Department for
Business, Energy
& Industrial Strategy

Flexible and Responsive Energy Retail Markets

Summary of Consultation Responses

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1. Introduction

On 22nd July 2019, BEIS and Ofgem launched a joint consultation on flexible and responsive energy markets to investigate what policy, legal and regulatory changes might be needed to ensure that the energy retail market is fit for the future. This consultation presented initial proposals aimed at delivering the transition to a new energy system that contributes towards the UK achieving Net Zero by 2050. The new system should fully harness the power of competition, drive continual innovation, be fair, safeguard the most vulnerable and deliver clean, affordable energy consistent with our climate goals. The review aims to enable the ‘energy transition’ – the shift from a traditional energy system based on fossil fuels, to a low carbon, smarter, electrified system.

We focused our consultation to consider:

- How the regulatory framework could be changed to facilitate the launch of products and services that may be frustrated today, and which support decarbonisation;
- Potential market distortions and where implementing reforms could improve the functioning of the retail market as a dynamic and competitive sector;
- How the retail market can deliver a good deal for all consumers as they should not face excessive prices and should receive a good level of service.

Both BEIS and Ofgem were keen to understand how best to progress with potential reforms and aimed to inform stakeholders on the state of our current thinking, presenting options for discussion. Stakeholders were also provided with an opportunity to provide their views and evidence to the questions posed. This consultation ran for 8 weeks and closed on the 16th September 2019.

A total of 60 responses were received from stakeholders, including large and small suppliers, industry groups, and consumer groups, among others. A general summary of the prevailing views provided by these stakeholders can be found under consultation question 1 of this document. The responses published by Ofgem can be found at this link: https://www.ofgem.gov.uk/system/files/docs/2020/01/stakeholder_consultation_responses_-_future_energy_retail_market_review_3.zip.

This document provides a summary of the evidence provided and views expressed by the respondents to this consultation. The Government will take these views forward through the development of a second consultation which will assist in further progressing the review.

2. Summary of Responses

2.1 Vision for the future of the energy retail market

Consultation question:

1. Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

Summary of responses

56 respondents answered this question directly. Of these, 48 were in broad agreement with the vision of the energy retail market that had been set out in the consultation. However, a number of respondents felt that some areas needed attention. 4 did not respond to the question.

There was general agreement amongst respondents that a future retail market must decarbonise and embrace the benefits of flexibility, while ensuring fair prices and appropriate safeguards, especially for consumers in vulnerable situations. Some responses suggested we build on the successes of the supplier hub model, as they felt the end-consumer is insulated from complexity and risk through a single supplier relationship.

Multiple respondents suggested that we should include 'decarbonisation' in our list of key outcomes and challenges, to recognise the 2050 Net Zero commitment. Respondents noted the urgency of this challenge and argued that consumer confidence and support will be vital to achieving it. They noted that the energy system needs to provide consumers with the incentives to use energy in a way that is consistent with our decarbonisation targets. Many argued this will need to be facilitated by customer trust in the businesses involved in providing their energy supply in the future market. Some respondents noted that 'green tariffs' may not reflect effective transparency to customers about the environmental impact of their consumption and tariff choices.

Several respondents argued that consumers do not necessarily want choice or that providing more choice does not lead to better outcomes, and that allowing customers to take advantage of opportunities does not mean that they will do so.

A wide range of respondents suggested that the Government and Ofgem should be clearer on the intended timetable for achieving our outcomes. One respondent commented that our longer-term proposals are vague and others expressed that they would like to see more defined criteria for determining and measuring the successful delivery of our target outcomes. Two respondents suggested that while they agreed with the phased approach, it is important to do what we can in a shorter timeframe and ensure that actions that can be taken now are enacted swiftly. An additional respondent suggested that an incremental approach to reform is unhelpful.

Several respondents suggested that the scope of the review is too narrow and lacked a whole system view of the needs and costs of an energy system transformation. Others believed that our vision had too great an emphasis on price.

