Sustainability *first*

Contact: Zoe.mcleod@sustainabilityfirst.org.uk

5th November 2024

To : Lauren Kennedy
ConsumerVulnerability@ofgem.gov.uk

Dear Lauren

Re: Ofgem's Consumer Vulnerability Strategy Refresh consultation

Sustainability First is an independent charity and think tank focused on promoting practical solutions to deliver fair and sustainable energy and water sectors. We have published and engaged extensively over many years on policy, regulatory and consumer issues including in relation to financial and non-financial consumer and community vulnerability.

We welcome this strategy refresh and support much of its intention. We recognise the significant pressures on Ofgem, past and present, and the need to streamline its activity, prioritise work and increase transparency around performance. We make the following general points and recommendations before answering the questions posed in more detail below:

- We'd like to see four key themes: 1) Helping people in or at risk of struggling with their energy bills 2) Driving improvements in customer service – to deliver high quality service for all – that includes accessible service and support that meets people's different safety needs, and 3) Identifying vulnerability. In addition, we encourage Ofgem to consider, an additional theme 4) Supporting a 'fair transition' which focusses on delivering consumer protections and ensuring nobody is left behind by the transition to a smart flexible Net Zero energy system. Theme 4, as defined, doesn't quite hit the mark for us.
- 'Innovation', 'working together' and 'smart use of data' are important but much like competition are not ends in themselves. These would all be better as 'cross-cutting enablers' that apply to all four themes identified above.
- Theme 3: Driving improvements in customer service is very welcome but could do with strengthening. In particular, we urge Ofgem to have a stronger focus on inclusive design for current services. This could be supported by mystery shopping of key customer journeys by consumers with additional needs. This is increasingly important and long overdue.
- In addition, there's little mention of safety needs in the customer service theme. We therefore propose a new outcome - "Supporting consumers to be and feel safe". This is important, for example: during supply interruptions; when navigating street works; and during home visits, especially given the increasing number of people with anxiety and living independently without support in vulnerable situations.

- We'd welcome Ofgem including the outcome 'fair pricing' to support its 'helping people struggling with their energy bills' theme.
- We support the current vulnerability definition and the proposal not to review this at this time. The risk-based approach to consumer vulnerability has the benefit of being largely future proofed and already captures financial vulnerability. If any change is made, we'd like to see a greater focus on community vulnerability and place-based solutions, especially given National Energy System Operator's (NESO) regional energy strategic plan (RESP), the increasing decentralisation of decision making and government's focus on working collaboratively to deliver common goals or 'missions'.
- We need a whole energy system vulnerability strategy. The strategy refresh feels quite supply side focussed, and would benefit from greater emphasis on the valuable role of gas and electricity distribution networks. Transmission companies also have a role to play in supporting customers in vulnerable situations. Indeed, the strategy would do well to include DESNZ's Community Benefits for Electricity Transmission Infrastructure scheme which has the potential to lift communities out of fuel poverty and support vulnerable households.
- We support proposals for a live strategy on Ofgem's website. It would be useful to have part of Ofgem's website dedicated to consumer vulnerability including key data, research and insight. It can be difficult to find information on the site currently.
- For an easy win, we urge Ofgem to explore the potential to require companies (or set an expectation) to publish their vulnerability research and insight on their websites, as is done in the water sector, so this can be used in the public interest. This would stop companies reinventing the wheel, save consumers' money, and support Ofgem, government and civil society groups' work.
- We broadly welcome the proposed new Consumer Vulnerability Panels - requiring senior leaders to present and be accountable to Ofgem and wider stakeholders, could lift consumer vulnerability up suppliers' agendas. There are lessons to be learned from the Ofgem challenge panels to support this.
- We note that there is no reference to microbusinesses and query if there should be especially for households using a shared supply e.g. above pubs, shops, town halls who may be vulnerable.
- In addition, in the spirit of transparency, we look forward to hearing more about Ofgem's internal review and how the regulator is raising awareness and embedding vulnerability in the organisation.

As always, we are happy to answer questions about any part of this response and for this to be published in full.

Yours sincerely

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Answers to questions

Q1. Do you agree that we should not prioritise updating the vulnerability definition? If you disagree and think that we should update the vulnerability definition, please provide reasoning for prioritising this activity.

