

Consumer Vulnerability Strategy Progress Report

September 2015



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The CEO's foreword

Energy is an essential service which makes a profound difference to all of our lives.

Ofgem has a wide-ranging role, from accrediting price comparison sites to making strategic decisions about multi-billion pound interconnector projects, running major government environmental and social schemes and ensuring energy industry governance works properly. Much of this is highly technical, with a long-term focus, and it's essential for Britain's future.

But there is almost nothing more important to me, and to my fellow Board members and Ofgem colleagues, than the work Ofgem does to protect consumers in vulnerable situations.

Our mission is to make a positive difference for all energy consumers in Great Britain. Our regulatory approach reflects the fact that energy is an essential service, with wider impact on health and participation in society.

So we have a particularly important role in relation to people who may experience greatest harm when things go wrong, or are least able to represent their own interests in the market.

This is why we put in place a ground-breaking Consumer Vulnerability Strategy in 2013, the principles of which have been embraced by other sectoral regulators. This has now prompted joint cross-sector work on vulnerability under the auspices of the UK Regulators' Network.

This report outlines Ofgem's work on vulnerability since the Strategy was launched. This includes our investigations into company practices, which have resulted in more than £100m in additional funds to support fuel poor and vulnerable consumers, our steps to ensure prepayment meter customers access financial support available and are not overcharged, and improvements to the Fuel Poverty Network Extension Scheme, which will see thousands more households off the gas network benefiting from more affordable fuel.

As the report explains, we are working to support consumers in debt and on low incomes alongside two new priority areas: prepayment and non-gas households. These include some of the poorest and most vulnerable energy consumers.

There will always be some people who need extra help to access the market. We want to ensure that all consumers, regardless of their circumstances, are able to access key services and the cheapest deals in the market. It is for this reason that we have a third priority area, inclusive markets and services.

Alongside all of this, we have of course referred the market to the Competition and Markets Authority (CMA). We are concerned that competition is not working as well as it could for consumers, not least



those in vulnerable situations. The CMA has now published its Provisional Findings, to which we will give careful consideration as we progress our work under the Consumer Vulnerability Strategy.

Looking ahead, our upcoming work programme aims to ensure that all customers benefit from smart metering, that free services are available to any energy customer with additional safety, access or communication needs, and that prepayment meter customers and those in debt can switch more easily and are being treated fairly.

I am proud of what we have achieved since 2013, as set out in this report. And I welcome the positive engagement from energy suppliers and networks, working with consumer bodies. There has been a noticeable and welcome change of direction in many of the companies.

But I am also acutely aware how much there is still to do. My colleagues and I remain highly focused on this important area of work, and we remain keen to work in partnership with other organisations to have a continuing beneficial impact for the people who need our help most.

We remain determined to ensure that all consumers, today and in the future, are protected, and can access the benefits of a competitive market - lower bills, good customer service and a reliable energy supply.



Dermot Nolan
CEO, Ofgem

Summary – our impact

The aims of our Consumer Vulnerability Strategy (CVS) are to protect and empower consumers in vulnerable situations, to reduce the likelihood and impact of vulnerability, and to ensure all consumers can access market benefits. Below is a summary of the key impacts we have had for consumers in vulnerable situations since the CVS was published in 2013.

Protecting and empowering consumers

1. **Redress** - from June 2013 to May 2015 we secured £90m in consumer compensation and redress to support fuel poor and vulnerable consumers. This includes almost £50m for energy efficiency measures. We have also set targets for improvements in relation to key measures of customer service.
2. **Warm Home Discount** - with our help, suppliers have successfully met, and gone beyond, their obligations under the Department of Energy and Climate Change's (DECC) Warm Home Discount (WHD) scheme. WHD has delivered more than £1bn in support for those at risk of fuel poverty since it started in April 2011. In 2013/14, over 1.8m customers received a rebate of £135 to help with energy costs. With input from us, DECC has extended the scheme until 2016 and following recommendations from Ofgem and others, broadened the eligibility criteria to include families with young children and park home residents.
3. **Disconnections** - we continued our close monitoring of suppliers' debt and disconnection practices. As a result of our policies, the number of customers disconnected for debt remains low: 233 disconnections in total in 2014. This is a significant decline from the 3,280 electricity and gas debt disconnections in 2004. We jointly hosted a workshop with the Citizens Advice Service on prepayment self-disconnection in November 2014. This was to increase understanding of why people self-disconnect, and how to tackle this problem with both traditional and smart meters.
4. **Debt communications** - in autumn 2014 we reviewed suppliers' use of alternative branding for debt communications. We secured commitments from energy suppliers to provide clear branding to customers in debt to ensure they are not misled into making decisions that may cause them detriment.
5. **Support during outages** - more than 85,000 customers got extra help during an unplanned interruption during 2013-14 storms as a result of being on networks' priority services registers.
6. **PPM voucher uptake** - by engaging with suppliers to ensure their delivery plans take into account good practice, we have helped increase uptake of the £12 Government Electricity Rebate by PPM customers from 50% to 73% since December 2014. This has benefited over a million additional customers. That's around 3.3m PPM customers in total.

7. **Energy efficiency measures for the fuel poor** - up to the end of March 2015, we helped ensure companies delivered over 1.3m measures to around 1.1m homes, as part of our work to administer the energy efficiency and fuel poverty programme, the Energy Company Obligation (ECO). We require suppliers to monitor the quality of installations and publish their results quarterly. We also published a version of our address checking tool, which helps identify low income or rural households who are eligible under the Carbon Saving Community Obligation.
8. **Payment differentials** - we continued to monitor differences in cost between prepayment (PPM), Standard Credit (SC), and Direct Debit (DD) to ensure customers are not being overcharged. This included enforcement action against Scottish Power in 2014 – a £750,000 financial penalty which was paid to the Citizens Advice Service's Energy Best Deal Extra scheme. Based on analysis we conducted in 2014 and our recent Retail Energy Markets report, we found that the difference in price for a typical PPM customer compared to a DD customer was around £75 (a 40% decrease from 2009). We hosted a roundtable to explore how low income PPM and SC customers could be supported, which has informed our vulnerability work plan.
9. **Closed account balances** - our investigation has seen suppliers commit to take action to hand back £153m of unreturned closed account credit balances to customers and to improve customer refunds. In the future, any unclaimed money after two years will be used to help customers in vulnerable situations. So far £38m has gone to support vulnerability initiatives. We are monitoring progress on this and will take further action, including enforcement action, where needed.
10. **PPM unallocated payments** - we supported Citizens Advice in securing a £6m voluntary commitment from energy suppliers to use unallocated PPM payment repayments to help vulnerable customers. Following our recommendations, improvements have also been made to current industry processes.
11. **Connecting people to the gas grid** - in 2014 we initiated a review of the Fuel Poverty Network Extension Scheme. Our proposed changes will increase the number of connections the gas distribution network companies can make where it is the best solution for the customer. We expect at least a further 63,000 fuel poor households to be connected between now and April 2021. Since 2008 more than 58,000 fuel poor households have been connected to the gas grid under the scheme.
12. **Social tariffs** - following our encouragement, we have seen companies introduce tailored social tariffs for customers in vulnerable situations. These include a standing charge rebate for zero gas-consuming customers, a lower cost tariff for low income district heating customers, and community tariffs for councils and social housing providers with a focus on those in fuel poverty.

Ensuring all consumers can access market benefits

13. **Advice** - more than 350,000 consumers have benefited from Energy Best Deal/Extra (EBD) since we commissioned the Citizens Advice Service to do the first pilot in 2008. These schemes provide customers in vulnerable situations, and front-line workers who support them, with face-to-face advice, training and help with switching, financial management and accessing social support. We have supported payments of over £12m from suppliers to EBD/Extra as part of penalty packages from enforcement settlements, and continue to help the Citizens Advice Service with the evaluation of programmes and development of training materials.
14. **Accessible services** - following our encouragement, in 2014 Western Power Distribution (WPD) was the first company to be assessed under the British Standards Institute's (BSI) Inclusive Service Standard. Electricity North West, Scottish and Southern Energy Power Distribution, and SP Energy Networks are also using the Standard with a view to being accredited. We are encouraging other companies to follow suit.
15. **Online price comparison sites** - we reviewed the Confidence Code, our voluntary accreditation for price comparison sites. As a result of changes, relevant customers will be alerted where they may lose their Warm Home Discount benefit by switching to certain suppliers. This should help ensure that those receiving this £140 social benefit don't accidentally lose it when switching supplier or end up worse off. This change came into effect in April 2015.
16. **Focusing networks on vulnerability** - we are beginning to see significant changes in the way network companies engage on vulnerability issues as a result of our Stakeholder Engagement Incentive and the RIIO-ED1 business plan process. Most network companies now have independent expert consumer panels advising them on critical issues. We have also seen them adopt good practice in staff training to recognise signs of vulnerability and meet customer needs.
17. **Telephone access** - we established telephone services key principles to ensure suppliers offer Freephone or low cost geographic numbers for customers to use, and that telephone numbers are easy to find, and prominently displayed on suppliers' communications and websites. We are following up with suppliers who don't currently meet these standards. Legislative changes have recently seen 0800 and 0808 numbers become free to call from mobile phones. We will monitor suppliers' responses and consider if further work is needed to ensure all energy companies offer Freephone numbers to *all* their consumers including those who use a pay as you go (PAYG) mobile tariff.

Introduction

This report outlines the progress made on our Consumer Vulnerability Strategy since it was published in July 2013. It covers our updated approach and work plan, including the work of our delivery arm, Ofgem E-Serve, on fuel poverty and vulnerability.

About Ofgem

Ofgem is the Office of Gas and Electricity Markets. We are the independent regulator of the electricity and gas system in Great Britain. We exist to make a positive difference for all energy consumers.

Our statutory duties

Ofgem's principal objective is to protect the interests of existing and future consumers. These include reducing greenhouse gases, ensuring security of supply, and fulfilling the objectives set out in the EU energy directives.

We must carry out our work in the way that best furthers this objective, by promoting effective competition where it is right to do so. In carrying out our duties we must have regard to the interests of consumers who are:

- of pensionable age
- disabled
- chronically sick
- on low incomes
- living in rural areas.

We are also able to take into account the needs of other consumer groups.

Equality Act

We are required to meet the general and specific duties placed on public sector bodies in the Equality Act 2010. The general duty requires that in exercise of our functions, including during our policy development, we need to have regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act
- foster good relations between people who share a protected characteristic and those who do not. The protected characteristics under the Equality Act are: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; and sexual orientation
- advance equality of opportunity between people who share a protected characteristic and those who do not.

Our mission

Ofgem's Corporate Strategy

Our Corporate Strategy, which was published December 2014, outlines our mission to make a positive difference for all energy consumers, both now and in the future¹.

We recognise that energy is an essential service for health and participation in society, which requires a regulatory approach that reflects this importance.

We work to deliver five main outcomes for consumers:

- lower bills/costs/prices than would otherwise have been the case
- reduced environmental damage both now and in the future
- improved reliability and safety
- better quality of service, appropriate for an essential service
- benefits for society as a whole, including support for those struggling to pay their bills.



Our work must balance these five consumer outcomes. Sometimes our decisions will involve trade-offs between one objective and another, while at other times it may be possible to realise several objectives together, eg through energy efficiency.

Similarly, as our duty is to all energy consumers, both now and in the future, we often have to balance today's costs against tomorrow's benefits. This can be challenging, for example when investment in infrastructure may increase bills in the short-term but deliver relatively lower bills for future consumers.

Taking action to protect a minority of consumers in vulnerable situations can sometimes result in increased costs for the majority, including consumers on low incomes. Our challenge is to ensure the fairest outcomes in the context of our sometimes competing aims.

Energy regulation cannot solve wider problems such as the difficulty some people have paying their bills, but we can promote ways for consumers to engage with markets and make sure those who don't engage are not disproportionately worse off because of that. We will also make sure that consumers' circumstances do not stop them from being able to access market benefits.

¹ Ofgem, December 2014, Corporate Strategy, <https://www.ofgem.gov.uk/about-us/corporate-policy-planning-and-reporting/corporate-strategy-and-planning>

Ofgem's Consumer Vulnerability Strategy

Our aims

We published our Consumer Vulnerability Strategy in July 2013 following extensive consultation². It outlined our aims to:

- protect and empower consumers in vulnerable situations – to reduce the likelihood and impact of vulnerability *and*
- ensure *all* consumers can access market benefits – so that nobody is at a disadvantage due to their circumstances.

It also set out:

- how we understand vulnerability³
- how we would deliver these aims, including our initial work plan
- how we expect supply and distribution companies to incorporate consumer vulnerability into the design and delivery of products and services
- a framework to help industry identify and respond to vulnerability, aimed not only at supply and distribution companies, but also other parties in the energy market such as third party intermediaries.

This progress report is an update on our approach, progress made, and our impact for consumers.

Consumer Vulnerability Strategy work programme update

In line with our CVS commitment we updated our work programme and priorities in 2014. This took into account:

- new research, activity and insight since the CVS was first published
- changes in the wider context – such as new powers granted to Ofgem since the Energy Act 2013, and policy changes of governments across GB
- the important role of Ofgem E-Serve, our delivery arm
- our new Corporate Strategy.

We will keep our approach under review, to ensure that we can respond promptly to emerging issues such as changes to the arrangements of the devolved administrations.

² Ofgem, July 2013, Consumer Vulnerability Strategy, <https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf>

³ See Appendix 1, p.69

Overview – policy and delivery areas

Our updated work programme has six policy and delivery areas. This includes three priority areas: prepayment, non-gas households, and inclusive markets and services.

The work in many of these areas overlaps but for simplicity they are shown this way:

- prepayment
- inclusive markets and services
- non-gas households
- affordability
- debt and disconnection
- innovation and support

Here is an overview of the work areas and projects within them:



Prioritisation

The rationale for each of our work areas and its importance to consumers is included in more detail in the relevant chapters of this report. The way we prioritise is based on a wide range of factors including but not limited to:

- scale and severity of consumer detriment – both current and potential
- wider public perspectives and consumer feedback
- the priorities of our partners in the consumer landscape – to avoid duplication or to support their activity
- wider market and societal changes, eg smart metering or benefits reform which may improve or worsen problems or provide opportunities to deliver improvements
- our statutory duties and powers
- our ability to cost-effectively make a positive difference for consumers

Our approach - ways of working

The CVS outlined how we would deliver our aims for customers in vulnerable situations. We have updated our approach to reflect our new Corporate Strategy, and to capture the work of our delivery arm E-Serve in relation to fuel poverty. We will deliver our aims in the following six main ways by:

- **Implementing effective regulatory obligations and enforcement action** – we set standards of service and of fair treatment that companies have to adhere to. We make sure they abide by our rules by monitoring and enforcing against them when they do not.
- **Using research and insight** – we undertake research and gather insights to understand the experiences of energy customers in vulnerable situations, and to better target interventions to support them in a timely way.
- **Promoting good practice and innovation** – we seek to promote good practice and innovation by industry and other parties where it can benefit consumers.
- **Providing independent advice, guidance and information** – we provide independent advice, guidance and information to industry, front-line advisors, consumers, and government.
- **Developing partnerships and generating discussions** – we work with a wide variety of parties to improve decision-making and drive improvements for energy consumers in vulnerable situations. This includes generating discussions, informing the debate and shining a spotlight on issues where this could have a positive impact for consumers.
- **Administering government programmes** – we administer a number of government environmental and social programmes on a not-for-profit basis. This includes monitoring companies' compliance, and where appropriate, pressing for improvements to benefit customers in vulnerable situations.

