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Making a positive difference
for energy consumers

NICE Public Health Advisory
Committee on Excess Winter
Deaths and Morbidity
National Institute for Health and
Care Excellence
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Dear Sirs

Ofgem expert testimony for the Public Health Advisory Committee - Excess winter deaths and morbidity, and the health risks associated with cold homes

Purpose and scope

This letter provides a summary of the expert testimony to be provided by Philip Cullum (Partner, Consumer and Demand Side Insight, Ofgem) at the meeting of the Public Health Advisory Committee – Excess winter deaths and morbidity on 1 April.

As requested, the summary provides an overview of our Consumer Vulnerability Strategy, along with details of our disconnections approach and the Priority Services Register (PSR). It also describes the social obligations placed on energy network companies.

Ofgem has a duty to do all it can to meet the government's target to eradicate fuel poverty, but our role in this area is limited to certain aspects – particularly making the market work as well as possible so that prices are kept down, consumer protection, and the provision of particular services. Other matters, such as bill support for consumers and energy efficiency policy, are primarily for government. As you will know, Decc is presently developing its fuel poverty strategy.

Ofgem's principal objective and duties

Our principal statutory objective is to protect current and future consumers. In fulfilling this, we recognise that some consumers need specific consideration because they have particular needs or may be in situations that make them vulnerable. Our statutory duties require us to have regard to those:

- who are disabled or chronically sick
- of pensionable age
- with low incomes
- residing in rural areas

However, we are also able to take into account the specific needs of other groups of consumers.

We are active in working to protect vulnerable consumers. In 2005 we established a Social Action Strategy and we built on this in 2013 when we established our Consumer Vulnerability Strategy.

As an evidence-based body with a consumer objective, we undertake a large amount of consumer research. Our Retail Market Review was for example underpinned by 20 consumer research projects, including important strands of work with disengaged, vulnerable customers – this programme of work was a finalist in the Market Research Society Awards last year.

Our new Impact Assessment guidance commits us to putting in place new ways of assessing the distributional impact of policy proposals. Last year we commissioned a report from the Centre for Sustainable Energy, setting out twelve household 'archetypes', to aid our consideration of more than the 'average' consumer.

Our Consumer Vulnerability Strategy

The overarching objective of our Consumer Vulnerability Strategy is to identify and understand the causes of vulnerable situations in the energy market and to reduce the likelihood and impact of such situations. It provides a framework for how energy companies identify and respond to vulnerability. We expect them to embed consideration of vulnerability into the design and delivery of their products and services.

The Strategy recognises that vulnerability can be complex, multi-dimensional and transitory. It is not just about the individual and it can be exacerbated by the market. Our definition of vulnerability is when a consumer's personal circumstances and characteristics combine with aspects of the market to create situation where he or she is:

- significantly less able than a typical consumer to protect or represent his or interest in the energy market or
- significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial.

In itself, the strategy does not place any new rules or requirements on the energy companies. We have, however, put in place a work programme which allows us to learn more about company practices, share best practice and review and develop regulatory obligations as appropriate. This work programme is spans across five themes:

- Take account of vulnerability across our work and be informed by research and insight.
- Promote best practice amongst suppliers and distributors.
- Develop targeted and effective regulatory obligations.
- Prompt innovation in the provision of advice and support.
- Use our expertise and work with others.

We are currently undertaking work to identify best practice in approaches to dealing with consumers in vulnerable situations. We expect to hold a workshop with suppliers and consumer groups to discuss best practice and to report on outcomes. Over the coming months we expect to set up a network of frontline organisations to inform our ongoing Consumer Vulnerability Strategy work.

We publish our Social Obligations Report, an authoritative assessment of debt and disconnection, every six months. We are currently undertaking reviews of the Debt Assignment Protocol, which enables pre-payment meter customers in debt to switch supplier, and the Priority Services Register. We are also undertaking some analysis on affordability, looking at how spending on energy by different kinds of households has canged in recent decades. This will feed into a project by the new UK Regulators Network, which covers nine economc regulators including Ofgem.

Empowering customers

In our Retail Market Review reforms we recognise that significant barriers prevented consumers from engaging with the energy market – tariff options were complex,

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information provided to consumers was poor and consumers have low levels of trust in energy suppliers. This in turn reduced competitive pressure in the market. We have consulted extensively on how to improve consumer engagement in the market and our reforms will ensure that consumers receive simpler and clearer information to indicate that alternative tariffs exist, help them to understand what their options are, and that they can expect fairer treatment from energy suppliers.

We believe these reforms will benefit all consumers and will prompt the vulnerable and disengaged to engage and shop around for their energy. It will also greatly reduce the scope for cherry-picking of more affluent and engaged consumers and make clear differentials between payment methods. In addition consumers will automatically be moved off old uncompetitive 'dead tariffs' and told if their supplier has a cheaper deal. Our Market Cheapest Deal Project is currently considering what more we can do to help vulnerable and disengaged consumers get the best energy deal for them.

Debt and disconnection

Due to increased pressure on suppliers, from Ofgem and others, to find alternative solutions to disconnection the number of disconnections for debt undertaken by suppliers has fallen significantly in recent years. There were around 5,000 electricity and gas disconnections for debt in 2006. By 2012, this figure had fallen by 90 per cent to 557 disconnections.