Yes. We don't think this is a priority. The current risk-based approach to vulnerability works well. Importantly it captures the transient and dynamic nature of vulnerability and already encapsulates financial vulnerability i.e. "being on a low income" and "being unemployed or being made redundant" are explicitly recognized as risk factors in the original Ofgem definition in 2013[1]. In practice it is flexible enough to capture any financial vulnerability risk factors i.e. being on a zero hours contract, or in energy debt.

A particular strength of the current approach is that it is pretty future proofed – especially important in our rapidly changing energy system and world. Indeed, the definition was welcomely flexible enough to reflect new needs of households during the Covid-19 pandemic, when customers were shielding. This became a new risk factor.

A prescriptive approach would inevitably quickly become out of date. As we move to a Net Zero energy market, and technology, society, and the environment changes there will be new vulnerabilities e.g. not having a smart meter will become a vulnerability risk factor in a future flexible decarbonized energy market, as having a prepayment meter has been historically. Not having shiftable load will become a risk factor in a world where flexible energy offers are the most price competitive etc.

Ofgem will be aware that before the current approach was adopted we had a more prescriptive approach and it led to a tick box attitude by many suppliers towards 'vulnerable customers'. While Sustainability First acknowledges company concerns about how they prioritise PSR support when so many people potentially have additional needs, changing the definition would not deliver the outcome required (rather it risks people's additional needs being ignored).

A greater focus on inclusive design would reduce the need for bespoke communication and accessibility services. During supply interruptions, companies already have mechanisms to prioritise support for those in greatest need. The issue then becomes about managing consumer expectations about what help they will receive when. In this day and age, given available technology and data, we do not think it is unreasonable for companies to understand consumers' needs and tailor support where required.

Any narrowing of the definition would be a retrograde step inevitably repeating mistakes of the past. It would also be inconsistent with the Standards of Conduct licence conditions (SLC 0 and SLC 0A) which require suppliers to treat consumers fairly by meeting their different needs.

[1] Consumer Vulnerability Strategy p.15

Community vulnerability and place-based solutions

That said, alongside the definition of individual consumer vulnerability, we would like to see a stronger focus on identifying and supporting vulnerable communities. This is especially the case for network companies given their regional footprints. For example, during heat waves, some areas will be particularly at risk to high temperatures, whether due to prevalence of property types, or the urban environment (i.e. lots of concrete, little shade); at greater risk of cold weather due to local climates; less likely to have a smart meter, due to poor connectivity; or be at greater risk of supply interruptions due to flooding. There may be a particular role here for network companies to support households to access information, and to stay warm and well, and cool and well. Network companies' ability to respond effectively to supply interruptions and keep people safe is also influenced by levels of deprivation and quality of support services. E.g. rural communities can have more disparate infrastructure and less connectivity, making it harder to communicate with households and businesses.

Transmission companies also have a role to play on consumer vulnerability which isn't yet reflected in the strategy. TOs are no longer at arms-length from end consumers. Companies will be required to deliver DESNZ's Community Benefits for Electricity Transmission Infrastructure scheme. This recognizes that some communities will be at risk of greater disruption, noise, negative visual impact from the building of new energy infrastructure. In the Government's response to the consultation it said "Further assessment is required to better understand how the bill discount scheme would be designed and feasibility of implementation. We will work with industry, Ofgem and community representatives to ensure that the scheme works for communities and can be effectively delivered and administered. Its effectiveness will be reviewed once implemented." This scheme could lift entire communities out of fuel poverty but this is not recognised in the refresh[2].

A focus on community vulnerability would also better reflect Labour's emphasis on mission-based government (working collaboratively across sectors to deliver shared outcomes); the devolution agenda in England (Scotland already has a strong focus on area based delivery). Labour has also assigned a key role to local and regional bodies with respect to both its Warm Homes Plan and the Local Power Plan and Ofgem has new responsibilities in relation to heat which along with households on hydrogen and biogas may be in clusters. In parallel to these structures, Ofgem intends the new NESO to deliver a regional strategic planning system. It envisages Regional Energy Strategic Plan structures (RESPs) will coordinate development of the energy system across multiple vectors, to provide confidence in system requirements and enable network infrastructure investment ahead of need. Ofgem considers RESPs will support the energy system's transition to Net Zero in a cost effective manner. These changes should be acknowledged in the strategy and how Ofgem will work and engage.

[2] Community Benefits for Electricity Transmission Network Infrastructure: government response

Q2. Do you agree with our proposal to retain the five themes of Consumer Vulnerability Strategy 2025?

We'd like to see the themes updated a little more with a 'supporting a fair energy transition' theme and a clear distinction between the outcomes required and the enablers to deliver them.