Partnerships and engagement

Strong stakeholder relationships are fundamental to making decisions effectively, and efficiently delivering support to those most in need. We want to further strengthen our partnerships with organisations aiming to make a positive difference for energy customers in vulnerable situations.

We will continue our existing engagement in forums linked to fuel poverty and vulnerability, including with the Fuel Poverty Advisory Group and Scottish and Welsh Fuel Poverty Forums, the Essential Services Action Network and the UK Regulators' Network.

We have strong links with the Citizens Advice Service, as the statutory consumer body, and are keen to work with new organisations who are involved in a range of vulnerability areas such as disability and carers networks, mental health, debt, and children's and rural issues. We would also like to work with those organisations operating at a grassroots level, providing advice directly to consumers.

In our Strategy, we outlined our intention to establish a Consumer Vulnerability Network with a group in England, Scotland and Wales to help us learn about the issues different consumers are facing and to share learning. Following feedback from consumer representatives, we have adjusted our approach and will launch a new initiative shortly.

We will continue to participate where we can to inform wider policy development. In 2014 we responded to a range of consultations, and inquiries such as the disability charity Scope's Extra Costs Commission⁴, the Financial Inclusion Commission's investigation, Financial inclusion: improving the financial health of the nation⁵, and a number of select committee evidence sessions. We also participated in advice events such as Carers Trust UK's online expert forum, Money Advice Scotland's conference, roundtables and events on key issues such as debt, off-gas, prepayment, benefits reform and fuel poverty.

⁴ Scope, 2014, Independent inquiry into extra costs for disabled people: Extra Costs Commission, <http://www.scope.org.uk/get-involved/campaigns/extra-costs-commission>

⁵ Financial Inclusion Commission, March 2015, http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

Embedding our approach to vulnerability across Ofgem

Our work to protect and empower customers in vulnerable situations in the energy market, and to promote inclusive markets and services - is covered in more detail in this report.

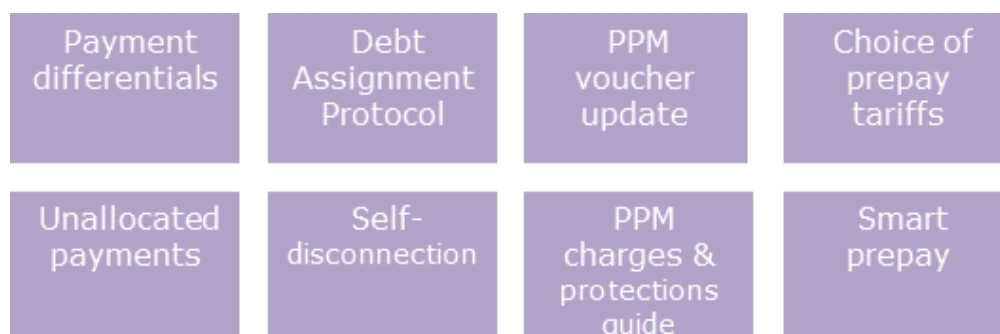
To support these two main aims and their associated workstreams, we have a third strand of work, embedding our approach to vulnerability across Ofgem and our wider activities.

The needs of all consumers must be at the heart of what we do. Since the CVS was published we have further developed our evidence base on consumer vulnerability and are establishing a framework for decision-making on vulnerability issues to ensure a more consistent and transparent approach. We have also established a strategic cross-organisation steering group on vulnerability with senior staff from Ofgem and E-Serve.

In 2015/16 we will do more to ensure the considerations of consumers in vulnerable situations, and an understanding of vulnerability risk factors, underpins the work of the whole organisation. This includes but is not limited to:

- Building our capacity to:
 - understand the needs and experiences of consumers in vulnerable situations through research, outreach and staff training
 - understand the distributional impacts of our decision-making and that of industry and government.
- Establishing a mechanism to enable a wider range of vulnerability experts and representatives to regularly input into the Consumer Vulnerability Strategy and work plan. This will help to provide greater transparency and accountability for our work in this area.

Workstream 1: Prepayment



Why it matters

More consumers than ever are using prepayment meters to pay for their energy bills (16%)⁶, with some estimates suggesting that as many as a third of all consumers may be on some form of smart prepay tariff by 2020⁷.

While not all prepayment customers are financially vulnerable, they are more likely to be on low incomes than those on other payment methods. Estimates suggest that PPM consumers are more likely to be in fuel poverty. Approximately 22% of PPM customers in England are fuel poor, compared to 7% of direct debit (DD) customers and 16% of standard credit (SC) customers⁸. Prepayment meter customers are also more likely to be disabled, with around a fifth having a physical or mental impairment⁹.

Consumers generally value the control this payment method offers – in particular not having to worry about receiving an unexpectedly high bill, and being able to budget more easily¹⁰. However, PPM customers can also face particular problems. These include, but are not limited to:

- more expensive tariffs compared to other payment methods
- fewer tariff choices
- the potential to self-ration energy use and self-disconnect if they fail to top-up their meter or can't afford to do so¹¹

⁶ Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 annual report, <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

⁷ <http://www.accenture.com/us-en/Pages/insight-smart-prepayment-great-britain.aspx>

⁸ DECC, 2015, Annual Fuel Poverty Statistics Report 2015. Detailed Tables, England 2013, Low Income High Costs (LIHC) definition, Tables 16-17, <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2015>

⁹ Prepayment meter customers are more likely to be under 65, of C2DE social economic group and disabled than the average energy customer. IPSOS Mori Ofgem switching tracker March 2014. Base 1973.

¹⁰ Consumer Focus, 2014, Topping-up or Dropping-out: Self-Disconnection among Prepayment Meter Users, http://www.citizensadvice.org.uk/index/policy/policy_publications/er_fuel_water_post_digital_telecoms/topping_up_or_dropping_out.htm

¹¹ Ibid.

- barriers to switching to cheaper payment methods, such as charges for the removal of a prepayment meter, or the requirement to pay a security deposit
- inconvenience associated with topping up by cash at a pay point.

Our Social Obligations Reporting (SOR) data indicates that around 60% of PPMs (175,841 electricity PPMs and 195,841 gas PPMs) in 2014 were installed because of debt. Out of these, around 30% were installed under warrant¹². It is therefore particularly important that PPM customers who are struggling to afford their energy can access competitively-priced deals, the social support available to them, and are treated fairly.

Our consumer panel research on affordability also identified prepayment as an area we should focus on¹³. Prepayment remains high on the public and political agenda.

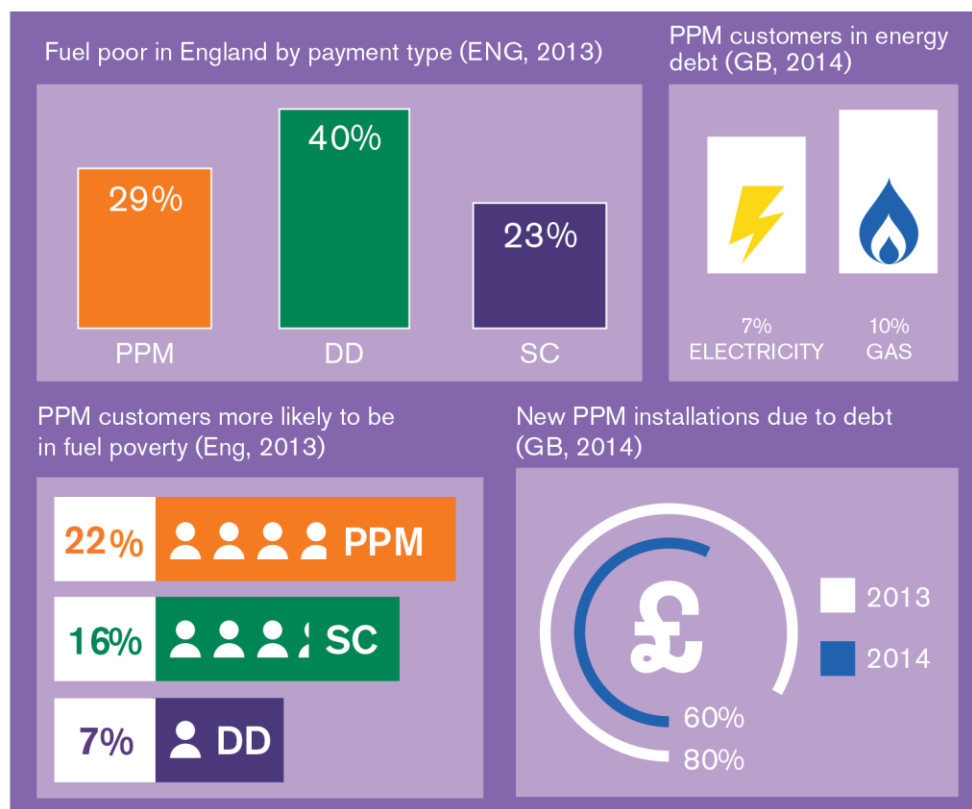
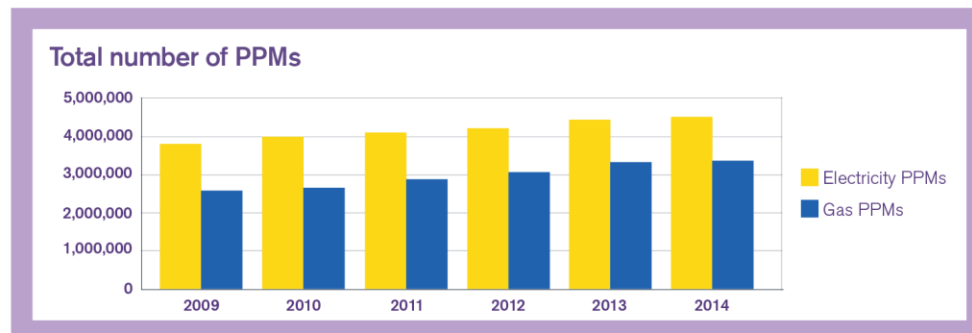
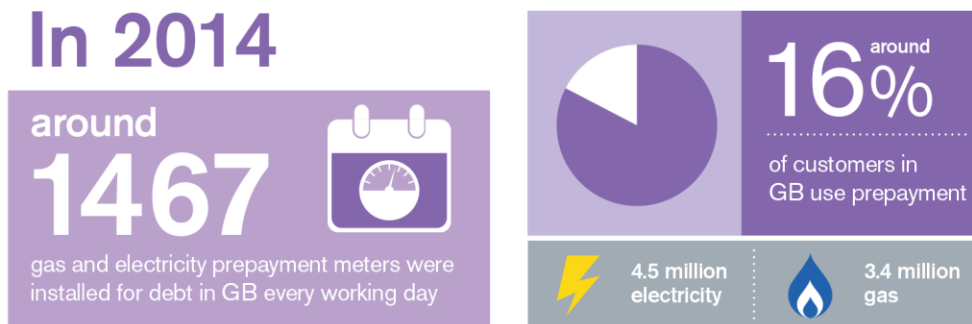
Customer accounts by payment method (%), GB, 2014¹⁴

	Direct debit		PPM		Standard Credit		Other	
	Gas	Electricity	Gas	Electricity	Gas	Electricity	Gas	Electricity
England	59%	57%	15%	16%	21%	21%	6%	6%
Scotland	59%	54%	17%	21%	18%	18%	7%	6%
Wales	55%	54%	19%	21%	19%	20%	6%	6%

¹² Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 annual report, <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

¹³ Ofgem, July 2014, Consumer First Panel (Year 6, Wave 1) Affordability environmental and social schemes, <https://www.ofgem.gov.uk/ofgem-publications/90489/panelreportaffordabilityfinal2.pdf>

¹⁴ Ofgem, Social Obligations Reporting, <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>



Sources¹⁵

¹⁵ Ofgem's Social Obligations Reporting, <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>

Payment differentials

Concerns have been raised that prepayment meter customers pay more for their energy because of the way they pay. Ofgem does not regulate prices or profits in the retail market. We have, however, rules in place to prevent overcharging. Under Supply Licence Condition (SLC) 27.2A, suppliers cannot charge more for one payment method than another unless the price differential can be justified by the cost difference.

Since we introduced protections in 2009, payment differentials between typical PPM and DD customers have declined significantly by around 40% to £75 per year. Payment differentials between typical SC and DD customers are also around £75 per year at present¹⁶.

In May 2014, we published the results of our analysis of payment differentials¹⁷. Our analysis found no evidence to suggest that costs are being unjustifiably added to the bills of typical PPM and SC customers.

We found that the differential paid by gas prepayment customers is typically below what would be justified in cost terms. The differences in price were largely due to the differences in costs to serve - in the case of PPM customers the need for a separate meter and payment infrastructure; in the case of SC higher costs are largely due to bad debt from non-payment.

While not all PPM or SC customers are on low incomes, they are more likely to be in fuel poverty than DD customers. We therefore recognise concerns about the impact of this difference in cost on consumers on low incomes and in vulnerable situations.

There have been a number of calls to remove price differentials or to regulate them to address what some see as a 'poverty premium'. To inform the debate, we analysed what the potential effect would be on fuel poor households if payment differentials were removed. Our research indicated that equalising PPM and SC differentials could make around half the fuel poor (45%) worse off as just under half of all fuel poor pay by DD¹⁸. It may not therefore deliver the social outcomes some expect.

DECC, 2015, Annual Fuel Poverty Statistics Report 2015. Detailed Tables, England 2013, Low Income High Costs (LIHC) definition; Ofgem calculations.

¹⁶ These figures are based on updated Typical Domestic Consumption Values.

<https://www.ofgem.gov.uk/publications-and-updates/decision-new-typical-domestic-consumption-values>

¹⁷ Ofgem, May 2014, Price differences between payment methods – open letter, <https://www.ofgem.gov.uk/publications-and-updates/price-differences-between-payment-methods-%E2%80%93-open-letter>

¹⁸ Ofgem, March 2015, Roundtable report: payment differentials, <https://www.ofgem.gov.uk/publications-and-updates/ofgem-roundtable-report-payment-differentials>

In October 2014 we also hosted a roundtable to discuss our analysis of payment differentials and explore the potential for further action to support low income PPM and SC customers. The proposed actions informed our vulnerability work plan.

Impact and next steps

- In July 2014, we imposed a financial penalty on Scottish Power (SP) for not having a sufficiently robust process in place which ensured that the price (and discounts) differentials were compliant with SLC 27.2A. Notably, SP did not have a sufficiently robust view of the relative costs of the different payment methods. As a result they paid £750,000 to the Citizens Advice Consumer Service's Energy Best Deal Extra scheme.
- Looking ahead, we would expect to see price differences fall with the rollout of smart meters. This is because the meter can operate in both smart and prepayment mode, thereby removing the need to install and maintain a completely separate prepayment meter. We will continue to monitor payment differentials and the impact of smart metering.

Making switching easier for PPM customers in debt: the Debt Assignment Protocol

It is essential that all customers can access the cheapest deals in the energy market. This is particularly important for those who are struggling financially.