Some respondents suggested that the Government should ensure there is a consistent vision across various workstreams and reviews, for example, Codes, Data Taskforce, Smart Data Review; as well as other departmental reviews such as the Department for Culture Media and Sport's proposed implementation of the European Electronic Communication Code Directive (EECC), which would see Ofcom have regulatory oversight over some bundled products with certain communication services.

There was broad agreement from respondents for regulatory simplicity, although some argued that this should not come at the cost of consumer protection. One respondent felt that the review did not look to simplify the energy market upstream of supply and reduce cost and complexity by reducing the number of counterparties in the market. There was also a consensus that regulation should look to simplify the consumer experience. However, one respondent mentioned that before we undertake significant market reforms, consideration needs to be given to whether it is realistically possible to simultaneously allow easy access/development of smart technologies, whilst at the same time maintaining a level playing field.

2.2 The regulatory framework: facilitating consumer choice

Consultation question:

2. Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?

Summary of responses

33 respondents directly answered this question. There was a clear divide amongst respondents with roughly half feeling that the regulatory framework does form a barrier, and a similar number contesting that it does not.

Some of the primary examples of innovations being blocked provided by respondents related to the ability to offer long-term contracts for energy products bundled with physical installations, and peer-to-peer and community energy. It was argued that there was a need to ensure that regulations blocking innovations are doing so for a valid reason and ensure that consumers still have adequate protection.

Some respondents argued that the primary barriers were financial, rather than regulatory. A number of respondents also stated that the main barrier to the development of demand management solutions is network charging, not the regulatory framework for the retail market.

Consultation question:

3. Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?

Summary of responses

40 respondents answered this directly, with a wide range of concerns raised. Many respondents cited multiple issues and risks and interactions with other policy areas.

Some responses identified the challenge of ensuring the ability to compare products as offerings become more complex. There were calls to broaden comparison parameters, for example, to include customer service.

Respondents also raised concerns about the impact of auto-switching services if consumers have delegated product comparison and choice, as they may be switched to an unsuitable product or provider. They believed that consumers may also become complacent, inactive and disengaged.

Greater clarity on who is ultimately responsible was called for by some respondents. This included complications from potential reforms that displace suppliers as the consumer's primary contact. Respondents also suggested that lessons should be learned from supplier failures.

Consultation question:

4. Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?

Summary of responses

38 respondents directly answered the question. Around half of respondents saw value in more specialisation in the market, particularly in relation to local energy.

Some respondents from the non-domestic sector stated that the lack of a Universal Service Obligation (USO) was beneficial for innovation and specialisation. Some respondents also suggested that the USO should be implemented differently to allow for more specialisation, for example, by tendering the obligation, or allowing exceptions where a supplier provides appropriate justification. However, many respondents, including some of those in favour of greater specialisation, flagged possible side-effects and unintended consequences. Concerns were raised that regulatory reforms to enable specialisation could result in 'cherry-picking' and disadvantageous outcomes for lower-income or other consumers in vulnerable circumstances.

Those respondents who were against any changes to the USO, generally argued that specialisation is already possible under the existing framework through targeted marketing strategies, or geographically-restricted licences.

Consultation question:

5. Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?

Summary of responses

40 respondents provided a clear position in response to this question: 13 responses preferred incremental reform; 9 favoured a hybrid of shorter-term incremental reforms leading to longer-term more fundamental reform; and 18 responses favoured more standalone fundamental reforms.

There was general agreement among respondents that any market should, irrespective of the regulatory mechanism, ensure that market participants performing comparable functions face comparable levels of accountability and regulatory burdens. A significant number of respondents also suggested that the regulatory framework should deliver the scale and pace of net-zero carbon transition whilst being enduring, adaptable and supportive of innovation. Several respondents advocated greater reliance on general consumer protection powers over increased sectoral powers except where a specific need was identified.

Respondents in favour of incremental changes cited it as a preferential way to evolve complementary market requirements, especially if undertaken in the format of a Significant Code Review, giving businesses time to adjust. Utilising the regulatory sandbox approach to test possible changes was also mentioned. Other respondents suggested that incremental change was needed to accommodate significant uncertainty regarding the desired future market end state and to mitigate potential unintended consequences.