- We urge Ofgem to include the theme - 'Supporting a just transition to Net Zero' which focusses on delivering consumer protections and ensuring nobody is left behind by the transition to a Net Zero smart energy system. This would also be consistent with the role identified for gas network companies for RIIO-GD3.

- We support the theme – 'Driving improvements in customer service' so there's good quality service for all, regardless of their personal circumstances or needs. In addition, the continued focus on 'Improving identification of vulnerability'.

- It's especially important to prioritise action on affordability and debt. However the current theme title 'helping those struggling with energy bills', unintentionally suggests the focus is on helping people only after problems have occurred and feels supply side focussed. We recommend instead "Helping people in or at risk of struggling with their energy bills" which implies a role for companies in preventing energy debt and problems before they occur. We remind Ofgem that network companies have a role in addressing the issues of fuel poverty.

- In addition, we suggest three cross-cutting enabling themes not just one – 'innovation', 'smart use of data' (so it's separate from identifying vulnerability) alongside the proposed 'working with partners to solve issues across multiple sectors'. None of these themes are ends in themselves and all apply to the four main themes we propose. i.e. smart use of data is important not only to identify vulnerability but to help people better manage their energy use. Open banking data can help prevent energy debt and be used to set affordable repayment rates; data can also be used to improve service design and communications. We'd also expect to see innovation in identifying vulnerability, customer service and supporting those in or at risk of financial difficulties.

Q3. Do you agree with our proposal to retain 'working with partners to solve issues across multiple sectors' as a cross-cutting theme?

Yes. There's a continued need to work collaboratively to deliver the outcomes outlined as well as wider goals such as resilience and ending fuel poverty. This theme is also consistent with expectations already on network companies for RIIO-3; and as noted wider policies such as Labour's 'mission-based' government; and NESO's regional structures for engagement which require cross-sectoral collaboration.

Q4. Do you agree with our proposed outcomes?
Q5. Do you have any comments on our definitions of success or metrics to monitor progress and delivery of the outcomes?

As noted, we'd like to see four key overarching themes including 'supporting a just transition' plus three cross cutting themes – innovation, smart use of data, and working with others. We make the following comments by exception on the outcomes as proposed.

Theme 1: Improving identification of vulnerability and smart use of data

Definition of success and measurements

- Given that cross sector data sharing has progressed at a snail's pace over the last decade, we urge Ofgem to set an explicit deadline for delivery of the data sharing project between energy and water companies.
- We particularly welcome the suggested metric 'number of customers receiving PSR measures' as having high numbers of consumers on the PSR doesn't always translate to PSR services delivered. In addition, it would be useful to monitor the timeliness of PSR service delivery and consumer satisfaction of PSR service delivery.

Theme 2: Supporting those struggling with bills

Outcomes

- We support the overarching outcome. But suggest Outcome 1 is tweaked – 'Vulnerable customers should have accurate, *timely,* easy to understand bills *and* support flexible payment methods and frequencies. 'Timely' is important, as back-billing and late billing can cause budgeting problems and push people into financial difficulties and a cycle of debt. We urge Ofgem to honour its promise and strengthen back-billing rules especially where smart meters are installed[3].
- It would be useful to have more of focus on preventing affordability problems and empowering consumers to better manage their energy use. Control is a key factor in affordability and energy use in the home is recognized as a driver

[3] Time to end the cruelty of back-billing and sort out smart meters – Sustainability First

of fuel poverty in the Scottish Fuel Poverty Strategy[4]. The focus on accurate bills and flexibility of payment method is very useful in this regard but suppliers should be encouraged to go further. For example, we understand the quality energy efficiency advice and information provided by suppliers to comply with licence conditions (i.e. to support those in vulnerable situations during smart meter installation or in debt) is not consistently high quality. There's also potential to roll out new energy management services and tools to help people stay healthy in their homes and budget more easily.

- We would welcome inclusion of the outcome 'fair charging to support affordability' under this theme. This gets to the heart of Ofgem's important role. This is already reflected in the proposed work plan e.g. the price cap prevents suppliers overcharging consumers; work on heat network regulation will inevitably tackle the issue of fair pricing; similarly the review of the standing charge is about redistributing network costs in a fairer way.