Until July 2015, under supply licence conditions, PPM customers whose debt did not exceed £200 per fuel were able to switch their energy supplier. Under a voluntary agreement, suppliers also committed to allow customers with an energy debt up to £500 per fuel to switch.

Our monitoring identified that in practice less than 1% of indebted PPM consumers who attempted to change supplier completed the switch - just 263 electricity accounts and 381 gas accounts¹⁹. This was unacceptably low.

To address this, we investigated the issue further and reviewed the Debt Assignment Protocol (DAP)²⁰, the industry process used to transfer debts between suppliers. We found significant process failings²¹. In response we took the actions outlined below.

¹⁹ Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 annual report <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>

²⁰ MRA Agreed Procedure for the Assignment of Debt in Relation to Prepayment Meters. MAP 13, <http://www.mrasco.com/mra-products/mra-agreed-procedures>; Supply Point Administration Agreement Schedule 9 <http://www.spaa.co.uk/documents/spaa/current-version>.

²¹ Ofgem, 2014, Review of the Debt Assignment Protocol – open letter, <https://www.ofgem.gov.uk/publications-and-updates/review-debt-assignment-protocol-%E2%80%93-open-letter>

Progress and next steps

- We changed the gas and electricity supply licences²² and increased the amount of debt a PPM customer could have and still be able to switch supplier from £200 per fuel to £500 per fuel. The modified licence conditions came into force in July 2015²³.
- Following our review 11 suppliers made improvements to the DAP process.
- These improvements should make switching easier for a significant proportion of the 7% of electricity PPM customers and 10% of gas PPM customers in debt.
- We will monitor how effective these changes are as part of our Social Obligations Reporting.

PPM voucher uptake

Under the Government Electricity Rebate (GER) and Warm Home Discount (WHD) schemes, which we administer, all PPM electricity customers and certain PPM electricity customers in fuel poverty are entitled to cash rebates of £12 and £140 respectively. In the first year of the GER scheme, supplier reporting suggests 27% of customers did not redeem their vouchers. This could mean up to 1.25m households missing out on around £15m of assistance. We don't currently have full data on WHD redemption but we plan to research it further with suppliers this year.

We took steps to help more PPM consumers redeem their GER vouchers. This included talking to suppliers to ensure their delivery plans take good practice into account, and by raising awareness of DECC's marketing campaign targeting them.

Impact and next steps

- As a result of our actions, voucher uptake has increased from 50% to 73% since December 2014, benefitting over 1m additional customers. In total approximately 3.3m PPM customers have benefited from the scheme.
- In the second year of GER, we will work to understand more about PPM consumer behaviour and the reasons consumers aren't taking up the rebates. We will share conclusions with DECC to ensure future policy-making takes these factors into account.

²² Standard licence condition 14.6 of the electricity and gas supply licence, <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

²³ Directions issue by the Gas and Electricity Markets Authority pursuant to paragraph 3 of Standard Licence Condition 32 (Reporting on Performance) of the electricity supply licence and of the gas supply licence. www.ofgem.gov.uk/publications-and-updates/directions-issued-gas-and-electricity-markets-authority-pursuant-paragraph-3-standard-l licence-condition-32-reporting-performance-electricity-supply-l licence-and-gas-supply-l licence

Choice of prepayment tariffs

It is important that prepayment customers can access a range of competitively-priced tariffs that meet their needs. As part of our market monitoring, we identified concerns about the relatively limited choice of tariffs available to prepayment customers when compared to SC and DD. In particular, we found a very low number of short, fixed-term deals. While not always the case, these kinds of offers tend to be among the cheapest in the market²⁴. We highlighted this issue as an area for investigation in our submission to the Competition and Markets Authority in July 2014²⁵. In addition, in early 2015, we carried out further analysis to understand the causes of this relative lack of tariff choice²⁶. Investigating this issue was also a recommendation from our 2014 roundtable on payment differentials.

Progress and next steps

- Following our encouragement, more suppliers than ever before (18) are now offering PPM deals²⁷.
- A small but growing number of suppliers are now offering tailored social tariffs to prepayment customers, prepayment collective switching deals, and smart prepay options.
- We are conducting a review to understand if a shortage of prepayment tariff codes is limiting prepayment tariff choice.
- We will also take the findings of the CMA investigation into consideration in the next stage of this work.

²⁴ PPM customers currently have access to 20 standard and 4 fixed deal gas tariffs and 19 standard tariffs and 4 fixed deals for electricity.

²⁵ Ofgem, 2014, Energy Market Investigation: Initial submission to the Competition and Markets Authority. <https://www.ofgem.gov.uk/ofgem-publications/88901/submissiontocmafinalpdf.pdf>

²⁶ Ofgem, June 2015, Prepayment Review: understanding supplier charging practices and barriers to switching, <https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

²⁷ Ibid.

Unallocated payments

With the current PPM system, a situation can arise where the customer makes a payment, but this money fails to reach their supplier. There is no detriment to the customer at the point of sale because the customer still receives the energy they have purchased. The key or card is credited and the meter can be topped up. However, this unallocated money goes to a central pot, awaiting allocation back to suppliers, with the risk that any loss or cost inefficiencies to the company are passed on to customers.

Impact and next steps

- Following our action, the MRA Service Company (MRASCo), which is responsible for this process, instigated a fundamental review of the causes of, and industry processes around, unallocated payments. This was to better understand why some payments are failing to reach the correct electricity supplier. It set up a group to establish the most viable solution for redistributing the unallocated payment transactions, and to review and improve the current approach.
- We also supported Citizens Advice in securing a £6m voluntary commitment from energy suppliers to use unallocated payments repayments to help vulnerable prepayment customers. This was principally by giving them independent advice and information on this complex process and facilitating discussions with key parties. We expect smart metering to eliminate unallocated payments in future. The funds have been used for schemes like npower's Fuel Bank initiative below.

Case study

npower Fuel Bank



npower is piloting a new initiative called Fuel Bank to help prepayment meter customers in financial difficulties.

Under the scheme, a member of a designated food bank, with a prepayment meter and in

'crisis need', will also receive a £49 top-up for gas and/or electricity. This assistance is designed to stop prepayment customers self-disconnecting their energy supply because they cannot afford to buy credit. It also means that the householder can cook the food donated to them by the food bank.

Alongside this support, the food banks also provide advice on managing energy and information on wider social support.

npower developed Fuel Bank in partnership with NEA, the Trussell Trust and the selected food banks.

This is funded using money from unallocated payments and closed account balances.

Prepayment self-disconnection

Disconnecting supply should only take place as a last resort. As a result of our work, disconnections for energy debt remain low. However, we know that increasing numbers of customers are moving onto PPMs because of debt²⁸, and can potentially self-disconnect with the risk of detriment.

The majority of self-disconnections occur in error. The customer may forget to top up, not realise they are low on credit, or be unable to top up their meter, eg if their local pay point is closed. Research by Citizens Advice found that most PPM users do not self-disconnect for long. However, a small number had serious difficulty being able to afford to keep their meters topped up, and more than half of PPM users who had been temporarily disconnected said keeping their meter topped up was a major concern of their daily lives²⁹.

Progress and next steps

- In November 2014 we hosted a workshop jointly with Citizens Advice and its Extra Help Unit³⁰. This was to: further understand the causes of self-disconnection; improve monitoring of self-disconnection; identify opportunities to prevent self-disconnection; and to target help and support to those in need. The discussion included traditional and smart meters. Following on from our workshop, in winter 2015/16 the Citizens Advice Service plan to publish supplier good practice for preventing PPM self-disconnection and supporting customers who self-disconnect.
- We expect smart metering to address many of the causes of self-disconnection caused in error, and to help minimise time off-supply when disconnection occurs. Remote top-up options, low credit warnings and non-disconnection periods can all help to address self-disconnection in error.

²⁸ Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 Annual Report.

<https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

²⁹ Consumer Focus, 2014, Topping-up or Dropping-out: Self-Disconnection among Prepayment Meter Users,

http://www.citizensadvice.org.uk/index/policy/policy_publications/er_fuel_water_post_digital_telecoms/topping_up_or_dropping_out.htm

³⁰ The Citizens Advice Service's Extra Help Unit handles complaints when a consumer cannot pursue their complaint with their supplier because of: the urgency of their situation (eg debt collection action or unmanageable payment arrangement); their personal circumstances (eg the consumer is unable to deal with the matter themselves); or the complexity of the problem (eg it is too difficult for the consumer to deal directly with their supplier and requires expert help to resolve their problem).

Review of PPM charges

In 2013, we found that some suppliers were refusing to allow PPM customers to switch to credit meters. This included situations when a customer failed a credit check, or was unable or unwilling to pay an upfront security deposit. Research by the Children's Society³¹, the Citizens Advice Service³², Church Action on Poverty³³ and the All Party Parliamentary Inquiry into Hunger³⁴ also identified concerns about the cost of installing and removing prepayment meters, as well as the need for customers to pay upfront security deposits when switching away from PPM. These charges can act as barriers to customers accessing better deals. They also have the potential to contribute to financial hardship.

Progress and next steps

- In June 2015 we published the findings of our investigation into suppliers' policies relating to charges for installing and removing prepayment meters and requirements for security deposits³⁵.
- We identified a number of concerns relating to the appropriateness of types of charges, levels of charges and how they are applied. We are following up with suppliers who have given us cause for concern to examine their compliance with existing rules.
- We are pleased that five of the largest six suppliers have already voluntarily agreed not to charge for the installation and removal of prepayment meters.
- As a next step we plan to consult on prohibiting installation and removal charges for prepayment customers and either ending security deposits for some or all customers and/or strengthening protections in this area.

³¹ Children's Society, 2014, Show some warmth, http://www.childrenssociety.org.uk/sites/default/files/Show_some_warmth_full_report_1.pdf

³² Citizens Advice, Fair play for prepay http://www.citizensadvice.org.uk/index/campaigns/current_campaigns/fairprepay.htm

³³ Church Action on Poverty, <http://www.church-poverty.org.uk/foodfuelfinance/letthemswitch/>

³⁴ Andrew Forsey, 2015, An Evidence Review for the All-Party Parliamentary Inquiry into Hunger in the United Kingdom, <https://foodpovertyinquiry.files.wordpress.com/2014/12/food-poverty-appg-evidence-review-final.pdf>

³⁵ Ofgem, 2015, Prepayment review: understanding supplier charging practices and barriers to switching <https://www.ofgem.gov.uk/publications-and-updates/prepayment-review-understanding-supplier-charging-practices-and-barriers-switching>

Smart prepay

The aim is for all homes and small businesses to have smart meters by 2020. The smart meter rollout offers significant opportunities to improve the overall experience of prepay customers as well as reducing the relative cost of prepayment. Expected benefits include but are not limited to:

- greater convenience and choice of top-up methods
- better services to prevent customers going off-supply, eg friendly and emergency credit arrangements for gas and electricity and low credit warnings³⁶
- less likelihood of payments being misallocated or unallocated
- easier and faster switching between suppliers and payment methods

However, as with any new technology there are also new risks and challenges to manage, for example around remote functionality. In June 2011 we published our Smart Metering Consumer Protections Package to address concerns about smart functionality that allows suppliers to remotely switch customers between prepayment and credit mode, and remotely disconnect supply.

Progress and next steps

- Since the CVS was published we have been further reviewing the regulatory framework to ensure that it works in a way that consumers get the most from smart metering and remain protected. This includes but is not limited to:
 - engaging with industry to ensure benefits are delivered to all consumers, including low income and vulnerable consumers eg better friendly credit and emergency credit arrangements
 - monitoring the number of traditional prepayment meters being replaced with smart meters
 - continuing to monitor remote disconnection and switching rates and review how smart meters can allow us to understand more about self-disconnections
 - Using this information to support consumers.
- We are consulting on our proposed improvements to the regulatory framework. For further information see the Smart Metering Consumer Empowerment and Protection publications³⁷.

³⁶ Emergency credit is a fixed amount of money that can be activated on a prepayment meter if the householder runs out of credit before topping up your meter. Customers need to pay back the emergency credit that they use the next time they top up the meter. Friendly credit/ non-disconnect periods, are periods of time when customers will remain on supply even if credit or emergency credit runs out. Non-disconnect periods usually cover evenings, weekends and public holidays. Customers need to pay back the energy used to their supplier.

³⁷ Ofgem, September 2014, Consumer Empowerment and Protection in Smarter Markets: Updated Work Programme, <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme> . Also, December 2013, the Consumer Empowerment and Protection in Smarter Markets, <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets>

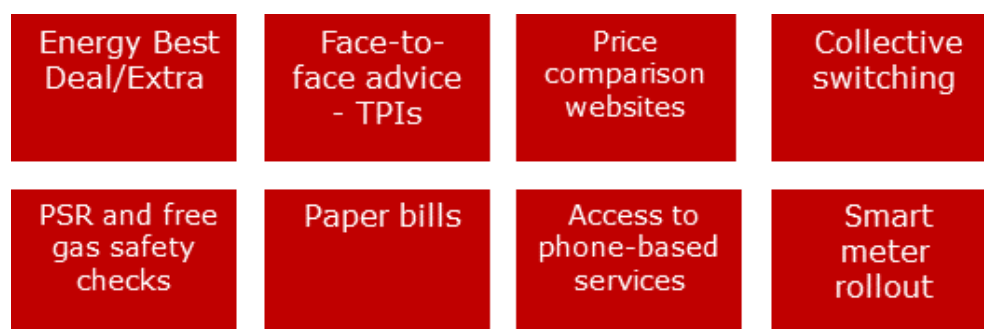
Simpler, clearer prepayment protections guide

There are a wide range of protections in place to safeguard prepayment meter customers, and ensure they are treated fairly. However, both consumers and frontline advisors are not as aware as they could be of the rights that apply to PPM consumers.

Next steps

- We will develop and promote a 'simpler, clearer' prepayment protections guide for frontline advisors – this will collate existing information about protections into a single place and explain them clearly. It will raise awareness of existing safeguards and support frontline advisors in their work. We also want it to help new energy suppliers to comply with their licence obligations.

Workstream 2: Inclusive markets



Why it matters

Millions of consumers may face additional challenges when trying to access the cheapest tariffs in the market, and the services and information they need to effectively manage their energy use and stay safe. Well-designed company services and tailored support can help ensure people are not at a disadvantage because of their circumstances.

Barriers to engagement include but are not limited to: lack of awareness among consumers that they *can* take action; lack of awareness of *how* to take action; and a lack of tools, confidence, skills or ability to easily engage. Consumers in the most vulnerable situations are likely to face a combination of these barriers.

For example, around 1 in 5 adults (11m) in GB have a disability or impairment³⁸ – those with mobility problems may struggle to access their meter to take a reading. The estimated 1.8m adults who are blind or partially-sighted³⁹ may need tailored communications. Automated phone systems can be difficult to use for people with memory or concentration problems, while customers on low incomes may be deterred from contacting their energy company depending on the cost of calling by phone.

Our 2015 RMR evaluation survey⁴⁰ indicates that the lowest rates of switching are among the one in five consumers without regular access to the internet⁴¹. Only 3% of these consumers had switched their electricity supplier in the last 12 months, compared to 15% of those with regular internet access. This group tends to be both

³⁸ Office for Disability Issues, Disability prevalence estimates, 2011/12, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321594/disability-prevalence.pdf

³⁹ RNIB, 2013, Sight Loss UK 2013, The latest evidence, http://www.rnib.org.uk/sites/default/files/Sight_loss_UK_2013.pdf

⁴⁰ Ofgem, 2015, Retail Market Review Survey – based on just under 6,000 face-to-face interviews with consumers responsible for their energy bills. Fieldwork was carried out in February-March 2015. The survey is commissioned by Ofgem and conducted by the independent research agency, TNS BMRB.