Under their supply licence conditions, suppliers are required to take account of the needs of customers who are experiencing difficulty paying their energy bills. They require that customers be allowed to repay outstanding charges by instalment and that suppliers are proactive in establishing the customer's ability to pay and to take account of this when setting instalment amounts and agreeing a payment method. Suppliers are also required to ensure that customers understand their arrangements and to monitor the suitability of arrangements after they have been set up.

Winter moratorium and the Energy UK Safety Net

When a customer is in debt, suppliers should only disconnect as a last resort. During winter (October to March) suppliers are prohibited from knowingly disconnecting customers of pensionable age (where they live alone, with other pensioners or with children) for debt. Suppliers must also take all reasonable steps during winter to avoid disconnecting premises for debt where the occupants include a person who has a disability or a chronic sickness or a person of pensionable age.

The six largest suppliers are signatories to a voluntary code of practice known as the Energy UK Safety Net. Among other protections, this prevents the disconnection of vulnerable customers at any time of year. If a customer is disconnected and later identified to be vulnerable the Safety Net commits that they will be reconnected as a priority and usually within 24 hours. Compliance with the Safety Net is independently audited. While they are not currently signatories to the Safety Net, some smaller suppliers have made similar commitments not to disconnect consumers they believe to be vulnerable.

Prepayment meters

Our research[1] has found that many customers like PPMs because they help them budget and avoid debt. The costs of paying by PPM are now very similar to paying by cash or cheque on receipt of the bill, although direct debit remains cheaper. Our regulations require that any differences in costs between payment types reflect only the costs associated with the payment type.

[1] https://www.ofgem.gov.uk/ofgem-publications/57566/ofgem-panel-workshop-2.3-report.pdf

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The Debt Assignment Protocol (DAP) exists to allow PPM customers with a debt of up to £500 to participate in the competitive market and switch to the cheapest prepayment deal for them. Few people successfully use the DAP, however, and we are currently considering how this can be improved.

As the number of disconnections for debt has fallen, we have seen an increase in the number of prepayment meters (PPM) fitted to recover debt. In 2012 approximately 26 per cent more PPMs were fitted for debt than in 2006.[2]

Priority Services

Each domestic supplier has a licence obligation to maintain a Priority Services Register (PSR). The PSR is a list of customers who are of pensionable age, have a disability or a chronic sickness and have asked to be added to the PSR. Suppliers must provide advice and information, free of charge, on the free services available to PSR customers and they must tell all of their customers about their PSR at least once a year. The free services that suppliers must provide to PSR customers on request include:

- quarterly meter readings where the customer is not able to read the meter
- a password to be used by any person acting on behalf of the supplier
- meter relocation if the customer cannot easily access their meter
- the provision of bills and information relating to the customer's account in an accessible format for blind, partially sighted, deaf or hearing-impaired customers
- Bill and account information redirection to a nominated person.

Some suppliers also use their PSRs to help target other forms of assistance such as energy efficiency advice.

In 2012, approximately nine per cent of GB electricity customers and seven per cent of GB gas customers were listed on their supplier's PSR. Although the number of customers on suppliers' PSRs has risen in recent years, we are concerned that take-up of priority services remains low and that it varies significantly between suppliers. As part of our Consumer Vulnerability Strategy work programme we are currently reviewing the services provided under the PSR and how take-up and targeting of the PSR can be improved. We have already undertaken some consumer research into the PSR and have committed to publishing a full review by June 2014.

Network companies' social obligations

Electricity Distribution Network Operators (DNOs) have a licence obligation to maintain a Priority Service Register (PSR). This PSR should capture information on any customers attached to their network that are vulnerable to supply interruptions.

In the event of a supply interruption, DNOs must provide PSR customers with advice, guidance and support. Gas Distribution Networks (GDNs) use the PSRs maintained by gas suppliers. During longer gas supply interruptions, GDNs must provide PSR customers with alternative heating and cooking facilities.

As part of our review into PSRs we are looking at whether there are opportunities to improve the effectiveness of the PSR by improving coordination across the energy industry.

We consider networks should adopt a strategic approach to addressing consumer vulnerability, with emphasis on joint working with a range of stakeholders across industry, government and other agencies. For example, DNOs may have a role to play in identifying these customers and enabling access to more affordable energy solutions that reduce their financial burden. All networks are incentivised to engage with broad and inclusive range of stakeholders as part of our Stakeholder Engagement Incentive. For the next electricity

[2] Approximately 212,000 electricity PPMs and 208,000 gas PPMs were fitted for debt in 2012.

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price control we have increased the size of the Stakeholder Incentive reward specifically to reward social outputs.

The GDNs' price control settlement provides funding for them to extend the gas network to fuel poor communities. GDNs are also incentivised through the RIIO-GD1 price control arrangements to adopt a strategic approach to fuel poverty that consider a wide range of options, to identify the most cost-effective solution for consumers. We have also prompted consideration of innovative ways of supporting consumers who are off the gas network in the current electricity distribution price control review.

Yours faithfully

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