Definition of success and measurements

We suggest Ofgem include the following measurements of success:

- Customer debt repayment levels (for those on a plan), as an indicator as to whether customers are on an affordable repayment plan.
- Typical debt levels, as an indicator as to whether the company intervenes early or allows debt to build.
- Number of households supported and benefits received e.g. in £s saved. Network companies already collect this data and social return on investment figures.
- Number of households including in debt, or on the PSR customers with smart meters, who received energy efficiency advice or advice on how to use their in home display; and consumer feedback on the quality of that advice.
- Suppliers back-billing practices and billing accuracy.

Theme 3: Driving improvements in customer service

Outcome

- We suggest an amendment to the proposed overarching outcome. This states "vulnerable customers should be provided with tailored communications that are easy to understand...". We'd suggest instead "all consumers should be provided with accessible and easy to understand communications. Either through inclusively designed services or tailored support where needed. They should be able to engage with their energy company with ease and not face exclusion..." Ideally suppliers will have inclusively designed services and communications making them accessible to the largest number of people. This helps keep costs down by reducing need for bespoke PSR services; reduces barriers to accessing services; and is becoming increasingly

[4] Fuel poverty - Home energy and fuel poverty - gov.scot

important given our growing aging, ill and disabled population. E.g. if a company's website is accessible and has a translate function like 'Recite Me[5]', the company may need fewer translators for telephone services, reducing costs, speeding up the time it takes to get an issue resolved, and in turn improving customer satisfaction.

- In addition, this theme only seems to focus on consumer communication and access needs but consumers in vulnerable situations also have extra safety needs and service requirements. These don't appear to be reflected anywhere in this strategy. Safety and peace of mind will become increasingly important especially given the growth in one person households with no support networks and the increase in numbers of people who have anxiety and worry about visitors to their home. There is also a shift to community care in health policy that will result in increasing numbers of people, including those with dementia, living independently without support networks or what is somewhat euphemistically called 'hospital in the home'.

- We suggest another outcome therefore' "Supporting consumers to be and feel safe": This would cover service provision during supply interruptions; during a home visit; in the design of street works; and help address any new safety risks that emerge related to new products and services etc. This would encourage improvements and innovation in this important area which is often neglected but will become increasingly important. In addition, it could also capture the current activity undertaken by gas network companies linked to reducing harm from carbon monoxide poisoning and by suppliers and networks, scam awareness.

- We would also welcome a stronger focus on the accessibility of complaint handling and redress. There's no point monitoring complaint levels, if complaining is really difficult to do and significantly underestimates problems experienced by customers.

- Outcome 1 – We support the aim of this but as worded it is too narrow. Ofgem says "Vulnerable customers should be able to contact their energy company easily, their needs are accommodated and that they are not excluded due to language barriers or capability with digital tools." There may be other reasons why people are excluded e.g. cognitive barriers that make it hard to follow automated systems; speech impairments; sight and hearing barriers etc. All needs should be catered for not just non-English speakers and those off-line.

[5] Recite Me is a simple and intuitive tool which includes audio playback functionality, dyslexia software, an interactive dictionary and a translation tool with up to 90 languages. It has the ability to change the entire colour scheme, font size and style – with a bottom-heavy font for anyone with dyslexia.

Definition of success and measurements

We broadly welcome the approach suggested. We make the following additional comments and suggestions:

- We particularly support Ofgem monitoring contact response times, especially telephone call response times given the relative importance of this channel for many customers in vulnerable situations.

- Monitoring PSR customer satisfaction and complaints is useful but has its limitations given the large numbers of people that may need support that aren't on the PSR. Also it fails to give credit to companies that inclusively design services such that consumers don't need a bespoke PSR service. We strongly encourage Ofgem to therefore consider annual mystery shopping of different customer journeys by consumers with additional needs, to monitor how accessible services are. This could cover key customer journeys like paying a bill, accessing energy consumption data, changing provider, moving home, making a complaint, getting a smart meter installed.

- It would be really valuable to have some kind of metric that encouraged innovation in service delivery. The PSR services haven't been updated for years despite technological advances. For example, during the home visit, people are offered a password, or for a carer to be present and 'knock and wait' where the engineer agrees to wait for a person with mobility problems to get to the door. Yet the technology exists to provide an Uber style experience for timed appointments so householders with smart phones can get a photo of the engineer, their name, a picture of the car, the registration, and can track the engineer's progress towards their home to prepare for the visit with ample time. This might help provide peace of mind to those with mobility problems who don't then have to sit by the door. Where we do see innovation, too often this is treated as a sparkly project for the regulator, or a particular innovation project, but the good practice isn't embedded and rolled out more widely.

