

Consultation Response

Ref 0718

Response to Ofgem consultation on providing financial protection to more vulnerable consumers

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Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances.

In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

About this consultation

In December 2017, Ofgem, the UK's energy regulator, published a consultation on 'providing financial protection to more vulnerable consumers'.¹ To protect those vulnerable consumers who are unable to engage with the two-tier energy market and so pay much higher prices, Ofgem will implement from February 2018 a 'vulnerable consumer safeguard tariff'. Consumers receiving the Warm Home Discount will be eligible. Ofgem is currently consulting on broadening out this price protection to a wider group of vulnerable consumers in time for Winter 2018-19.

We welcome the opportunity to respond to this consultation. We use the term 'safeguard tariff' throughout to refer to this expanded safeguard tariff for Winter 2018-19.

Key points and recommendations

1. There is an urgent need for financial protection for consumers in vulnerable circumstances. This includes many older people living with health conditions and/or in poverty and disengaged from the market. We strongly support the introduction of the safeguard tariff outlined in this consultation.
2. We support the data-matching approach to identifying eligible customers, but highlight that many people could miss out due to non-claiming of welfare benefits. A blend of data matching and supplier-held information may help tackle this problem.
3. Information on suppliers' priority service registers (PSR) could help identify eligible consumers, particularly those with health conditions that mean their energy consumption is high. Ofgem should monitor whether suppliers respond by making it harder to get on their PSR, and enforce the licence Standards of Conduct.
4. We agree that all suppliers should be required to provide safeguard tariff protections to vulnerable consumers.
5. We agree the protection should apply to standard variable and other default tariffs, regardless of how long a customer has been on it, and to all meter types.
6. There are advantages to both methodologies for setting the level of protection, although we think the chosen methodology should minimise price volatility.
7. The safeguard tariff must deliver a meaningful level of financial protection, although we do not oppose inclusion of some headroom to allow competition.
8. We support a blended payment level uplift, which will reduce the additional detriment experienced by those who pay by standard credit.
9. Depending on the level at which the whole market default tariff cap is set, Ofgem should consider continuing to administer a safeguard tariff alongside the whole market cap, in order to ensure adequate protection for vulnerable customers.

Introductory comments

Our response to the consultation on the initial 'vulnerable customer safeguard tariff', coming into force in February 2018, outlines our view that² –

- Despite progress in recent years, many older people live in, or on the edge of poverty. For example, 21 per cent of people aged 85+ are in poverty.
- Many older people live with health conditions that mean they have higher required energy costs (see Box 1 for examples).
- Many older people are unable to fully engage with the energy market, due to barriers such as digital exclusion, health conditions and physical impairments.
- Consequently, many older people are unable to adequately heat their home.

We will not repeat these points in depth, but re-iterate our view that there is an urgent need for financial protection for consumers in vulnerable circumstances, including many older people. (See our response to Ofgem's consultation on the Standards of Conduct for our explanation of consumer vulnerability.³) We strongly support the introduction of the Warm Home Discount safeguard tariff, coming into effect in February 2018, and the safeguard tariff discussed in this consultation.

Box 1: Health conditions and energy concerns

People who used Age UK's Warm and Well information and advice service told us about how their health impacts their energy needs –

'I'm not very rich but I've got a very big house with no cavity walls so the heating bills are really quite enormous.

I have osteoarthritis so I really do feel the cold and wanted to see if Age UK could help with putting on extra heating.'

'We had worries about affording the heating, whether we could afford food and we had friends going out to dinner and we couldn't join them. It was a lot of worry and you really don't need that at our age.

My husband had lung cancer and feels the cold dreadfully so we're having to have the heating on all the time which means the bills are huge.

My husband had radiotherapy every day for a month and it has shrunk so he just has to have a check-up every three months now but he still feels the cold dreadfully.'

'I have a lot of health concerns, I've got smouldering myeloma which is a type of blood cancer... osteoporosis of the bones, Still's Disease and Raynaud's...

When you're getting on a bit and you're on disability allowance, you worry about bills more ...

Last year when the winter was coming up and it was bitterly cold, I was really concerned about my health, I was using the heating full blast some days but I was also worried about the cost of it so other days I would just have to wrap myself in blankets and use a hot water bottle'.

