



## Committee on Fuel Poverty

7<sup>th</sup> August 2019

### **Committee on Fuel Poverty Response to Ofgem's Consultation on its Draft Consumer Vulnerability Strategy 2025**

The Committee on Fuel Poverty (CFP) is an Advisory Non-Departmental Public Body sponsored by the Department for Business, Energy and Industrial Strategy (BEIS). Its role is to advise the Government on tackling fuel poverty in England.

The Committee on Fuel Poverty welcome the opportunity to comment on Ofgem's Draft Consumer Vulnerability Strategy and can confirm that we are happy for our response to be made public. The answers to consultation questions are listed 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)?**

The CFP agree with the 5 priority themes and the general approach to focusing on outcomes. As a general point the CFP believe that the outcomes should deliver what customers can rightly expect or indeed exceed expectations. Quite rightly Ofgem acknowledge complexities of addressing vulnerability and recognise that there are many strands needed to fulfil the outcomes they wish to achieve.

All outcomes should be tangible and measurable and monitoring/reporting mechanisms are designed to ensure the outcomes are achieved within reasonable timescales. Some of the proposed outcomes are vague at this stage but during the consultation phase it will be important to hone these with insights from consumer representative groups.

Considering each of the priorities below:

- **Identification** - Ofgem should encourage innovation in improving the identification of vulnerable customers and circumstances which make customers vulnerable within the energy system. There is clearly an opportunity for better data sharing between agencies, and we welcome the greater sharing of data between utilities for the PSR, however some trials have shown that data is not always reliable and GDPR can present barriers – e.g. consumer consent.
- **Supporting those who find it difficult to pay their bills** - self disconnection has been an issue for some time and it is right that Ofgem focus on this issue. However, the CFP also flag that self-rationing by customers not on PPMs, and less easily identifiable, may result in the same impact and that rationing of energy should be investigated and addressed.

- **Better Customer Service** – the CFP believe that ensuring good customer service for all customers is an important goal and offering services that address the needs of people who are in vulnerable situations that improve access to the benefits of the market, that help them avoid wasting energy and have more affordable energy bills is an important role for the energy companies and Ofgem. The CFP are pleased to see the acknowledgement that vulnerable groups face multiple barriers to adequately engaging with the energy market options to reduce energy costs. A requirement to improve access and engagement would be welcomed.
- **Innovation** – resourcing innovation to ensure no customers are left behind during the transition to a zero-carbon energy system must be a priority for the energy industry and Ofgem. There are a number of issues to be actively considered including:
  - how new technology is adopted and paid for and whether there is equal access to all users and how the costs are shared by all consumers.
  - the movement in time to more fixed distribution charges and how this will impact low energy users – many of whom will be fuel poor.
  - achieving net zero carbon will be costly and costs should be distributed fairly.
  - how AI might impact vulnerable customers who may be more identifiable (and result in either more or less favourable treatment).
- **Partnerships** – the CFP look forward to working with Ofgem on how it can help address the specific needs of people living in fuel poverty that are in line with both the regulator’s duties and the Government’s policies and statutory duties. The Government is consulting on its fuel poverty strategy and there is an opportunity to better align efforts to meet the fuel poverty targets and wider vulnerability outcomes. Some of the existing policy mechanisms designed to address fuel poverty under the existing definition are poorly targeted (including the Warm Homes Discount rebates) but are consistent with the need to address wider distributional issues. Proper scrutiny of Ofgem’s strategy should take place alongside increased parliamentary scrutiny of the Government’s fuel poverty strategy to ensure better alignment, cost effectiveness and efficiencies where there are shared outcomes. The CFP have also received the report by the Commission on Vulnerable Customers and the CFP support their approach to partnerships to deal with the complex needs of many vulnerable customers. They offer good examples of effective schemes between charities/local authorities and suppliers and Ofgem can assist in profiling good practice.
- **Ensuring a solid framework for evaluating the impact of Ofgem’s decisions on the strategy** is also welcomed by the CFP. The CFP are aware that historically Ofgem have not done full assessments of all their policy decisions on distributional impacts. Both quantitative and qualitative evaluation exercises should be conducted to measure the success of the strategy.

**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.**

- Ofgem's proposal to be more active in enforcing customers' ability to pay when negotiating debt recovery plans is welcomed by the CFP.
- More generally however, the CFP agree that the issue of affordability is a matter for Government. Incomes policy and housing standards are rightly a matter for Government as these are the two other important factors impacting fuel poverty in addition to access to fair tariffs and energy bill discounts via energy market mechanisms.
- Whilst governments since 2012 have relied on market mechanisms alone for energy efficiency improvements to address fuel poverty in England, there is a need to increase the amount of funding available both from these mechanisms and through central government funding.
- Increased digitalisation will pose new challenges to the millions of customers who lack access to the internet or have the skills to do so. There needs to be a wider societal debate about how to ensure no one is left behind.
- The CFP believe that the price cap is a fairly blunt instrument and some more tailored approaches will be needed to ensure the needs of different customer groups are fully met – for example, mandated tariff structures for low income high users with a high fuel poverty gap – but the design of these mechanisms and implementation may not be easy to administer. We note that the price cap was only ever meant to be a temporary measure and when this ends some continuing support mechanism such as social tariffs will be required for the most financially vulnerable households.
- The CFP believe that Ofgem should encourage companies to align debt repayment programmes with support for energy efficiency to ensure a more sustainable way of avoiding future debt and successfully coming of debt repayment plans. This would help provide a future sustainable reduction in their energy needs and lower the risks of going back into debt.

**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 CFP would urge Ofgem to consider the introduction of social tariffs where market mechanisms are failing to properly protect vulnerable and low-income consumers. Some of the existing policies are not well targeted.
- Ofgem must ensure that any new entrants are fully able to deal with the needs of vulnerable customers and have the resources and mechanisms in place to do so prior to receiving an operating licence. The regulator must enforce standards and take swift action where companies fail to deliver high service standards to vulnerable customers, either through General Standards of Performance by the distribution companies or codes of practice by the suppliers

- The needs of vulnerable customers must be considered in any new business models for the supply of energy to avoid putting them into or at risk of fuel poverty.
- There should be better alignment between obligations placed on energy suppliers and network operators to help households in fuel poverty – for example ECO and the gas network extension scheme. A more progressive approach might include the combination of central government funding with energy company resources/levies that is centrally administered to help meet the needs of vulnerable customers through the transition to a zero-carbon future. Reforms of the WHD and ECO post 2021 and 2022 (respectively) will require Ofgem to consider how these market mechanisms might better align with other energy efficiency and fuel poverty schemes to better target those that are living in the deepest levels fuel poverty.
- Regulation of heat networks and third-party intermediaries/aggregators should be introduced under new market arrangements to protect customers who are unable to access the competitive market or who are at risk from being confused by bundling of tariffs.
- Distortions or unintended consequences in the market may arise, that require additional regulatory intervention as new infrastructure and other costs are passed through to customers linked, for example, to the roll out of electric vehicles, flexible charging etc.
- Alignment with other essential services regulators will help ensure there are common standards and to share best practise between sectors.
- In considering whether obligations are placed on network companies rather than suppliers, Ofgem must be very clear about how any change will benefit the target beneficiaries. There will be pros and cons to any change but better alignment of objectives that are both deliverable and meaningful is possible.

For any further comments, please get in touch with the Committee using the details below.

### **Committee on Fuel Poverty**

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CFP Gov.uk webpage: <https://www.gov.uk/government/organisations/committee-on-fuel-poverty>