Respondents also cited concerns over the need for, the proportionality of, and the riskiness of more fundamental reforms. They suggested these reforms could undermine incremental changes already in train and create significant market uncertainty. Responses cited the challenge of ensuring alignment and consistency between industry codes and any fundamental reforms, and the potential lack of a single access point for customers.

Several respondents were in favour of developing interim regulatory requirements to address market distortions in the short to medium term while more fundamental reforms were developed for the medium to long term. This included for example, a general authorisation regime or third-party licensing arrangement to sit alongside the current supply licence obligations.

Respondents in favour of fundamental market reform in the shorter to medium term cited this as a singular opportunity to foster innovation, deliver digitisation benefits to consumers, promote cross-sectoral alignment, and aid the low carbon transition. Representations also detailed concerns with the market uncertainty associated with piecemeal incremental changes and suggested that the required scale and pace of the low carbon transition could only be delivered by fundamental reform. Several respondents highlighted issues with the instability and complexity of the current regulatory framework, which incremental changes could exacerbate.

2.3 Tackling distortions and complexity in supplier obligations and responsibilities

Consultation question:

6. Are there any other potential market distortions we should be considering as part of our review?

Summary of responses

30 respondents answered this question and stated there were other potential market distortions that need to be considered in this review. There were 30 specific distortions identified across 28 responses, and these fell into five broad categories.

The first category identified was consumer. Respondents noted a number of potential market distortions in this category, including: the uneven distribution of consumers at a high risk of indebtedness and of higher cost-to-serve consumers across the supplier base; and the levels of technological engagement, for example, restricted online access.

The second category identified was regulatory. Respondents noted a significant number of potential market distortions in this category. These included the lack of cross-sectoral regulation, and of a common redress regime. Also mentioned by respondents were supplier exemption thresholds (including equivalent cost recovery mechanisms), exemptions to policy costs, for example energy intensive industries, and associated obligations around: smart meter deployment; reporting obligations; tariffs for restricted meters; and payment type exceptions. Other regulatory distortions posed by respondents included: inconsistent enforcement of suppliers' obligations; market access independent of network operator; the lack of a consistent regulatory regime which is independent of licensing status; recent interventions in the microbusiness sector.

Technical distortions made up the third category. Respondents argued that sectoral governance arrangements for access to data (big data, anonymised and aggregated), and interaction and integration with cross-sectoral data access could create a potential market distortion.

The fourth category consisted of potential financial distortions. A number of areas were identified by respondents, which included: over collateralisation of the retail market; the increasing difficulty forecasting non-commodity costs, for example Contracts for Difference (CfD), Capacity Market (CM) and Renewables Obligation (RO); restrictions on embedded generators accessing embedded benefits in exporting Grid Supply Points (GSPs); embedded generation consumers reducing their payment share of policy levies; and distorted price signals for high cost-to-serve consumers through suppliers' charges relating to non-half hourly settlement performance. Some respondents also identified more fundamental and significant distortions that arise from the Supplier of Last Resort's (SoLR) mutualisation approach, and the unsecured collection of industry levies, for example RO, and Feed In Tariffs (FIT) and Energy Company Obligation (ECO).

The final category of potential distortions related to desired behaviours. Respondents highlighted a number of distortions, which included: the patchwork of fiscal interventions (changes to VAT regime, unaccounted externalities, value of true real time underlying system value not priced) which dulls the market signals for desired investment and behaviours; levying policy costs on electricity rather than gas or via general taxation which disincentivises energy efficiency investment and decarbonisation. Respondents similarly identified that residential energy storage is disincentivised by the import charging regime. It was also suggested that future market distortion may arise if participants have significant flexibility in the manner in which they achieve mandated zero carbon targets.