Q1: What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data-matching?

We support the data-matching approach. The fact that it facilitates automatic protection for vulnerable consumers is key, as those consumers by definition are less likely to take action to declare their vulnerability or access protection.

A limitation of this approach is the fact that many people eligible for welfare benefits do not claim them. Some older people do not claim what they are entitled to due to perceptions of dependency; two out of five (39%) pensioners entitled to Pension Credit have not claimed it.⁴ Given this, a blended approach of data-matching and use of supplier-held data might help identify eligible consumers.

Q2: What are your views on our backstop option that requires suppliers to use the information they hold (such as Priority Services Register and debt information) to identify vulnerable consumers?

The backstop option is potentially a pragmatic and effective way to identify eligible consumers, particularly for smaller suppliers.

Information on the Priority Services Register (PSR) might be especially helpful for identifying consumers living with health conditions, for whom high energy prices can cause serious harm. It is particularly important for older people to keep warm because their health could be in jeopardy; they are not only at risk of heart attacks, strokes and respiratory problems, but also of depression, worsening arthritis, complications with diabetes and other chronic conditions, and increased accidents at home (caused by loss of strength and dexterity in the hands).⁵

Suppliers should prioritise particular PSR categories, including –

- health conditions or impairments that require high energy consumption,
- health conditions or impairments that make it difficult for the person to engage in the market.

We share Ofgem's concerns that suppliers could be incentivised to decrease the number of customers on their PSR. While the vulnerability principle in the Standards of Conduct might provide some protection against this, we ask Ofgem for examples of where they have enforced this principle. If Ofgem has not done so, we would be concerned about this potential unintended consequence. To ameliorate this risk, Ofgem should monitor the visibility to consumers of suppliers' PSR and the number and proportion of registered customers.

Further, similar to the point about not claiming benefits, some vulnerable older people who need protection may be left unidentified; it is common to hear older people say they prioritise not being in debt, leading to rationing of spending on energy, food and other essentials.⁶

As mentioned in Q1, there may be advantages in using a blended approach of supplier-held information with data-matching.

Q3: Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?

Ofgem could explore the following as potential sources of information for identifying vulnerable customers, including information held by suppliers and by separate organisations –

- Supplier notes of customers struggling to pay bills due to health conditions and/or requesting a cheaper tariff because of a condition.
- Supplier notes of customers who have had major disputes over billing.
- Supplier notes of customer having delegated authority to a third party, indicating that the customer may be living with dementia or other cognitive impairment.
- Referrals from charities and advice organisations, e.g. debt charities, Age UKs advising older people experiencing health conditions, poverty or other vulnerabilities.
- Information about health conditions from a customer's GP.
- Changes in the name of account holder, or other indicators of bereavement.
- Customer receipt of a social tariff from their water or telephone provider.

Q4: What are your views on our proposal for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers? Please provide evidence to support your views.

We agree that all suppliers should be required to provide this protection to customers. While customers of small and new suppliers are less likely to be long-term disengaged, they may nonetheless include some people who are vulnerable to harm and need protection. Suppliers should present robust evidence to support any claims of significant additional administrative burden.

Q5: What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

We agree that being on a standard variable or default fixed-term tariff is a good indicator of disengagement and of paying unfairly high prices. We also agree with the proposal to assist vulnerable consumers regardless of how long they have been on such a tariff, given that the price differential even within one year can be significant, and the higher risk of harm for such consumers.

However, there is in theory a risk of being on a fixed tariff and paying excessive prices and/or being at risk of harm. Ofgem should investigate this risk and, if found to be a problem, develop proposals to extend financial protection to other tariffs.

We also agree that the protection should apply regardless of meter type. Having a smart meter is not a good indicator of being engaged. We are aware of cases where older people feel pressured into accepting a smart meter, for example because they think they are obliged to do so,⁷ and of people receiving a smart meter and being unable to use it.

Q6: Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

We appreciate there are advantages and disadvantages to the prepayment and basket of tariffs methodologies.

However, we do think it is important to minimise price volatility for protected consumers; many older people on low incomes budget assiduously and ration other expenditure, so having consistency of energy spending is important. We understand that the prepayment methodology would likely bring less price volatility.