⁴¹ Defined as those who do not use the internet at least once a week.

the oldest and most disadvantaged consumers. The survey also showed that regular internet users are also more likely to have complained (10%) than those who did not use the internet regularly (6%).

Confidence in comparing tariffs is lowest among older groups and those without regular internet access. Only 25% of those aged 65+ believe it is easy to compare tariffs (compared to 53% of those aged 16-34).

There is also a clear relationship between social grade (a reasonable indicator of income⁴²) and switching rates. Consumers in social grade DE are less aware of their options and are less likely to have switched their electricity supplier in the past year (only 10%), compared to those in social grade AB (15%)⁴³.

Customers with a physical or mental impairment tend to find comparison more difficult than those without: 27% found it easy to compare tariffs, compared to 41% without a long term physical or mental impairment⁴⁴.

In July 2014 we referred the energy market to the CMA. The CMA published its provisional findings in July 2015, together with an initial list of possible remedies. We will take these into consideration in our future work on inclusive markets and services. The aim of this work stream is to ensure that all consumers can access market benefits, such as competitively priced deals, and are not at a disadvantage due to their circumstances.

⁴² National Readership Survey, <http://www.nrs.co.uk/nrs-print/lifestyle-and-classification-data/social-grade/>

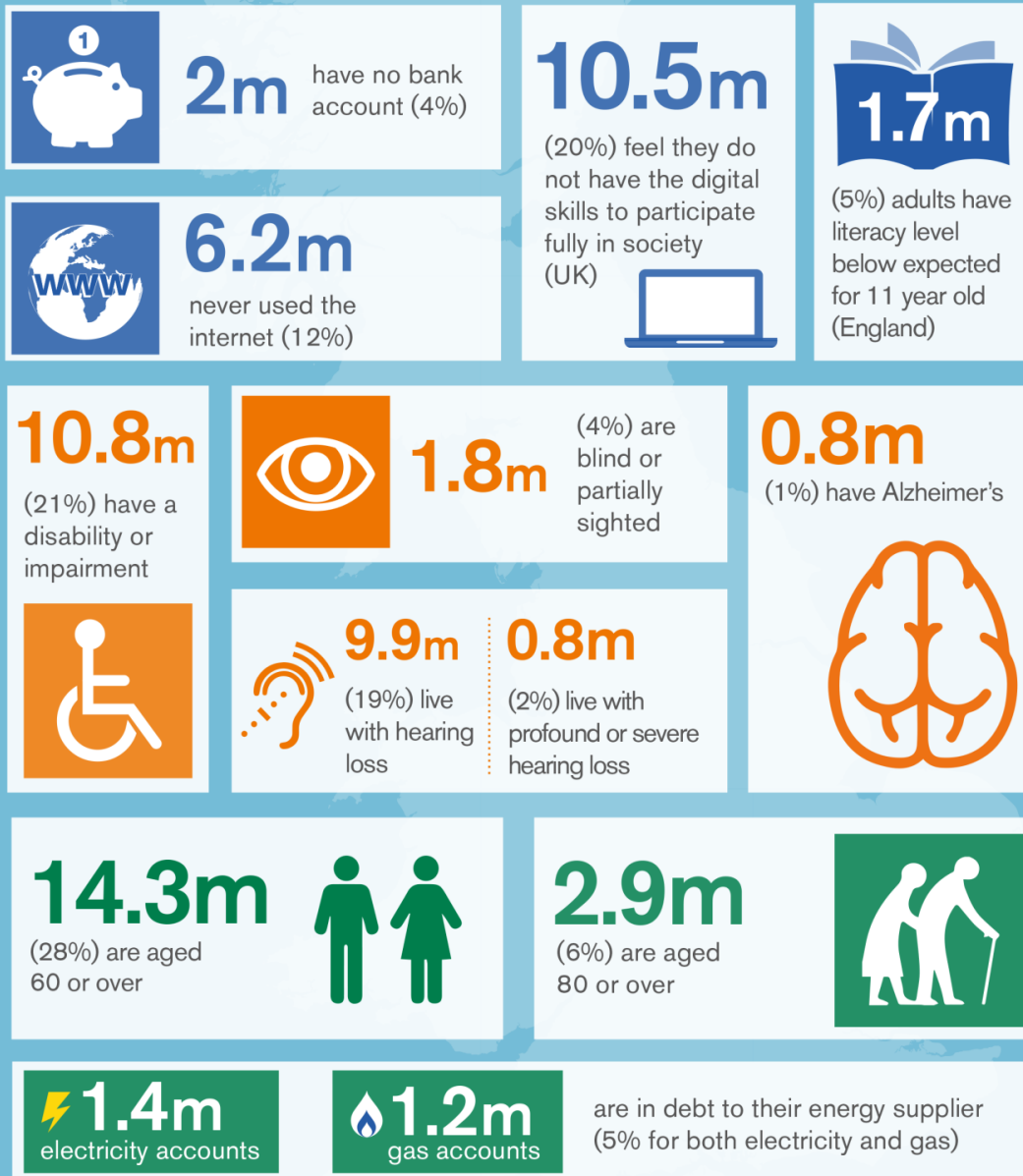
⁴³ Ofgem, 2015, TNS BMRB, Retail Market Review Survey.

⁴⁴ Ibid.

Vulnerability

Socio-economic characteristics

GB adults unless stated



Sources⁴⁵

Energy Best Deal/Energy Best Deal Extra

Our Retail Market Reforms aim to make the market simpler, clearer and fairer for all consumers. However, we recognise that some people may still need additional help to access the cheapest tariffs and manage their energy use.

Since 2008 we have worked with Citizens Advice and Citizens Advice Scotland to develop Energy Best Deal (EBD) and more recently Energy Best Deal Extra (EBDx). These programmes provide low income consumers and frontline workers who support them, with face-to-face coaching to help with:

- switching energy supplier or negotiating a new tariff with their existing supplier
- accessing support available for those struggling to afford their bills - such as debt advice, benefits entitlement checks, and social and environmental schemes
- energy efficiency advice and support.

The programmes are delivered by the Citizens Advice Service and grassroots delivery partners and actively supported by us. For example, we help develop training materials and the annual evaluation. Energy Best Deal is delivered in group sessions and Energy Best Deal Extra provides one-to-one help for the most vulnerable consumers.

⁴⁵ Office for National Statistics, Internet Access Quarterly Update Q1 2014, <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-336652>
http://www.financialinclusioncommission.org.uk/uploads/asset/attachment/3/London_3_2411_14.pdf

National Literacy Trust, September 2015,

http://www.literacytrust.org.uk/adult_literacy/illiterate_adults_in_england

The Office for Disability Issues,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321594/disability-prevalence.pdf

RNIB, 2013, Sight Loss UK 2013, The latest evidence,

http://www.rnib.org.uk/sites/default/files/Sight_loss_UK_2013.pdf
http://www.rnib.org.uk/sites/default/files/Sight_loss_UK_2013.pdf

Action on Hearing, September 2013, <http://www.actiononhearingloss.org.uk/your-hearing/about-deafness-and-hearing-loss/statistics.aspx>

Alzheimer's Society, Dementia 2014: Opportunity for Change,

https://s3.amazonaws.com/14078_Alzheimers_Interactive_Infographic/pdf/as_downloadable_infographics.pdf

Age UK, September 2015, Later Life in the United Kingdom,

http://www.ageuk.org.uk/Documents/EN-GB/Factsheets/Later_Life_UK_factsheet.pdf?dtrk=true

Ofgem, September 2015, Domestic suppliers/ social obligations: 2014 annual report

<https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

Impact and next steps

- At least 350,000 consumers have benefited as a result of EBD since we commissioned the first pilot in 2008⁴⁶.
- In 2013/14, 1,484 EBD group sessions were delivered, directly reaching 10,349 consumers and 5,408 frontline workers. Each session is estimated to help at least 15 service users in the year following training.
- The Citizens Advice Service delivered 4,318 one-to-one Energy Best Deal Extra advice appointments in 2013/4.
- Between April 2014 and 2016, 150 additional bureaux will run sessions targeting a further 15,000 people.
- In April 2015, we announced a further £7.75m to support EBDx following an enforcement settlement with EON⁴⁷.
- We are encouraging the Citizens Advice Service to consider new referral paths (eg from DECC's Big Energy Saving Network) and to work with the UK government's Behavioural Insights Team to further tailor advice. A further update will be available later in the year.

Face-to-face advice provision by third party intermediaries

Good quality face-to-face advice on products and services offered by third party intermediaries (TPIs) can be a powerful way to engage consumers, including those in vulnerable situations who are hard to reach. Concerns have been raised that aspects of the regulatory framework are preventing TPIs from agreeing commercial terms with suppliers for the offer of face-to-face services.

Progress and next steps

- We have been exploring the barriers to offering these face-to-face services. We held a workshop with external stakeholders and developed our analysis of the problem and options for addressing it. We have passed this thinking onto the CMA for consideration as part of their on-going market investigation. We will consider our next steps in the context of the conclusions of the CMA's investigation.

⁴⁶ An independent assessment was carried out by the Centre for Sustainable Energy.

⁴⁷ Ofgem, May 2015, Investigation into E.ON's compliance with its obligations under gas and electricity SLCs, <https://www.ofgem.gov.uk/publications-and-updates/investigation-e-s-compliance-its-obligations-under-gas-and-electricity-supply-licences-standard-licence-conditions-23-6-and-24-3>



**Yvonne, EBD Training Manager
(Action on Energy)**

Action on Energy aims to help individuals become more energy efficient, reduce energy consumption, and mitigate the effects of fuel poverty. Action on Energy ran five local sessions around South London in 2014 with a further 10 sessions planned for this year.

“ Energy Best Deal sessions have become popular amongst front line workers advising consumers on energy and financial matters. They are especially useful to those supporting vulnerable residents who have complex issues and lifestyles. ”

**Fraser works as a Programme Manager for
the Lambeth and Southwark Winter Well-Being
(LSWWB) Programme**

LSWWB aims to reduce hospital readmissions among older people by giving them access to services and support after they have been discharged from hospital.

“ We recognise that there is low awareness of the help available out there for older people. One of the aims of Winter Well-Being programme is to raise awareness and increase uptake of these sources of support. EBD is helpful in our work because if people know how to keep their home warm and know where to get help paying their bills then they will be less likely to be at risk of poor health this winter. ”





Price comparison websites - the Confidence Code

Using online price comparison services is now the most commonly used way to research and switch: of those who had switched in the last 12 months, 44% used an online price comparison service⁴⁸.

The Confidence Code is a voluntary Code of Conduct which sets out the minimum requirements that a provider of an internet domestic gas and electricity price comparison service must meet in order to be, and remain accredited by Ofgem. Twelve sites are now accredited, most recently Quotezone in April 2015. Where consumers see the Confidence Code logo they can be confident that they are getting an independent, transparent, accurate and reliable service.

We have recently reviewed the Confidence Code. Three particular issues emerged for customers in vulnerable situations⁴⁹:

- Concerns about customers accidentally losing the £140 WHD payment which could negate the savings they make by switching or make them worse off. Those consumers in smaller properties who pay less for their energy bills are at most risk of losing out.
- The need for better information about prepayment offers, to help inform customers' switching decisions, eg PPM customers are interested in knowing not only about price but key functionality such as non-disconnection periods and emergency credit levels which can help them manage their energy use.
- The accessibility of price comparison sites for people with disabilities or special needs.

Impact/progress and next steps

- The Confidence Code has been revised so that relevant customers are alerted to the possibility they could lose their WHD benefit if they move to certain suppliers. This should help ensure they don't accidentally lose this £140 benefit when switching supplier or end up worse off. This change came into effect in April 2015.
- We will consider further improvements in the context of the conclusions of the CMA's investigation.

⁴⁸ Ofgem, 2014, TNS BMRB, Retail Market Review Baseline Survey – based on over 6,000 face-to-face interviews with energy bill payers carried out March-April 2014. This is a survey commissioned by Ofgem and conducted by an independent research agency

⁴⁹ Domestic third party intermediaries: Confidence Code and wider issues, 2014, <https://www.ofgem.gov.uk/ofgem-publications/89233/domesticthirdpartyintermediariesconfidencecodeandwiderissues190914.pdf>

Collective switching

Collective switching is where consumers group together to negotiate a better deal with their gas or electricity supplier. Evidence from DECC's Cheaper Energy Together scheme has confirmed that collective switching programmes can support households who are vulnerable or who usually shy away from engaging with the energy market, including those in fuel poverty⁵⁰. Getting local trusted bodies involved can encourage people to switch, even if they have never switched before. Scope's Extra Costs Commission, for example, highlighted the potential value of collective switching to disabled people⁵¹. We want to facilitate collective switching where it benefits consumers.

Progress and next steps

Over 100,000 consumers have now switched via these schemes. To date we have helped deliver this through:

- A tariff-cap exemption: under RMR, suppliers are limited to four tariffs per metering category offered to any domestic customer in any region. But collective switching schemes are exempt from the tariff cap where schemes meet certain criteria. These rules came into force at the end of 2013 as part of the RMR tariff reforms.
- In 2014 we proposed expanding the Confidence Code to include collective switching services. We have not made a decision on these changes yet. There is a lot of collective switching activity at the moment and we are continuing to monitor the development of this part of the market.

⁵⁰ DECC, 2013, Helping customers switch and beyond, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253862/Helping_Customers_Switch_Collective_Switching_and_Beyond_final_2_.pdf

⁵¹ Scope, 2014, Driving down the extra costs disabled people face, Interim report, <http://www.scope.org.uk/Scope/media/Interim-report/Interim-report.pdf?ext=.pdf>

Free services for those with additional needs – the Priority Services Register (PSR)

Under our current protections, suppliers and electricity distribution networks are required to hold a register of customers with additional needs, and to offer free specified services to those consumers. This is known as the Priority Services Register (PSR). The aim of the PSR is to ensure that customers with additional communication, access or safety needs are not at a disadvantage when engaging with their energy company. The minimum services available include:

- special bills and information about the PSR and how to complain for customers who are blind/partially-sighted or deaf/hearing-impaired
- redirecting bills and account information to a nominated person where needed
- re-siting a PPM meter free of charge if the customer can't access it
- quarterly home visits to read the meter
- priority response in the case of supply outages
- a password scheme to help customers identify energy company representatives when they visit their home.

Our 2014 monitoring showed that 11% of electricity consumers and 10% of gas consumers were on suppliers' PSRs⁵² and that not all consumers on the register were benefitting from a service. We conducted further research and found low awareness of the scheme, with only 24% of consumers aware of any non-financial support provided by energy companies to customers in vulnerable situations and only around one in ten able to name a PSR service without being prompted⁵³. In 2013-15 we therefore reviewed the PSR, the services available, the eligibility criteria, and how the scheme operates and is promoted. We published the outcomes of our review in March 2015.