Consultation question:

7. Would removing the thresholds for the Energy Company Obligation and Warm Home Discount help remove imbalances in the retail market, and could this be done without significantly increasing barriers to supplier entry or expansion in the retail market?

Summary of responses

31 respondents answered this question. A majority agreed with the core argument that removing the thresholds for the Energy Company Obligation (ECO) and Warm Home Discount (WHD) would help remove imbalances in the retail market.

Many respondents agreed that reforms, such as the ability to use Department for Work and Pensions data-matching for WHD, would be necessary to ensure this did not present a disproportionate burden for small suppliers. Several respondents noted that removing the threshold for WHD would have additional benefits for consumers, since this would reduce the risk that switching supplier would cause a household to lose their WHD.

A small number of respondents disagreed with the consultation position, arguing that small suppliers face substantially higher upfront costs for participating in the schemes, and exemptions are necessary to avoid them.

Several respondents argued that the best solution to avoid these distortions would be to transfer the responsibility of funding and delivery of both schemes from suppliers to, for example, general taxation or local authorities.

Consultation question:

8. How could the delivery burden on suppliers from the Energy Company Obligation be reduced, for example through the introduction of a buyout mechanism?

Summary of responses

27 respondents engaged with this question, with a variety of suggestions for how the Energy Company Obligation scheme (ECO) could be reformed to reduce the delivery burden on suppliers.

Many respondents agreed with the introduction of a buy-out facility for small suppliers, an auction mechanism for delivery, or a combination of the two. Many suggested that our ambition should be to convert the scheme to a 'levy' arrangement, with delivery having no direct link to the retail market. They argued this would allow non-suppliers to deliver energy efficiency measures directly where they are able to do so more efficiently. Some respondents argued that a buy-out mechanism alone could pose risks to the delivery of the scheme, should a significant proportion of suppliers choose the buy-out.

Some respondents were of the opinion that the current trade and transfer mechanisms with ECO 3 work well, and that any future reforms should follow a similar model, with delivery being limited to licensed suppliers, who can be held responsible for under-delivery and are well-placed to understand the household energy market.

Some respondents also suggested that the ECO would better sit with distribution companies, rather than suppliers, or should be funded through general taxation.

Consultation question:

9. What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

Summary of responses

35 respondents answered this question, with many of them noting that the main impact of Energy and Climate Change Policy Levies is the direct impact of increasing prices. Many of these respondents suggested that this was a regressive way of funding policy, with negative impacts on those on low incomes, and those reliant on electric heat sources in particular.

One common argument amongst respondents was that a key impact of levies is to distort consumer choices, since they do not reflect the carbon costs of energy. Examples included: distorting the choice between gas and electric sources of heat; and incentives for businesses and households to go ‘behind the meter’. Other respondents noted that levies also distort choices over when electricity is consumed as the majority are levied independent of how carbon intensive generation is at a given time. Some respondents noted that the existing arrangements inhibit the development of storage to grid solutions, since this could lead to levies being raised on the same unit of energy twice.

Many respondents argued that the mutualisation mechanisms within several policy schemes, most notably the Renewables Obligation, distort the market by encouraging irresponsible behaviour by some suppliers and increasing the risk exposure of responsible suppliers.

Some respondents suggested that some levies represent a significant administrative burden, particularly for new entrants. There was a particular focus on the difficulty of forecasting levy costs.

Consultation question:

10. What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?

Summary of responses

33 respondents directly answered this question, with two respondents providing an answer in the previous question.

There was a widespread view amongst respondents that all Energy and Climate Change Policy Levies should be removed from the retail market, and that policies should be funded through general taxation. Several respondents argued that support for financially vulnerable customers should be tied to the magnitude of policy costs, or that such customers should be exempted from paying policy costs, in order to reduce any regressive impact. One respondent suggested that industrial consumers should be fully exempt from policy levies referred to as ‘legacy’ in the Cost of Energy Review (CoER). A number of respondents argued that greater government transparency, including distributional analysis of existing and planned levies, was important.