Ofgem should model both methodologies to assess potential impacts, including the level of volatility.

Q7: Do you have any comments on the design issues for either of our two options?

Our main concern is that the safeguard tariff is set at a level that provides meaningful financial protection to consumers, acknowledging the need for suppliers to recover costs, etc. Given the average difference between average standard variable tariffs and market cheapest tariffs is approximately £300⁸ – meaning the difference is even higher for the most disengaged customers – the level of financial protection needs to be significant to make a difference in people's lives.

We do not oppose the inclusion of headroom to allow for continued competition. However, Ofgem should not set the cap at such a high level that financial protection for consumers is insignificant. Further, while the cap might dampen competition in some places – and we await robust evidence to show this – it is not acceptable to abandon the cap or set it too high on the basis that competition will benefit vulnerable consumers. The CMA and Ofgem's analysis shows the need to take stronger, immediate action to tackle the two-tier market –

'Our own data shows that around 62% of consumers are on a SVT, and the price difference between the SVTs from the six largest suppliers and the cheapest tariff in the market recently reached nearly £308.'⁹

Setting a fair and practical level of payment level uplift is also a key issue. Broadly speaking, older people are more likely to use cheques for payment¹⁰ and less likely to use online banking.¹¹ People aged 65+ are twice as likely as younger groups to pay for their electricity through standard credit (12% v 6-7%¹²). This will likely be an even higher proportion among 'older old' people (85+) and those with on low incomes, i.e. those more likely to be vulnerable.

This non-use of direct debit (and online payment) – which is a cheaper way to pay – to some extent reflects consumers' disengagement from the market, e.g. risk aversion, missing out on the best deals, digital exclusion.

Given this, we support a blended payment level uplift, which will reduce the additional detriment experienced by those who pay by standard credit, and will be simpler to administer.

We are also concerned that the estimated cost differential between serving direct debit and standard credit consumers is as high as £100 (and potentially higher, according to the CMA). This makes up such a high proportion of average annual prices – approximately 10%¹³ – that it seems both unrealistic and unfair, and Ofgem should act to ensure that suppliers do not recoup profits from ancillary charges such as these.

Other comments

While we understand that the planned Government whole market default tariff cap will provide price protection to a larger group of consumers that includes those covered by the safeguard tariff (which will 'melt away'), there is a risk the whole market cap will provide much less adequate protection for vulnerable consumers compared to the safeguard tariff. While this depends on the final detail of the whole market cap, Ofgem should consider continuing to protect vulnerable consumers through the safeguard tariff, which would run parallel to the whole market cap. As a result, Ofgem should do exploratory work, including innovative uses of data sharing to improve the targeting of vulnerable consumers, that could be implemented in future beyond Winter 2018-19.

¹ https://www.ofgem.gov.uk/system/files/docs/2017/12/providing_financial_protection_to_more_vulnerable_consumers_0.pdf

² https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/safe-at-home/crs_nov17_financial_protections_vulnerable-consumers.pdf

³ https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/safe-at-home/crs_march17_ofgem_consultation_on_supplier_standards_of_conduct.pdf

⁴ Income-related benefits: estimates of take-up: financial year 2015/16 (table PC1), DWP 2017

⁵ The Marmot Review Team (2011), The Health Impacts of Cold Homes and Fuel Poverty, London: Friends of the Earth

⁶ https://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Living_on_a_low_income_full_report.pdf?dtrk=true

⁷ <http://www.thisismoney.co.uk/money/bills/article-4922822/Power-giants-tricking-getting-smart-meters.html>

⁸ <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>

⁹ Para 1.1 https://www.ofgem.gov.uk/system/files/docs/2017/12/providing_financial_protection_to_more_vulnerable_consumers_0.pdf

¹⁰ https://www.chèqueandcredit.co.uk/sites/default/files/annual_tracking_research_2017_-_consumer_business_charity.pdf

¹¹ https://www.ofcom.org.uk/data/assets/pdf_file/0020/102755/adults-media-use-attitudes-2017.pdf

¹² Ofgem consumer engagement survey, 2016

¹³ <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>