Progress and next steps

- We have consulted on proposed changes to the PSR and will make a decision later in the year. The proposals are intended to ensure that:
 - anyone who needs a PSR service should be able to receive it for free
 - there are minimum levels of protection for those with additional needs
 - the services available are better tailored to meet customers' safety, access and communication needs and are updated to take into account technological innovation such as smart metering.
- In addition, we are working with energy companies to ensure services are better targeted and that customers receive help more promptly with the development of consistent minimum vulnerability flags and a mechanism to share data between companies. We also expect energy companies to develop a consistent approach to brand and publicise the help available.

⁵² Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 annual report <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

⁵³ Research into the Priority Services Register and non-financial support for vulnerable energy consumers, report by Ipsos Mori, July 2013, <https://www.ofgem.gov.uk/publications-and-updates/research-priority-services-register-and-non-financial-support-vulnerable-energy-consumers-report-ipsos-mori>

- We will develop guidance – a 'simpler clearer guide' to free services – for third party advisors to help them in their work to support customers.

We expect these changes to come into force in 2016. We will monitor their impact through revised Social Obligations Reporting and the Standards of Conduct Panel reporting. Networks companies' performance will be measured through the existing stakeholder engagement incentives.

Free gas safety checks

Gas appliances that are not maintained can leak gas and become dangerous. Under current protections, gas suppliers must provide free gas safety checks to certain groups of vulnerable consumers who receive means-tested benefits and own their own home. These groups are currently:

- households with at least one child under five
- customers of pensionable age, disabled or chronically sick and who a) live alone or b) with others who are all of pensionable age, disabled, chronically sick or under 18.

Our Social Obligations monitoring identified a 29% decline in the number of checks carried out, from around 40,000 in 2009 to around 28,000 in 2014. We have therefore been reviewing this protection alongside our PSR review.

Progress and next steps

- We have proposed changes to the eligibility criteria for free gas checks to target this relatively high cost service at those most in need. This includes refining the pensioner eligibility to those '75 and over' and including pregnant women. We will continue to work with gas suppliers over the coming months to identify the reasons behind the decline in free gas safety checks being carried out⁵⁴.

⁵⁴ Ofgem, June 2013, Review of the priority services consultation, [https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/appendix -
_proposed_eligibility_and_services_model_to_publish_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/appendix_-_proposed_eligibility_and_services_model_to_publish_0.pdf)

Case study

BSI for inclusive services

We expect companies to establish their practices, processes and products with vulnerable consumers in mind, and to keep this under review. One tool available to help companies consider their systems, and demonstrate they have a process of review and improvement in place is the British Standard Institute Standard 18477 for Inclusive Services.

The Standard sets out requirements for companies to identify and respond to consumer vulnerability, and in particular, recognises the complex nature of vulnerability including temporary risk factors that may cause short-term vulnerability.

In 2014, Western Power Distribution (WPD) became the first energy company in the UK to be assessed by the BSI as compliant with BS18477. In November 2014, WPD hosted a good practice event for all electricity, gas



and transmission network operators, at which the BSI presented. The aim of the workshop was to help companies to achieve the standard by sharing WPD's experience. It was also an opportunity to explore the potential for future collaborative working around this agenda.

Paper bills and communications

A number of parliamentarians have called for suppliers to offer hard copy communications and to make sure that those who opt for them are not penalised financially. We recognise that some consumers may not want, or be able to access online communications and we strongly support consumer choice on this. Under the RMR which came into force in December 2013, suppliers aren't allowed to make specific charges for bills (unless the customer requests an additional copy) but they can offer cash discounts online. This discount is typically £5-6, reflecting the savings from these cheaper forms of communications. It must be clearly identified and be the same for all tariffs offered by that supplier.

Progress and next steps

- As part of our PSR proposals we will ensure that any customer who *needs* tailored communications can get them for free, eg if the customer has a disability or impairment.
- For those who prefer paper communications, we monitor supplier practices in this area to ensure customer choice. Our latest review found:
 - the vast majority of energy suppliers offer paper-based bills, with the only exceptions being a few of the smaller suppliers
 - with around half of the largest six suppliers, customers pay the same, whether they have paper communications or not, so choice is available.

Access to phone-based services

Consumers want and need to contact their energy supplier for various reasons, whether to query their bill, arrange an appointment or access advice. They may want to make this contact via email, online, through instant messaging, social media or post. For many though, their preference will be to contact their supplier by phone. For customers without internet access, with certain disabilities, or for those with urgent queries, phone contact is essential.

The All Party Parliamentary Inquiry on Hunger and Food Poverty, and the Citizens Advice Service have raised concerns about the cost of calling. We want to ensure that consumers can access telephone services easily and without incurring high call charges. We recognise that high charges can deter customers from engaging with their supplier or result in disproportionate financial detriment.

In 2015 we therefore conducted an initial assessment of telephone service provision by energy suppliers – focusing on the financial accessibility and availability of numbers.

Impact and next steps

- Following the review, we outlined key principles we expect suppliers to adhere to and took action where suppliers do not currently comply with these⁵⁵. The main principles are:
 - Suppliers should minimise cost to customers by offering Freephone or low cost geographic numbers. We do not see any justification for suppliers using high cost numbers as part of their customer service offering.
 - Telephone numbers should be easy to find and prominently displayed on suppliers' websites, annual statements and bills.
 - Telephone service should be accessible to all consumers, including those with special communication needs.
- Next, we will:
 - Monitor suppliers' responses to the legislative changes that saw 0800 and 0808 numbers become free to call from mobiles. Following these changes we will consider whether further work should be carried out to investigate the feasibility of all domestic suppliers offering Freephone numbers as standard for all consumers, including those on PAYG.
 - Work with suppliers, the Advertising Standards Authority and other agencies, to curb the impact of online directories that transfer customers to supplier phone lines using high cost numbers, without making it clear the customers are paying additional and unnecessary costs.

⁵⁵ Telephone Services – our expectations of suppliers operating in the domestic energy market, 2015, <https://www.ofgem.gov.uk/publications-and-updates/telephone-services-our-expectations-suppliers-operating-domestic-energy-market>

Smart meter rollout and customers in vulnerable situations

Safeguards have been put in place to ensure that the needs of customers in vulnerable situations are considered as smart meters get rolled out, and that all consumers can access the benefits that smart metering can bring.

The Smart Metering Installation Code of Practice (SMICOP) outlines minimum standards that suppliers must meet before, during and after the installation of a smart meter. The standards include identifying customers with additional needs, and ensuring demonstrations of new technology are tailored to customers' circumstances⁵⁶.

The consumer engagement body, Smart Energy GB, also has a role to play in ensuring that consumers in vulnerable situations are able to realise the benefits of their Smart Metering Systems and are not at a disadvantage due to their particular circumstances or characteristics⁵⁷.

Progress and next steps

- We regulate suppliers' delivery of the Smart Energy GB and SMICOP obligations. We are observers on the Smart Energy GB Board and the SMICOP Governance Board. We will continue these important roles.

⁵⁶ Smart Metering Installation Code of Practice, <http://www.energy-uk.org.uk/policy/smart-meters/smart-metering-installation-code-of-practice.html>

⁵⁷ Smart Energy GB, September 2015, Smart Energy GB Outlook, <http://www.smartenergygb.org/documents/smart-energy-outlook-report>

Workstream 3: Non-gas households



Why it matters

Approximately 4m households in GB do not use mains gas to heat their homes⁵⁸. Of these, more than half use electricity, which we regulate, as their main source of heating. The rest use fuels such as oil or liquid petroleum gas (LPG).

Heating using fuels other than mains gas, can be (although is not always) substantially more expensive, including electric heating. Households that do not use mains gas to heat their homes are more likely to be fuel poor. For example, in England 15% of households not using mains gas are fuel poor compared to 10% of households that use mains gas. In addition, fuel poor households are more likely to have a higher fuel poverty gap (£643) than households that use mains gas (£303) – that is they suffer deeper or more severe fuel poverty⁵⁹.

Poorer customers represent a significant proportion of those using electricity to heat their homes. For example, in England about a third of customers using electric heating belong to the lowest income quintile (ie the poorest 20% of households), with an annual disposable household income of less than £11,000⁶⁰.

The changing energy market (decarbonising the power sector, deploying renewable heat, and rolling out smart meters) will bring challenges and opportunities for these households. For example, households who use electric heating are expected, on average, to see an increase in their energy bills of around 1.4% of their total expenditure in 2020 as a result of social and environmental policies (compared with estimated decreases of between 0.4% and 0.8% for households using other fuel types).⁶¹

⁵⁸ Consumer Focus, 2011, Off-gas consumers. Information on households without mains gas heating, <http://www.consumerfocus.org.uk/files/2011/10/Off-gas-consumers.pdf>

⁵⁹ Statistics on England for 2012 are in real 2012 prices and based on data provided by DECC and summarised in DECC's annual fuel poverty statistics <https://www.gov.uk/government/collections/fuel-poverty-statistics>, as well as DECC's Cutting the cost of keeping warm. A fuel poverty strategy for England https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf

⁶⁰ Centre for Sustainable Energy, March 2014, Beyond average consumption - development of a framework for assessing impact of policy proposals on different consumer groups. http://www.cse.org.uk/downloads/reports-and-publications/policy/beyond_average_consumption_update_2014.pdf

⁶¹ DECC, 2014, Estimated impacts of energy and climate change policies on energy prices and bills, <https://www.gov.uk/government/publications/estimated-impacts-of-energy-and-climate-change-policies-on-energy-prices-and-bills-2014>

Alongside this, smart meters are expected to facilitate a 20% take-up of static time-of-use tariffs (in addition to the existing group using such tariffs) which could increase competition and choice for electricity heating customers with the resultant benefits⁶². The needs of customers not using mains gas are also high on the public and political agenda, particularly in Scotland and Wales.

Connecting off-gas households – the Fuel Poverty Network Extension Scheme

Under our current price control framework, RIIO-GD1, we require the Gas Distribution Networks (GDNs) to deliver the Fuel Poverty Network Extension Scheme (FPNES). FPNES allows customers to access natural gas (a relatively cheaper fuel) by helping towards the cost of the connection to the gas network. It provides funding for single properties as well as communities like villages and flats to connect to the gas network. We initiated a review of the scheme in August 2014.

Progress and next steps

- Since 2008, more than 58,000 fuel poor households have been connected to the gas grid under FPNES. We expect at least a further 63,000 connections to be made between now and April 2021. One of the initial findings of our review of FPNES is that we expect the number of connections made by GDNs under the scheme to increase further, beyond the number originally set in RIIO-GD1 for the GDNs. We will decide the revised connections target for the GDNs and our overall review of the Scheme by end of September 2015.
- Our changes to the scheme are likely to:
 - increase the total number of fuel poor households that will be helped by encouraging networks to deliver more and by extending the scheme to support district heating
 - ensure a connection is only made when gas is the best solution, rather than alternatives such as renewables or micro-generation.

The updated FPNES is expected to take effect from April 2016.

⁶² DECC, 2014, Smart meter roll-out for the domestic and small and medium non-domestic sectors (GB) Impact Assessment, <https://www.gov.uk/government/publications/smart-meter-roll-out-for-the-domestic-and-small-and-medium-non-domestic-sectors-gb-impact-assessment>

Case study: Fuel Poverty Network Extension Scheme Northern Gas Networks



Ms Carrell is a retired nurse, living in Newcastle upon Tyne. She had no mains gas supply and was struggling to properly heat her home with old electricity storage heaters. She had no heating in her kitchen or bedrooms.

She contacted Warm Zones, which works

in partnership with Northern Gas Networks. She secured funding via the Fuel Poverty Network Extension Scheme to install a gas supply to her home. In addition, Warm Zones pulled together contributions from npower Health through Warmth scheme, local charities and Warm Zones' own local gap funding to install a full new gas heating system with controls. This ensured that her home could be properly heated throughout.

This has made a profound difference to Ms Carrell's health and wellbeing and significantly reduced her use of local NHS services. She can now afford to pay her fuel bills. Ms Carrell said: "This is the first winter that I've not had to be admitted to hospital. It's made a huge difference, the house is always lovely and warm. I'm able to do so much more".

Case study: Fuel Poverty Network Extension Scheme Park Home Development, Folly Park



Affordable Warmth Solutions Director with a Folly Park customer

Folly Park is a privately-owned site consisting of approximately 100 residential caravans. Its ageing residents (many with mobility issues)

were reliant on more expensive fuels such as individual bottled LPG, because of the absence of connection to a gas grid network.

National Grid (through its delivery partner Affordable Warmth Solutions) installed a new gas network and funded the installation or conversion of heating systems, cookers and combined CO and smoke detector alarms to the value of £150,000.

In addition, Affordable Warmth Solutions also worked in partnership with National Energy Action (NEA) to lead surgeries to help residents better understand how to use their new boilers and controls, how to switch tariff, and how to save energy.

Community energy

Community energy (CE) is becoming an established part of the energy landscape. DECC identified⁶³ 5,000 CE projects in GB since 2008, with numbers expected to rise rapidly as government's policy and support packages take effect.

Many projects are motivated by a desire to tackle vulnerability issues and fuel poverty. CE schemes have the potential to provide more affordable energy, especially for rural, and non-gas households who are using electricity, oil or LPG for heating. Local groups can also be effective in helping to engage vulnerable and traditionally hard-to-reach groups. We aim to ensure there are no undue regulatory barriers to the growth of community energy and to maximise benefits to vulnerable households and ensure that they are protected.

Progress and next steps

We have:

- Advised DECC on developing its CE Strategy and work closely with the Scottish and Welsh governments.
- Chaired the CE Grid Connections Working Group involving CE groups and DNOs - this reported to the Secretary of State on what can be done to overcome barriers experienced by CE groups.
- Developed Licence Lite and associated guidance. This lets a new supplier partner with an existing larger supplier to reduce the costs and technical complexity of acquiring a full electricity supply licence. Licence Lite may be an option for some CE schemes.
- Launched a consultation on quicker and more efficient distribution connections for all customers, including CE.
- Published a discussion paper on the emergence of a wave of non-traditional business models to seek to better understand the consumer benefits of new approaches including for customers in vulnerable situations.
- Created a new sub-group of the Smart Grids Forum looking at the challenges facing CE groups in implementing smart grid solutions.

⁶³ DECC, 2014, Community Energy Strategy,
<https://www.gov.uk/government/publications/community-energy-strategy>

Domestic Renewable Heat

The Domestic Renewable Heat Incentive (DRHI) is a UK government scheme launched in April 2014 to encourage uptake of renewable heat technologies among householders, communities and businesses through financial incentives. It's targeted at, but not limited to, rural homes off the gas grid. Those without mains gas have the most potential to save on fuel bills and decrease carbon emissions. DECC sets the policy for DRHI and we administer the scheme. This includes monitoring compliance and assessing and accrediting eligible applications. Concerns have been raised, including by the Fuel Poverty Advisory Group that the upfront capital costs of the RHI make the scheme more difficult to access for non-gas fuel poor households.

