the core group does. This can be achieved in a cost neutral way whilst protecting the vital support provided within industry initiatives.
- The Warm Home Discount and Energy Company Obligation supplier obligation thresholds should be reduced further, with smaller suppliers carrying the whole obligation (unlike the current WHD obligation, where smaller suppliers only have the core group obligation).
- Ofgem should increase the flexibility within delivering the "industry initiative" part of the Warm Home Discount, something that will become much more important when all suppliers are obligated to deliver the scheme.
- There is an urgent need for Ofgem and the UK Government to develop a clear work stream on what protections will remain in place to support low income consumers that can't engage in the market once the market-wide cap is removed.

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ NEA has worked closely with Ofgem and others to:

- Changes to warrant charges for vulnerable energy consumers
- Enhanced partnership working with network companies and energy suppliers to improve the Priority Services Register (PSR)
- Ofgem seeking to improve performance from suppliers to identify, respond to and prevent vulnerable consumers from falling into further debt
- New protections for consumers who receive back bills
- The RIIIO GD-2 framework has a focus on identifying and supporting customers in vulnerable situations;
- The CMA recommended a prepayment cost cap that is currently enforced and expanded through the safeguard tariff
- Successful implementation of the default tariff price cap with extra protections for those receiving WHD.

⁴ The fuel poverty statistics show that in 2015 (at the beginning of the strategy), 7.8% of fuel poor households were in EPC band C. The latest data (2017) puts this figure at 10%. This equates to an approximate increase of 60,000 households. For more information, please see the annual reports found at <https://www.gov.uk/government/collections/fuel-poverty-statistics>

⁵ NEA's recent joint briefing with E3G highlighted the UK has the sixth-worst long-term rate of excess winter mortality out of 30 European countries. Over the last five years there has been an average of 38,000 excess winter deaths in the UK every year. Of these, 11,458 die due to a cold home – approximately the same as the number of people who die from breast or prostate cancer each year. The new analysis was released on Fuel Poverty Awareness Day the national day highlighting the problems faced by those struggling to keep warm in their homes. To read the press release and the full copy of the report visit: <http://www.nea.org.uk/media/news/230218/>

⁶ <https://www.nea.org.uk/campaigns-policy/wash-campaign/top-10-coping-strategies/>.

⁷ The report can be downloaded here: <http://www.nea.org.uk/wp-content/uploads/2018/09/UK-FPM-2018.pdf> PR here: <https://www.nea.org.uk/media/news/new-report-reveals-deadly-impact-beast-east-left-health-social-care-services-creaking-seams/> and the video can be viewed here: <https://spark.adobe.com/video/7diMNaCLfOPaG>.