Many respondents suggested that the cost differences between gas and electricity should be rebalanced to achieve parity, or that recovery should become more granular and closely related to the carbon intensity of the relevant energy.

Respondents provided a range of suggestions for how the cost of mutualisation could be removed. These included: more strict and rapid enforcement action from Ofgem; increasing the frequency of payments; collateralisation; or insurance. One respondent argued that there should be a general licence requirement on suppliers to take appropriate steps to avoid mutualisation of costs in the event of their failure.

Several respondents suggested that levy designs should be simplified by harmonising them across schemes, learning from the best of current designs. Concrete suggestions were that forecastability could be improved by standardising the measure of demand (settlement runs) and fixing payments for a scheme year in advance, with adjustment to future years' charges in case of discrepancies.

Consultation question:

11. Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?

Summary of responses

This question was answered by 38 respondents, with the majority of them agreeing that now was not the appropriate time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review.

A number of respondents mentioned that metering data in particular should be kept in scope and under review to assess if further change is required. Many respondents also emphasised the need for coordination between different reviews and programmes.

Other respondents argued that the metering market needs urgent reform and potentially centralising.

Consultation question:

12. What total costs do suppliers face with regards to bad debt and supporting consumers who struggle to pay for their energy?

Summary of responses

21 respondents directly answered this question. The responses varied by supplier and there was not one prevalent view.

There were a number of key themes that emerged from this question relating to high cost-to-serve consumers. Some respondents are of the view that there are issues around how the Default Tariff Cap is calculated and that it doesn't allow some suppliers to recover their efficient costs, which was described as an urgent issue.

Other stakeholders expressed the view that it was possible to manage the costs of high cost-to-serve consumers in an efficient manner and stressed the importance of good customer service in this.

It was suggested that newer suppliers target lower cost-to-serve consumers, for example online and direct debit consumers. It was also suggested by some that this targeting was even to the extent of non-compliance; for example, with requirements to offer a range of payment methods.

It was also noted that customers who struggle to pay for their energy may not be distributed evenly across suppliers.

> **Consultation question:**
>
> 13. How could any potential distortions related to high cost-to-serve customers be addressed, for example by the provision of additional support services for customers struggling to afford their energy?

Summary of responses

This question was answered directly by 24 respondents.

A number of the respondents highlighted a wide range of measures that they already undertake to manage specific customer-related costs, and to minimise these distortions. This included proactive engagement with customers and providing funds to support particularly vulnerable and/or indebted customers.

Some respondents agreed that a levy scheme could be considered to fund high cost-to-serve customers. Two of these respondents stressed that any intervention would need to be effectively benchmarked by Ofgem to ensure that only ‘efficient’ costs were recovered, and so as not to reduce incentives for suppliers to reduce or prevent debt. Additionally, other respondents recognised that for such a scheme to succeed it would be necessary for ‘vulnerability’ to be effectively defined. One respondent noted that the Priority Services Register would be an ineffective proxy for vulnerability, whilst another felt that it would be effective.

Other proposals included: extending Debt Assignment Protocol to credit customers; enforcement/compliance against poor debt practices, particularly of smaller suppliers; increasing the provision of benefits entitlement checks; tests on supplier sustainability; enforcement on customer service requirements; Ofgem role for monitoring industry debt; the introduction of social tariffs; and the extension of the WHD scheme.

There was a mixed response from respondents in relation to third party debt support services. Those respondents who were in favour suggested that these services were important as debt is a cross-sectoral issue. Other respondents did not support this and suggested that it would reduce incentives for good supplier behaviours around debt collection and prevention.

2.4 Ensuring a good deal for all consumers

> **Consultation question:**
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> 14. Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?

Summary of responses

17 respondents answered this question. Of these, 9 agreed that addressing market distortions would help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers. 3 disagreed, 4 disagreed to some extent and 1 did not directly

answer.

Reasons for agreeing included the view that addressing market distortions would level the playing field, enabling more effective competition, which would therefore lower prices for all consumers. Others felt that it would reduce the pressure on larger suppliers to price acquisition tariffs below cost to be competitive with unobligated suppliers, and so reduce their need to set excessively higher prices for their variable and default tariffs to recoup these losses.