Progress and next steps

- We have worked closely with DECC to run a series of roadshows aimed at off-gas grid customers. Over 20 bespoke roadshows have taken places across GB. Locations have included Penrith, Swansea, Worcester, Aberdeen, Inverness, Bicester, Ipswich, York and Stoke.
- We have worked with DECC, who has helped to improve uptake of RHI by low income households and those who lack the financial resources to pay the upfront capital costs. For example, the number of Registered Social Landlords (RSLs) and Local Authorities (LAs) applying to the Domestic RHI has increased significantly, from fewer than 200 applications per week to over 1000 since February 2015 when regulation amendments made it easier for these applicants to apply to the scheme. Currently around 20% of all accreditations made are from RSLs or LAs. We proactively engage with RSLs and LAs, eg through webinars and forums to explain the process.

Dynamic tele-switching (DTS) customers

Around 160,000 customers in GB have dynamic tele-switching (DTS) meters⁶⁴. These are meters that let suppliers control the heating load remotely. DTS consumers tend to be disproportionately on low incomes, have high levels of vulnerability, and are almost equally split between northern and southern Scotland.

Our State of the Market Report on DTS in July 2013 concluded that there were barriers to entering the DTS market, less vigorous competition and more limited switching options for DTS customers. However, with a few exceptions, customers did not appear to be paying higher prices as a result when compared to other tariffs available in the same region⁶⁵. We have continued to internally monitor this market segment and, as of March 2015, we have found no main changes relative to our 2013 Report conclusions.

We held a roundtable in October 2013 with suppliers and consumer groups to explore DTS issues and potential solutions, and referred our concerns to the CMA for consideration in its energy market investigation in July 2014. Our November 2014 qualitative research⁶⁶ found that DTS customers may be spending more than they need to on energy because of:

- Low awareness and understanding of DTS arrangements and tariffs
- Problems with understanding and operating the DTS heating system
- High levels of vulnerability, making it difficult for consumers to access information and exercise supplier or tariff choice
- Perceived lack of interest by suppliers in explaining DTS arrangements to consumers and offering alternatives
- Additional barriers to exercising choice, such as the high cost quoted for changing DTS meter including those on low incomes.

Progress and next steps

- In November 2014, we challenged suppliers to improve the support and information that they make available to DTS consumers. In response, they outlined their plans to increase engagement with DTS customers through written communications and specialist customer service. We will be following up with them to assess their progress.
- We are also reviewing how suppliers ensure that DTS customers benefit from RMR information related reforms.
- We supported the Citizens Advice Service in producing independent advice for DTS customers⁶⁷.

⁶⁴ Revised figure as of 31 December 2014. The number is down from 550,000 in 2012 due to the removal of the dynamic functionality of DTS meters in East Midlands; this does not mean the meters have been physically replaced: they are still there, but are used in a static way, in the same way as an Economy 7 meter.

⁶⁵ Ofgem, 2014, State of the Market Assessment, <https://www.ofgem.gov.uk/ofgem-publications/86804/assessmentdocumentpublished.pdf>

⁶⁶ Ofgem, 2014, Dynamically tele switched meters and tariffs – research into consumer experience, <https://www.ofgem.gov.uk/publications-and-updates/dynamically-teleswitched-meters-and-tariffs-%E2%80%93-research-consumer-experience>

⁶⁷ Citizens Advice, Dynamically tele-switched meters, http://www.adviceguide.org.uk/england/consumer_e/consumer_energy_supply_e/consumer_c

Electric heating insights

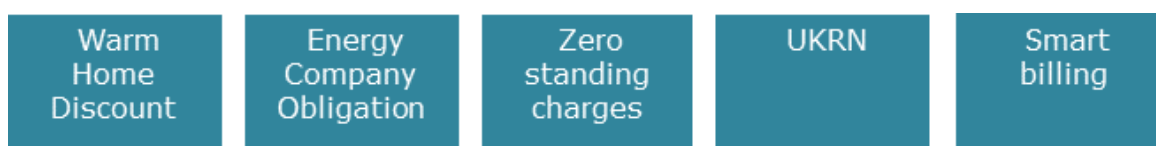
Electric heating households make up more than half of those not using mains gas as their primary source of heating. We are concerned that households relying on electric heating face higher costs and are more likely to be fuel poor than households that use mains gas. In order to develop a stronger evidence base, including an improved understanding of this market and the customer experience, we are conducting new analysis in this area.

Progress and next steps

- We will publish an electric heating insights paper and our proposed next steps later in the year. The paper will inform our regulatory approach, prioritisation and wider policy-making.

[housing_and_switching_supplier_e/dts_energy_meters.htm](#)

Workstream 4: Affordability



Why it matters

While major energy suppliers announced cuts to energy bills in winter 2015, between 2003 and 2013 average electricity bills increased by over £200 and average gas bills increased by nearly £400 in real terms⁶⁸.

This rise, combined with static real incomes, has increased pressures on household budgets, with consumers on low incomes and those in other vulnerable situations feeling the most impact.

Over the longer term, share of household expenditure on energy is not at its highest. Energy spend accounted for over 6% of total household expenditure 30 years ago for the average UK household, while it was just over 5% in 2013⁶⁹. However, the share of energy spend by households in the lowest income decile was nearly four times as high as that of households in the highest income decile. Many key elements of household spending have also risen substantially in real terms over the last decade, but energy has seen the largest rise.

Analysis suggests that affordability pressures can affect certain groups of consumers more than others – low income households, lone parents with dependent children, households with disabled people, couples with dependent children and working age adults living alone, are at higher risk of being in fuel poverty than other household types⁷⁰.

The main drivers of fuel poverty are well recognised – poor energy efficiency of housing, increasing energy prices, and insufficient incomes. Alongside this, choices and control people have around managing their bills and money also play a key role for affordability⁷¹.

Ofgem is not responsible for deciding fuel poverty policy, which is a matter for the UK government and devolved administrations. We work to keep prices as low as possible for all consumers in three main ways by: promoting effective competition in

⁶⁸ DECC, 2014, Quarterly Energy Prices, Tables 2.2.1 and 2.3.1, September 2014
<https://www.gov.uk/government/collections/quarterly-energy-prices>, own calculations.

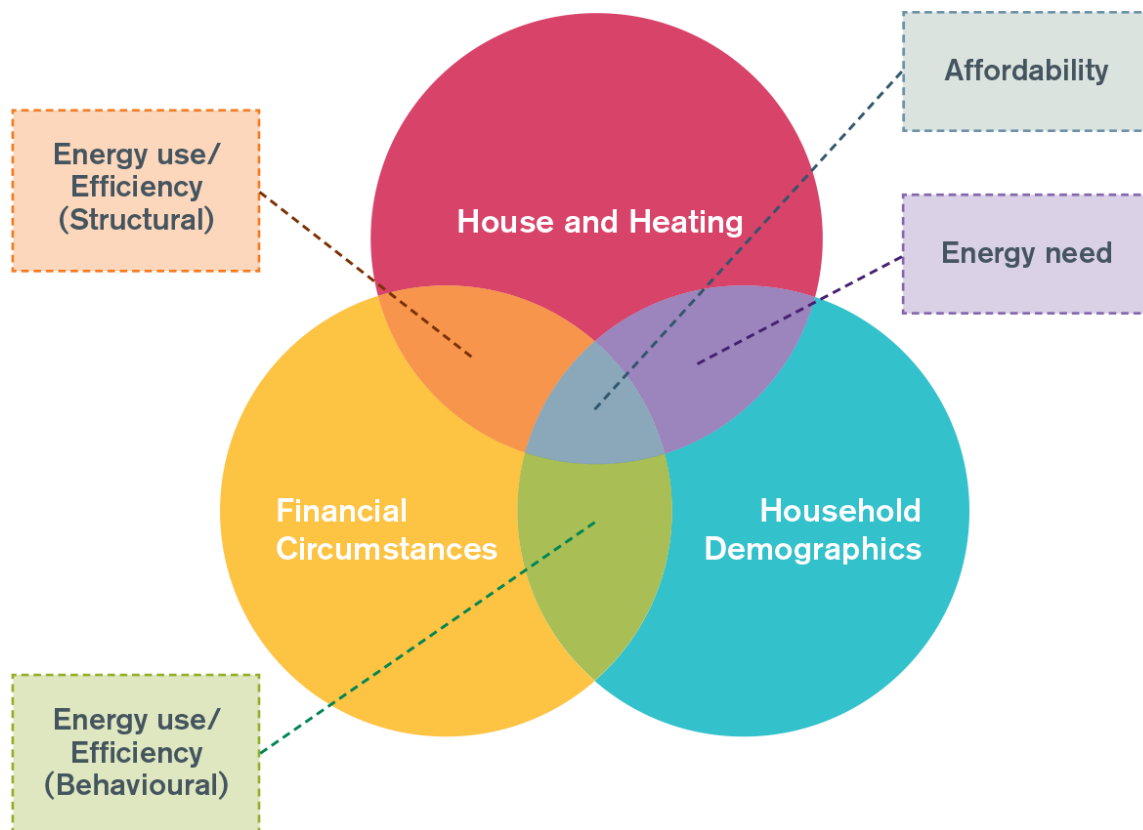
⁶⁹ ONS Family Spending, various releases (1993-2013), own calculations
<http://www.ons.gov.uk/ons/rel/family-spending/family-spending/index.html>.

⁷⁰ DECC, 2015, Annual Fuel Poverty Statistics Report, Detailed Tables Low Income High Costs Measure, Table 6 and Table 1, <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2015>

⁷¹ UKRN, 2015, Understanding affordability across sectors,
http://www.ukrn.org.uk/?page_id=467

retail gas and electricity markets; setting and monitoring monopoly network price controls; and by administering government environmental and social programmes. Our work to keep costs low for all consumers is covered in our Strategy and Forward Work Plan⁷². The projects below focus on specific activity to support consumers on low incomes and in fuel poverty afford to heat and power their homes. Our work to support customers in debt is dealt with work stream 5 – there is clear an overlap between the two.

Factors affecting energy affordability:



⁷² Ofgem, Corporate Strategy and Planning, <https://www.ofgem.gov.uk/about-us/corporate-policy-planning-and-reporting/corporate-strategy-and-planning>

Warm Home Discount

Under the government's Warm Home Discount scheme, suppliers with more than 250,000 domestic customer accounts (gas and electricity) provide electricity bill rebates – currently worth £140 – and indirect support to low income consumers. In total, nine suppliers participated in the scheme in 2014/15 with a further two qualifying in 2015/16.

DECC designs the WHD, sets the eligibility criteria and administers the core group. Ofgem administers the remaining parts, to deliver it efficiently and effectively. Our work includes: approving applications for spend and monitoring suppliers' activity to ensure they comply with the scheme's obligations; advising suppliers and enforcing DECC regulations.

While we are not responsible for designing WHD policy, we work closely with DECC and industry to deliver improvements. In November 2014 we published research to understand how energy advice services delivered through WHD can benefit vulnerable consumers – *Warm Home Discount: how are consumers benefitting?* What we learned through doing this will help improve the scheme.

Impact and next steps

- With our help, suppliers have successfully met, and gone beyond, their obligations under the WHD scheme. WHD has now delivered more than £1bn in support for those at risk of fuel poverty since it started in April 2011. In 2013/14, over 1.8m customers received a rebate of £135 to help with energy costs, with the majority of these rebates paid automatically to eligible pensioners.
- Suppliers provided more than 250,000 rebates beyond their minimum requirement. Half a million consumers received other types of support such as: energy saving advice; debt assistance; benefit entitlement checks; and referrals to other support organisations in addition to other initiatives worth £291m. This was £24m more than the minimum obligation. Projected assistance for 2014/15 is £310m⁷³.
- We successfully advocated for improvements to the eligibility criteria, such as including families with young children, and work with DECC to deliver these.
- We recognise that the introduction of Single State Pension and Universal Credit could present barriers to identifying vulnerable customers who could benefit from Warm Home Discount. We will monitor suppliers' processes to ensure customers in need of support do not miss out.

⁷³ Actual spend to be confirmed later in the year.

Energy Company Obligation (ECO)

More energy efficient homes can help cut consumers' bills and keep them warmer. Under the government's ECO scheme, suppliers with more than 250,000 customer accounts are required to install energy efficiency improvements in households in Great Britain. At present, 11 suppliers are required to participate in the scheme.

ECO includes three main targets:

- the Carbon Emission Reduction Obligation – primarily targets GB homes with measures such as roof and wall insulation and district heating systems
- the Carbon Saving Community Obligation – targets homes in low income and rural areas with insulation and district heating measures
- the Home Heating Cost Reduction Obligation – aims to reduce the heating costs of vulnerable consumers living in private housing through installing heating and insulation measures.

DECC designs the policy for ECO including setting eligibility criteria. We administer the scheme to ensure it delivers benefits to consumers as efficiently and effectively as possible. This includes: allocating each supplier's share of the targets based on their market share; monitoring and reporting on progress of delivery; checking compliance with legislation and our guidance; auditing suppliers and the measures installed; and ultimately determining if suppliers have met their obligations so that customers benefit. As the administrator of ECO, we seek new ways to improve the scheme while acting within our powers.

Impact and next steps

- Up to the end of January 2015 we helped ensure companies delivered over 1.3m measures to more than a million homes. This included nearly 290,000 boilers installed, 590,000 walls treated and 360,000 lofts insulated.
- We work to ensure that high-quality measures are installed and customers have a positive experience - our quarterly technical monitoring reports, for example, allow us to monitor the quality of ECO measures installed in consumers' homes. We discuss the findings of these reports with energy companies, industry groups and accreditation bodies, to drive improvements in installation quality.
- While DECC sets the policy for ECO, in our role as administrator we provide input into the design of it. This allows government to benefit from our knowledge and experience of administering energy efficiency schemes.
- We also published our address checking tool which allows users to check whether a certain postcode is in a low income or rural area eligible under the Carbon Saving Community Obligation.

Treatment of households that do not use gas – zero standing charges

Some customers have gas meters on their properties but do not use gas or are very low gas users. Under the Retail Market Reform changes suppliers are required to offer tariffs with a standing charge plus unit rate. This simple tariff structure is to help customers compare deals and access the cheapest tariff for them.

While suppliers can set the standing charge at zero, concerns were raised that increasing numbers of suppliers were removing zero standing charge offers from the market. This meant that some customers, including those in vulnerable situations, were being required to pay for a meter they did not use. Also there were concerns that low gas users were worse off as a result of increasing standing charges. We took action to better understand the issues raised and challenged suppliers to review how they meet the needs of zero and low gas users.

Impact and next steps

The six largest suppliers have all adopted the following practices for households in vulnerable situations:

- Practice 1 – they will not recover a standing charge from households who have not entered into an express contract and have never consumed gas at the premises
- Practice 2 – they will offer to remove the meter for free for households who do not intend to use gas in the future, if such action is required
- Practice 3 – they will take reasonable steps to communicate options available to households who do not require a gas supply.

We encourage all suppliers, including smaller suppliers, to consider these practices in the light of their own business and consumer needs, and to continue to push themselves to deliver fair treatment to all households. All suppliers need to keep their approach to households who do not use gas under review, for example by considering the learning from consumer research and complaints data. One large supplier, for example, has introduced an annual rebate to reimburse the standing charge for vulnerable low and zero gas users.

It is worth noting that there are zero standing charge offers available and currently around 14 tariffs in the market with standing charges of between zero and £60 per year. Customers who have consistently low usage should shop around for savings on their energy bills or switch to a supplier that better meets their needs. Information on shopping for energy is available from www.goenergys shopping.co.uk.

The UK Regulators' Network (UKRN)

The UK's economic regulators – for energy, water, communications, health, legal and finance – joined together in March 2014 to form UK Regulators' Network (UKRN)⁷⁴. This group aims to ensure effective cooperation across sectors where it can benefit consumers. Ofgem is leading on the UKRN affordability project. The aim of the project is to:

- explore and understand the combined affordability pressures faced by households, considering not just energy, but expenditure on many essential services, and
- assess whether a more joined-up approach could deliver improved and easier access to help for consumers.

Progress made and next steps

- In January 2015 we published analysis of the affordability pressures faced by consumers across energy, water, communications and rail sectors⁷⁵.
- In September 2015 we published another report which examines factors impacting future bills and fares⁷⁶. The analysis takes a broad look at the factors that might affect both prices and future demand for a range of essential services and provides a cross-sector comparison of the key drivers. It also considers the relative impacts on different consumer groups and how household income might change in relation to bills in the future.
- As a next step the UKRN is exploring where coordinating regulators' approaches to supporting customers in vulnerable situations, including sharing best practice, can deliver better outcomes for consumers.

⁷⁴ <http://www.ukrn.org.uk/>

⁷⁵ UKRN, 2015, Understanding affordability across sectors, http://www.ukrn.org.uk/?page_id=467

⁷⁶ UKRN, 2015, Understanding affordability pressures in essential services: future bills report http://www.ukrn.org.uk/?page_id=467

Smart billing

Billing problems are consistently the largest source of energy consumer complaints⁷⁷ and can cause considerable detriment. Our qualitative research into energy affordability identified transparency of energy costs, and control over billing as key factors to ensure energy affordability⁷⁸.

For consumers, smart meters can bring significant benefits and opportunities. They are expected to end estimated billing. Through better data, people will be able to better manage their energy use and expenditure. In our recent qualitative research on smart billing, consumers confirmed that accuracy is key, although they understood the teething problems that come with any new technology, such as smart metering⁷⁹.

Our objectives for smart billing are as follows:

- Customers get accurate bills, supported by convenient billing frequency and payment method arrangements
- There is minimal reliance on estimated meter readings
- There are optimal direct debit calculations based on accurate consumption data
- There are no back-bills if the consumer is not at fault
- Timely and accurate opening bills, final bills and rebates.

Progress and next steps

- To ensure a minimum level of protection, we are currently consulting on placing a time limit on the duration of back-bills generated from consumption on a smart meter. This would mean that if a customer has a smart meter they could not be back-billed for more than six months energy where it was not their fault. We propose to review this limit in 2020 with the expectation of moving to a three month limit.
- In addition, we have proposed that suppliers publish their smart billing performance data, building on the existing publication of complaints data for domestic consumers. This would increase transparency in the market, enabling consumers to make decisions based on this key indicator of a supplier's performance.

For further information, see the Smart Metering Consumer Empowerment and Protection publications⁸⁰.

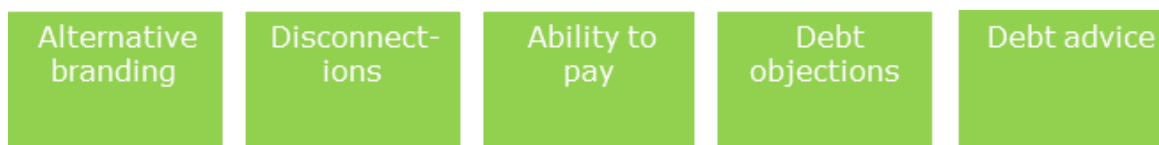
⁷⁷ Ombudsman Services, Energy Sector Report 2014/15, http://www.ombudsman-services.org/downloads/OS_annualreport_energy_2015.pdf

⁷⁸ Ofgem, 2014, Consumer First Panel Report, Affordability <https://www.ofgem.gov.uk/ofgem-publications/90489/panelreportaffordabilityfinal2.pdf>

⁷⁹ Ofgem, 2015, Consumer Panel Report, Smart Billing, <https://www.ofgem.gov.uk/publications-and-updates/ofgem-consumer-first-panel-year-6-wave-3-smart-billing>

⁸⁰ Ofgem, September 2014, Consumer Empowerment and Protection in Smarter Markets: Updated Work Programme, <https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme> and Consumer Empowerment and Protection in Smarter Markets, December 2013,

Workstream 5: Debt and disconnection



Why it matters

Energy is an essential service needed for health and safety. Disconnecting consumers should only be a last resort. A significant minority of customers in Great Britain are in debt to their energy supplier. In 2014, around 1.4m domestic electricity customer accounts (5%) and 1.2m domestic gas customer accounts (5%) were in debt on energy bills⁸¹. The Children's Society estimates that almost a million children are living in families in energy debt and are suffering detriment as a result⁸².

At the end of 2014, GB consumers who agreed to repay their debt owed an average £355 on electricity accounts and £382 on gas accounts. This is approximately 16% more and 18% more compared to what they owed at the end of 2013⁸³.

Frontline advisors report changes in the nature of debt, from a situation where debt is largely prompted by a change of circumstances, such as redundancy or ill health, to what Money Advice Service calls an 'income deficit' model where households simply don't have enough money to pay their bills⁸⁴. Customers with poor credit histories can also face barriers to accessing the cheapest deals.

The rollout of benefits reform and changes to Fuel Direct bring new challenges, especially for customers unaccustomed to budgeting for their energy use, in particular on a monthly basis. Technological changes such as smart metering and greater access to data offer both new opportunities and new risks to customers struggling to afford their bills.

As energy bills rise and household budgets come under strain it is important that suppliers do all they can to help customers manage their bills, manage their debts and avoid disconnection. This is especially true of customers who have additional vulnerabilities.

<https://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets>

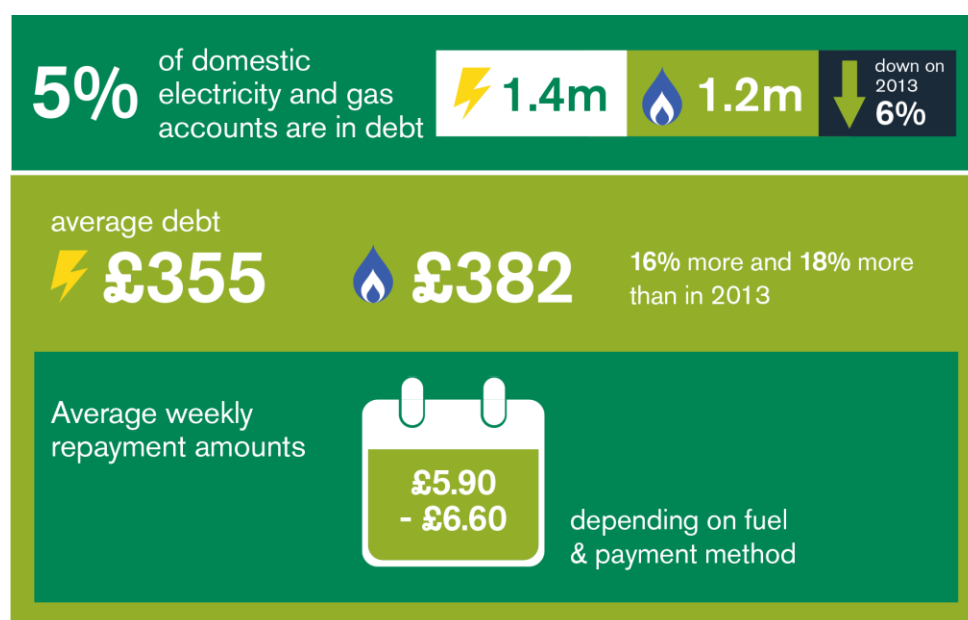
⁸¹ Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 Annual Report <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2014-annual-report>

⁸² Children's Society, 2014, Show Some Warmth, <http://www.childrenssociety.org.uk/what-you-can-do/campaign-for-change/show-some-warmth-fuel-debt-and-families>

⁸³ The increase in the level of debt was likely due to a combination of changes in the way some suppliers report debt metrics and a change in back-billing activity by one supplier.

⁸⁴ National Debtline, <https://www.nationaldebtline.org/EW/Pages/CHHB-press-release.aspx>

Energy debt indicators, GB, 2014⁸⁵



Alternative branding - supplier communications with customers in debt

In summer 2014 we reviewed domestic suppliers' use of alternative branding to communicate with indebted customers⁸⁶. This was to ensure that customers were not being misled, unduly pressurised or scared into making payments that they could not afford. Alternative branding is where correspondence is branded (for example on a letter head) with a name that is different from the name of the energy supplier, implying that it comes from a different organisation and the debt has been escalated.

Impact and next steps

- We secured commitments from energy suppliers to provide clear branding to customers in debt to ensure they are not misled into making decisions that may cause them detriment.
- This review identified broader concerns about suppliers' compliance with the key Ability to Pay Principles and wider protections which we are following up on (see below).

⁸⁵ Ofgem, 2015, Domestic Suppliers' Social Obligations: 2014 annual report
<https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>

⁸⁶ Ofgem, 2014, Using alternative branding to communicate with indebted customers,
<https://www.ofgem.gov.uk/publications-and-updates/using-alternative-branding-communicate-indebted-customers>

Disconnections - social obligations reporting (SOR)

During winter months (October to March) suppliers are prohibited by their licence from knowingly disconnecting consumers of pensionable age (if they live alone, with other pensioners or with children). Suppliers must also take all reasonable steps during winter to avoid disconnecting premises where there is someone who has a disability, a chronic sickness or is of pensionable age⁸⁷.

The licence also requires that suppliers provide us with the data on debt and disconnection, among other areas. We refer to this data as Social Obligations Reporting (SOR). We use this information to monitor companies' compliance with protections which are designed to safeguard customers in vulnerable situations, including financial difficulty. We meet with suppliers and act to address the problems we find.

Six larger suppliers (British Gas, EDF Energy, E.ON, npower, Scottish Power and SSE) also adhere to the Energy UK voluntary code of practice, the Safety Net. Among other protections, this is intended to prevent the disconnection of vulnerable customers at any time of year and provides a commitment to reconnect customers who are subsequently identified as vulnerable as a priority and usually within 24 hours⁸⁸.

Impact and next steps

- As a result of our protections, the number of disconnections for debt has decreased significantly from 3,280 in 2004 to 233 (192 electricity customers and 41 gas customers) in 2014⁸⁹.
- We closely monitor disconnections for non-payment of debt. Last year we asked suppliers for the reasons behind each disconnection that was carried out in GB in 2014. We found that the vast majority were carried out as a last resort in situations where it would not have been safe and practical for the supplier to install a PPM. We will continue close monitoring of disconnections and report on our findings in the next SOR Annual Report.
- While disconnections declined, in recent years we have seen an increase in the number of PPMs installed for debt, which suppliers use as an alternative to disconnection. This allows them to maintain supply while providing customers with a way to repay debt. However, prepayment comes with a risk of self-disconnection. We have therefore worked with the Citizens Advice Service to help prevent PPM self-disconnection and support those in financial difficulties (see section on Prepayment).

⁸⁷ Pursuant to standard licence conditions 27.10 and 27.11 of the gas and electricity supply licences.

⁸⁸ Energy UK Safety Net, http://www.energy-uk.org.uk/files/docs/Disconnection_policy/energy-uk-safety_net-17-april-2014.pdf. The Safety Net defines a vulnerable customer as "A customer is vulnerable if for reasons of age, health, disability or severe financial insecurity, they are unable to safeguard their personal welfare or the personal welfare of other members of the household". Compliance with the Safety Net is independently audited

⁸⁹ Ofgem, Social Obligations Reporting, 2004-2014.

Debt build-up and customers' ability to pay

Under our Principles for Ability to Pay⁹⁰, suppliers should make proactive contact with customers to prevent debt build-up, and agree debt repayment rates which are affordable for the customer. Energy companies should then monitor the arrangement to check its ongoing suitability. Under wider protections, they must also treat customers fairly⁹¹ and not mislead them.

Our SOR monitoring identified that customers with small suppliers often had higher than average debts and were paying higher repayment rates, suggesting that protections were not being adhered to.

Our review of suppliers' use of alternative branding subsequently identified problems such as suppliers not telling customers that a suitable payment method could be agreed and demanding payment in full. Research by the Children's Society also indicates that many customers may not be getting the opportunity to negotiate affordable repayments, that companies are aggressively pursuing repayments, and failing to monitor the ongoing affordability of repayment plans⁹².

Progress and next steps

- We recognise that small suppliers tend not to have as much experience of managing debt or the safeguards to support consumers. We therefore held a debt management workshop with Money Advice Trust for small suppliers in 2014 to outline existing protections and good practice in this area.
- We expect to see improvements in debt repayment levels and will follow up with suppliers where we have concerns later in the year. We intend to publish individual supplier data on average debt in the next SOR annual report.

⁹⁰ Ofgem, 2010, Review of suppliers' approach to debt management and prevention, <https://www.ofgem.gov.uk/publications-and-updates/review-suppliers%E2%80%99-approaches-debt-management-and-prevention>

⁹¹ Refer to Standard Gas and Electricity Licence Condition 25C for definitions of 'fair' treatment and Standards of Conduct.

⁹² Children's Society, 2015, Show Some Warmth, <http://www.childrenssociety.org.uk/what-you-can-do/campaign-for-change/show-some-warmth-fuel-debt-and-families>

Debt objections

It is vital that energy consumers can easily and confidently change their energy supplier. As part of the existing switching process, suppliers may under certain circumstances object to a customer switching to another supplier. The most common reason for blocking a transfer is that the customer is in debt ('debt blocking'). In 2014, the objection rate in the domestic market as a percentage of all transfers was around 6% and 8% in gas and electricity respectively. Debt blocking accounts for the vast majority of these objections.

Ofgem has proposed to lead the industry towards reliable next-day switching by 2019. As part of the journey, we are taking a fresh look at whether the objections arrangements are in the best interests of consumers or whether suppliers should find other ways of managing credit risk. We are considering whether alternative arrangements might enable consumers in debt to engage more effectively in the market, while at the same time ensuring suppliers can take appropriate steps to have debt repaid.

Progress and next steps

- In February 2015 we published a call for evidence on the costs and benefits of reforming or abolishing supplier objections. We have also explored the issues with our panel of domestic consumers. We are considering these responses and our next steps and will publish an update before the end of the year.

Debt advice

Only 17% of over-indebted people seek debt advice⁹³. It is important that customers are made aware of free advice available from their own energy supplier and high-quality independent advice from charities. Customers' awareness of rights can also be low and the wide range of debt management solutions available across all sectors can be confusing for some to navigate⁹⁴.

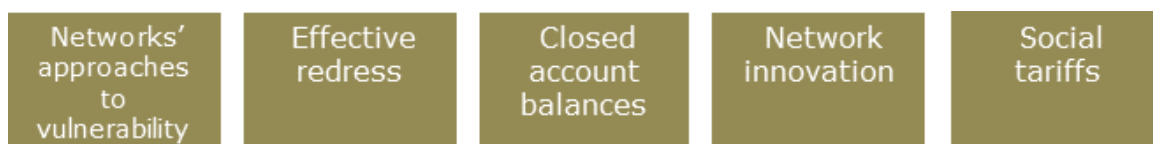
Next steps

- We intend to produce and disseminate debt advice in partnership with the advice sector and suppliers. This is to raise customers' awareness of their rights and the free help available. We want to encourage customers in financial difficulty to take earlier action to manage their debt.