One stakeholder said that in their experience many WHD customers (who may have a higher propensity to be in debt) avoid switching from larger suppliers due to fear of losing this benefit. They felt that changing the thresholds would encourage these consumers to switch, spread bad debt risk across more suppliers, and reduce the risk of excessive prices for loyal customers.

Others said that addressing market distortions would not prevent excessive prices for loyal customers, as it would not remove the incentive suppliers have to charge disengaged customers as much as possible. One stakeholder felt that a continuation of the existing Default Tariff Cap was the best solution (others gave views on this in response to questions 15 to 17). Another felt that spreading obligations would only increase acquisition tariff prices, due to higher costs for smaller suppliers.

A few stakeholders noted that price differentials encourage switching and a competitive market, and therefore are important to maintain. One stakeholder expanded by encouraging the Government and Ofgem to focus on the profit and price per customer over their life cycle with the supplier, which they felt was not necessarily excessive.

Consultation question:

15. What are your views on the measures being considered to address loyalty penalties in different markets? What approach - or combination of approaches – would be most effective in the energy retail market?

16. What other approaches could be adopted to ensure loyalty penalties do not re-emerge?

Summary of responses

Questions 15 and 16 covered the topic of the loyalty penalty and potential approaches to address it. 28 respondents provided a response to one or both of these questions and many responded with combined answers.

Respondents provided their opinions on the measures being considered to address loyalty penalties in different markets, as well as their suggestions on other approaches that could be considered to address loyalty penalties.

Four respondents lent their support to continuing the existing Default Tariff Cap in some form, whilst four expressed negative views about aspects of the Cap. The views of those against included the view that the Default Tariff Cap could result in continued consumer disengagement from the retail market, and also that it could limit the emergence of new business models.

A targeted price cap was discussed by some respondents, with six in favour and three against. One stakeholder felt that regulatory intervention in this space should only be to protect those in vulnerable circumstances and another that a cap targeted at vulnerability should be the minimum level of protection.

Comments provided by respondents included: that an approach targeting vulnerable consumers could result in some people who do need help being missed and others who do not being included; that vulnerability can often be transient and that identification processes cannot keep up; that only suppliers with access to information about vulnerable customers can target them; that protections are needed for vulnerable customers, but the price cap wasn't the most appropriate measure; that new regulations should not create two tiers of consumers and that all consumers should have access to all companies' tariffs, services and offers.

Other views on a targeted price cap suggested that a deeper WHD rebate would be better as it would encourage engagement in the market, and that the underlying issue in the market relates to the use of acquisition tariffs by larger energy suppliers, and the differential between those tariffs and standard variable tariffs. One supplier was concerned that by focusing on customer service efforts for vulnerable customers, suppliers can get away with treating other customers badly.

Respondents also provided mixed views on ex-post prohibition and fair pricing principles. Some respondents argued that it would be difficult to define what constitutes excessive pricing and were concerned that suppliers would only gain clarity on Ofgem's methodology and interpretation after the measure had been introduced. Respondents also noted that pricing principles would create uncertainty and compliance/regulatory risks for suppliers. One stakeholder commented that these measures would not protect consumers from the initial harm of the loyalty penalty, due to their ex-post nature. Conversely, some respondents felt that these measures allowed suppliers to differentiate on the basis of service as well as price, and that the principles-based approach may have potential. Other suggestions included the creation of a legal limit on the extent of the discount suppliers can offer in the first year as an introductory offer.

Opt-in switching received primarily favourable views from respondents with six in favour versus two against. One response highlighted that there were positive signs from Ofgem trials, but the future design should be carefully considered. One respondent felt that introducing collective switching schemes would lead to greater market focus on price, over customer service. Most respondents suggested further engagement and trials to further develop this measure. The response for opt-out switching was less positive with some concern about the implications for consumer choice and market stability.