⁹³ Financial Inclusion Commission, <http://www.financialinclusioncommission.org.uk/>

⁹⁴ Ibid.

Workstream 6: Innovation and redress



Why it matters

A range of safeguards are in place to ensure that energy network companies and suppliers support customers in vulnerable situations and treat them fairly. To build customer trust, companies need to not only meet minimum standards but to go beyond them.

Innovation in how companies serve customers in vulnerable situations is essential as society changes and markets evolve, to ensure customers remain protected and can get the most from the energy market. For example, technological developments, such as smart technologies and greater access to data can enable more tailored products and services and new solutions to help those most in need. Wider economic and social changes such as benefits reform require a proactive approach on the part of companies and collaborative working to anticipate and support customers who are in vulnerable situations. We have a range of mechanisms in place to incentivise and support innovation around vulnerability.

Network approaches to vulnerability

We believe that distribution network operators (DNOs) have an important role in helping address vulnerability. We want them to support, identify, understand, and anticipate the needs of consumers in vulnerable situations, for example, during power cuts. We recognised that for DNOs to fulfil this role there needs to be a major cultural and behavioural shift. Our RIIO-ED1 price control therefore incentivises this change through the outputs that we require electricity DNOs to deliver for their consumers for the eight-year period from 1 April 2015 to 31 March 2023. To achieve our aims, we also decided to set up the Stakeholder Engagement and Consumer Vulnerability Scheme (SECV) as part of the price control.

Impact and next steps

- As a result of our stakeholder engagement incentive and the RIIO-ED1 business plan process, we are beginning to see a significant change in the way network companies engage with stakeholders. For example, most now have independent expert consumer panels advising them on critical issues. Other examples of good practice include:
 - new processes to train staff to recognise signs of vulnerability – including temporary or transient vulnerability
 - improving the quality of data that companies hold on vulnerable consumers (eg, establishing a dedicated team to proactively contact existing PSR customers to ensure data is up-to-date)
 - establishing referral mechanisms with other organisations that could provide additional support to vulnerable consumers.
- Under our approach, an independent consultant and a panel of vulnerability and stakeholder engagement experts assess how well DNOs understand, identify and help consumers in vulnerable situations.

Case study: Affordable Warmth Scheme Western Power Distribution



Warm Zones have been working in partnership with Western Power Distribution to deliver an Affordable Warmth Scheme to fund key support for vulnerable customers.

The following assistance was funded by Western Power Distribution.

Mrs C is an elderly lady living alone in the West Midlands who suffers from severe arthritis and angina. She was referred to

the Affordable Warmth Scheme by her local Age UK.

Her gas and electricity bills were high and, importantly, her main living room was not warm which was not good for her medical conditions. With the help of a Warm Zone energy advisor, Mrs C was able to keep her home warm through better use of the thermostat to control overall temperature.

The advisor also helped Mrs C to save money on her fuel bills by helping her to switch from a two-year fixed tariff on Economy 7 to a one-year fixed tariff, which reduced her monthly direct debit from £135 to £85 per month. In addition, Mrs C was assisted to cancel an unnecessary maintenance contract for her new boiler and to find a contractor to carry out the annual service required to meet the requirements of the boiler warranty.

Network innovation

Britain's energy mix is changing and the way our gas and electricity networks operate needs to change too. We provide essential backing to innovative projects which aim to help make the energy networks smarter, accelerate the development of a low carbon energy sector, as well as deliver financial benefits to consumers.

As part of the RIIO-T1, RIIO-GD1 and RIIO-ED1 price controls we introduced a Network Innovation Stimulus. The Stimulus includes two annual Network Innovation Competitions (NICs), one for electricity network companies and one for gas network companies.

Through the NICs companies compete for funding for the research, development and demonstration of new technologies, and operating and commercial arrangements. Funding is provided for those innovation projects which meet our evaluation criteria⁹⁵. We are supported in our review and assessment of the projects by two independent expert panels.

As part of the electricity distribution price control arrangements (1 April 2010 to 31 March 2015), we also established the Low Carbon Networks (LCN) Fund. The LCN Fund allowed up to £500m of funding to support projects sponsored by the distribution network operators (DNOs).

The objective of the NICs and the LCN Fund is to help network companies understand what they need to do to provide security of supply at value for money as Britain moves to a low carbon economy.

A number of the innovation projects look at the extent to which efficiency measures and new products and services can be considered a cost-effective, predictable and sustainable tool for managing demand on the electrical networks as an alternative to traditional reinforcement. For example, some pilots involve customers using technologies such as LEDs, smart plugs, electricity storage, smart energy displays or new kinds of tariffs and rebates that encourage householders to shift or reduce their energy usage.

Progress and next steps

- There are a number of pilots, due to start or underway, which focus on vulnerability. This includes: communities in or at risk of fuel poverty; those with a relatively high number of households where English is not the first language; trials in rural areas, and with social housing providers and local community partners and outreach workers.
- Companies are learning a lot from the projects, and this will help inform improvements. This includes ensuring that the solutions they develop meet the needs of all sections of society, not just those who are able to pay. They have also learnt about how networks can improve their communications with customers in vulnerable situations.

⁹⁵ <https://www.ofgem.gov.uk/network-regulation-riio-model/network-innovation>

Effective redress

It is essential that consumers are treated fairly and receive good service. Prompt and effective action to put things right must be taken when suppliers breach their obligations and steps taken to prevent problems from happening again. This is especially important when customers in vulnerable situations suffer harm – whether loss, damage or inconvenience as a result of company action.

Under the Energy Act 2013, we have new powers to compel companies to provide redress to consumers, compensating them directly where possible or putting them back into the position they were in before the breach. These came into force in December 2013.

When a company breaks the rules we choose the most suitable method of redress in each case. As a general rule we expect suppliers to make every effort to directly compensate those impacted. Where this is not possible, we can require them to make payments to consumers not directly affected by the contravention, including to those in vulnerable situations and on low incomes, or to a charity, trust or organisation whose objectives might be a suitable proxy for customers directly affected.

Where appropriate, we ask companies to improve their practices to ensure that consumers are receiving a good service and are being treated fairly. For example, when we announced Ofgem's investigations into Scottish Power's treatment of their customers, Scottish Power also signed up to Ofgem targets to improve customer service within three months or suspend proactive sales activities until the targets were met. One of these targets was to completely remove the backlog for acting on Ombudsman decisions for individual complaints by the end of November. Ofgem found that Scottish Power had failed to meet this target so Scottish Power stopped proactive selling for 12 days.

Impact and next steps

- In 2013-15 we secured £90m in consumer compensation and redress to support fuel poor and vulnerable consumers. This includes almost £50m for energy efficiency measures. We are reviewing the process of identifying and making redress payments to ensure that we have a robust process for securing and monitoring effective and well-targeted consumer redress.

Closed account balances

In 2014, our investigations found that the largest six suppliers continued to hold significant amounts of customers' money after their accounts were closed - for example after a customer had changed supplier or moved house.

Impact and next steps

- Pressure from Ofgem through our investigation has resulted in suppliers committing to hand back £153m to customers and make improvements to the way they refund customers.
- If suppliers cannot identify affected customers and the money cannot be handed back directly, it will go to social funds. Suppliers have already committed to contribute £38m to social funds and initiatives over the next two years. Examples of how the money has been used include npower's 'Fuel Bank' which provides same-day support for prepayment customers⁹⁶ and SSE's Western Isles project which funds home energy assistance and advice visits⁹⁷.
- We will hold suppliers to account to ensure they deliver on these commitments and will take further action, including enforcement action, if needed⁹⁸.

⁹⁶ NEA, 2015, Media Release, <http://www.nea.org.uk/media/media-releases/2015/media-240415-01>

⁹⁷ SSEPD, <https://www.ssepd.co.uk/WesternIsles/>

⁹⁸ Decisions on taking enforcement action are subject to our case opening criteria. Further information can be found in our Enforcement Guidelines, September 2014, <https://www.ofgem.gov.uk/ofgem-publications/89753/enforcementguidelines12september2014publishedversion.pdf>

Social tariffs - tariff innovation

As part of our Retail Market Reforms (RMR) we introduced new rules to make the market simpler, clearer and fairer for consumers. This included limiting suppliers to four tariffs per metering category offered to any domestic customer in any region, and limiting the discounts that suppliers could offer. This is to help customers compare offers and select the best tariffs for their needs.

We also created a derogation tool which allows us to provide flexibility in the rules when necessary. A derogation effectively provides an exemption from the rules but it is only considered in limited circumstances. We have actively encouraged suppliers to apply for derogations to provide social tariffs and schemes that are targeted towards vulnerable consumers.

Impact

So far, a number of suppliers have introduced a range of tailored schemes to support customers in vulnerable situations⁹⁹. These include but are not limited to:

- British Gas's - Standing Charge Rebate
 - We granted a derogation to British Gas to offer a rebate to low-consuming gas customers in vulnerable situations.
 - The rebate is equivalent to the standing charge on BG's standard variable tariff (currently £95). About 30,000 consumers are estimated to be eligible to the scheme.
- Ovo's Community Energy 'White Label' offers
 - We granted Ovo Communities five derogations to allow its partnerships with local councils, housing associations and community groups. These include: Plymouth Energy Community; Cheshire East; and Community Energy South (Sussex, Hampshire and Kent). Through these arrangements, Ovo can offer new products that are tailored to the needs of local consumers, particularly those in fuel poverty.
- EDF's Barkantine social tariff
 - We granted EDF a derogation to allow a social electricity tariff which is offered in partnership with the London Borough of Tower Hamlets. This tariff is designed to meet the needs of social housing residents under the Barkantine district heating scheme.
 - The tariff has no standing charge and its unit rate is 20% lower than the lowest decile of average rates charged by other large suppliers in London.

⁹⁹ Ofgem, 2015, Guidance for derogation requests from domestic Retail Market Review (RMR) licence conditions, <https://www.ofgem.gov.uk/publications-and-updates/guidance-derogation-requests-domestic-retail-market-review-rmr-licence-conditions>

Further information

More information on our work to support customers in vulnerable situations can be found on the Ofgem website at www.ofgem.gov.uk.

We can be contacted at:

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Fax: 020 7901 7066
Email: vulnerability@ofgem.gov.uk.

Related documents

Ofgem, July 2013, Consumer Vulnerability Strategy,
<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy>

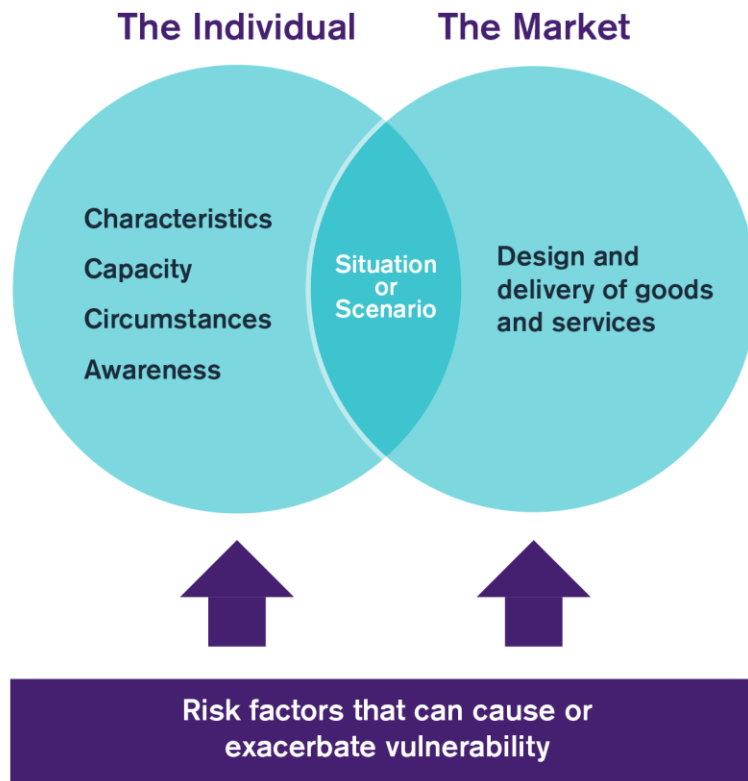
Appendix 1 – defining vulnerability

Defining vulnerability

Our Strategy aims to support some of the poorest and most vulnerable households in the energy market. For this purpose a vulnerable consumer is defined as one who is:

- significantly less able than a typical consumer to protect or represent their own interests; *and/or*
- significantly more likely to experience detriment, or for that detriment to be more substantial

We recognise that whether a customer is vulnerable in the energy market, and the likelihood of them suffering detriment, depends not only on personal characteristics such as age, or disability, but also the situation or scenario they are in, and how the market responds to their needs.



Vulnerable characteristics - risk factors

In practice there may be a range of characteristics that put a consumer or member of a household at greater risk of detriment, and/or impact in different ways their ability to represent their interests. These include, but are not limited to:

- living with physical health issues or mental illness
- cognitive impairment
- literacy or numeracy difficulties
- having a speech impairment
- not speaking English as a first language
- being a child
- low confidence

The extent to which an individual is aware of their vulnerability may also impact the depth and likelihood of any detriment they suffer, and their ability to limit that impact.

Circumstances - risk factors

There are also a range of circumstances or situations that can make consumers with vulnerable characteristics more likely to suffer detriment. These risk factors include but are not limited to:

Personal circumstances

- living alone
- not having internet access
- being on a low income
- being unemployed or being made redundant
- being a full-time carer
- being a lone parent
- leaving care
- experiencing relationship breakdown
- experiencing bereavement

Wider circumstances

- living in a rural area
- living off the gas grid
- living in private rented accommodation
- living in a cold, energy-inefficient home
- having a certain meter type eg prepayment, dynamic tele-switching meter.

The list above is not exhaustive, nor does it indicate that a consumer in such circumstances will always experience detriment. However these circumstances can make a customer more vulnerable to detriment and the likelihood and impact of the detriment tends to increase if consumers have more than one of these risk factors.

Characteristics or circumstances can change over time

We also recognise that individual characteristics or circumstances can change over time. Vulnerability can affect anyone at any time and for many different reasons. It may be permanent or long-term, but equally it can be transitory following a bereavement or relationship breakdown. A consumer can quickly fall into a vulnerable situation, but it may take them time to recover from it. For example, if someone is made redundant, their vulnerability may continue even once they have a new job if they have accumulated debt during that time.

The role of markets

Markets themselves in combination with a customer's characteristics and situation can also cause or exacerbate vulnerability. This includes the action or behaviour of suppliers, network companies or third parties. The nature, design and delivery of goods and services for example, can put some consumers with vulnerable characteristics, at greater risk of detriment. For example:

- lack of affordable phone access can result in an increased likelihood of detriment for consumers without internet access on low incomes
- complex information on products or services can limit any consumer's ability to make appropriate decisions, but this may particularly cause problems for customers with cognitive impairments
- consumers with sight, hearing or speech impairments may struggle to communicate with a company if their written communications or customer services are not designed to be accessible and inclusive.

Consumers in some vulnerable situations may also be served less well by competitive markets because, for example:

- they may be more expensive to serve
- they have less market access
- they are a higher debt risk so greater risk to the company
- it is not cost-effective to meet their needs