Broader points raised on switching schemes included some respondents being in favour of collective switching approaches which help vulnerable customers to avoid loyalty penalties. Others described switching schemes as a pro-competitive solution.

There were a number of other points raised by respondents on how the loyalty penalty could be addressed and consumer engagement increased. It was suggested that the Government and Ofgem acknowledge that the issues that the review is seeking to assess would not all be addressed by one overarching solution. Reforms should consider future business models, innovations and future risks for those in vulnerable circumstances. It was also argued that direct price interventions should be focused on those for whom energy remains unaffordable, or who are unable to engage in the market - for example the digitally excluded. Solutions proposed included the increased use of smart data to ensure that the most vulnerable and least digitally engaged are able to enjoy the best deals.

Other respondents felt that further testing of measures should be undertaken, with more trials with a wider range of customer types, and a closer look at the behavioural impacts. Respondents also emphasised the need to introduce measures that build market engagement amongst consumers rather than making them more complacent, with a view that the energy market should resemble the car insurance market with consumers shopping around annually to find the best deal. One respondent also suggested that measures set out by the Competition and Markets Authority provided useful lessons for avoiding the loyalty penalty, and pointed to work carried out by Ofcom around obligating companies to contact their customers when their contracts end to give them information about the best tariffs available for their needs. There was, however, a broad agreement across the respondents that regulatory reform was required in the energy retail market.

Consultation question:

17. What protections or support may be required to engage consumers in vulnerable situations in the future market?

Summary of responses

28 respondents answered this question related to what protections or support may be required to engage consumers in vulnerable situations in the future market.

One of the primary concerns for a number of respondents was identifying consumers in vulnerable situations. Many felt that consumer self-identification via the Priority Services Register was not enough. Five respondents suggested that better access to data is needed; an example given was the Vulnerable Consumer Challenge work under the Smart Data review.

Another point raised by respondents was that the use of varied definitions of vulnerability made it challenging to ensure that targeted interventions reached the right people. Respondents offered a number of solutions to this, including the introduction of eligibility criteria similar to WHD and using data-sharing with the Department for Work and Pensions to identify consumers. They also suggested it was important to adopt an approach that ensures all consumers receive a good level of service.

Respondents provided various views on protections. Two suggested a better understanding of how interventions interact with innovation. Another two respondents supported the continuation of the current Default Tariff Cap as an effective protection for consumers in vulnerable situations, while another made the case for keeping the pre-existing safeguard cap for PPM and WHD customers whilst extending the WHD provision obligation to all suppliers. Price regulation alternatives included: increasing the size of the WHD rebate; and targeting the large disengaged customer database.

A number of respondents argued that the affordability of energy is a societal issue for the Government to lead on, whilst others called for incentives to help develop products and services for vulnerable customers. Financial support was seen as an effective way of supporting the vulnerable to take advantage of new technology. Multiple respondents said ways to better support consumers in vulnerable situations include ensuring easy access to services and impartial advice and redress, and that any support service should be available non-digitally.

Next Steps

The Government will consult on more detailed policy proposals through our consultation on opt-in and testing opt-out switching and will continue to assess the rationale for wider retail regulatory reform through 2021. The switching schemes consultation and subsequent work will represent the Government's response to this consultation and set out the Government's more developed policy thinking as informed by the responses to this consultation.

This first consultation was broad and captured a full spectrum of ideas, the second consultation will be more focused and provide stakeholders with an opportunity to comment on the Government's more detailed proposals.

The joint review phase of the project is now over and the Government and Ofgem will take forward the policy making process for their respective areas independently but still in close consultation with one another. BEIS will consider whether market reforms, including changes to the form and scope of regulation of participants in the retail energy, are necessary and appropriate to facilitate and encourage the energy transition and meet the net zero target. In the meantime, Ofgem will continue to use its existing powers to enable competition and innovation, to protect consumers and to decarbonise at lowest cost.

This consultation is available from: www.gov.uk/government/consultations/flexible-and-responsive-energy-retail-markets

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