- Sustainability First's Energy for All, Innovate for All[6] project found that this lack of innovation to support customers in vulnerable situations was for a variety of reasons, in particular because much innovation was marketing led; and as vulnerable consumers aren't considered attractive as they are often higher cost to serve; are higher debt risk with less disposable income to buy additional products and services. Innovating to support vulnerable customers is also seen as riskier.

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Theme 4: Encouraging positive and inclusive innovation

This theme misses the mark for us – a little in terms of how the problem is defined, a lot in terms of the outcomes proposed, though we are more comfortable with the definition of success. We are unclear if this is because of the split in responsibilities between DESNZ. Either way, we suggest instead a clear focus on 'supporting a just transition' and setting the foundations to ensure everyone can access the benefits of new energy markets and the Net Zero energy transition. This includes Ofgem working in collaboration with NESO, government and wider regulators.

<u>The problem</u>

As we understand it, the decarbonisation of the electricity system by 2030 will result in higher costs in the short to medium term but what is hoped to be lower costs overall and longer-term for those on electric heating that can benefit from price competitive smart flexible electricity deals. Funding net zero electricity infrastructure will continue to increase electricity network costs and the size of the standing charge, which under the current approach (which is under review) disproportionately negatively impacts prepayment meter customers and low income low energy users.

Ofgem has rightly outlined barriers that consumers may face to accessing the benefits of new market offerings, with half hourly settlement expected to catalyse a range of new products and services in the next couple of years. It also alludes to potential benefits for customers in vulnerable situations. For example, lower cost energy bills, new energy services to keep warm and well, and there will also be reduced energy bills and community benefits for those living very near to new transmission infrastructure.

In addition to this market change, the decarbonisation of heat will also increase costs for gas consumers. Dependent on decisions on depreciation, gas network costs could go up quite considerably in the next five years. Longer-term gas costs will also go up as the costs of maintaining and decommissioning the network fall on a dwindling number of customers. The gas customer base is expected to become increasingly vulnerable as more able to pay and 'engaged' households move to electric heating. This will be compounded by less choice and innovation in the gas supply market as there become fewer providers as they will be less and less interested in increasingly vulnerable gas customers who are high debt risk with little disposable income to pay for additional products and services.

In addition, there will likely be pockets of consumers who have very little choice or no choice of energy provider whether because they are on heat networks, biogas, or domestic hydrogen.

The merging of energy supply and energy services could result in households having more than one 'energy provider', more households being prosumers as well as consumers, and when things go wrong, having to deal with multiple regulators or different protections.

Our recent research for SGN found that consumer groups are concerned about the emergence of a two-tier system where able to pay engaged consumers are able to

move to electric heating, shift their load and access cheaper energy and high-quality service. Whilst the “same old people” those that have traditionally not been engaged in switching in the energy market, are ‘left behind’.

Outside of the supply market, the energy transition will effectively be delivered at a regional level, informed in particular by combined authorities and electricity network companies plans. Given their track record on smart meter rollout, arguably the biggest risk to success is supplier behaviour and performance.

Against this challenging context, the question is, what should the priority and focus be for Ofgem in its vulnerability strategy?

Outcomes

- We’d suggest the overarching outcome should focus more on “ensuring that customers in vulnerable situations are protected and able to benefit from the transition to a smart flexible energy market and the transition to a net zero energy system”.
- Potential outcomes might be:
    - Outcome 1: The costs of the energy transition don’t disproportionately fall on those least able to afford them. New charges are ‘fair’.
    - Outcome 2: All customers can access products and services that enable them to benefit from the transition to a smart flexible energy market and the transition to net zero (nobody should be worse off). New products, services and tariffs should be inclusively designed and non-discriminatory. E.g. we understand some suppliers charge Economy 7 customers more for their time of use tariffs than their electric vehicle customers despite it effectively being the same deal.
    - Outcome 3: All consumers have access to fully functioning smart meters and easy to use tools to monitor their near real-time energy use – this is because smart meters are a key enabling technology.
    - Outcome 4: Consumers are protected from potential harms.

Definition of success and measurements

We acknowledge the challenges Ofgem highlights when defining success and measurability given this is emerging work:

- A key measure of success should be the development of a consumer net zero road map for different fuels e.g. gas, electricity, biogas, hydrogen, heat networks - with all the risks and mitigations outlined.
- We particularly like the suggestion to monitor new products and services to assess inclusiveness of design. Mystery shopping by customers with additional needs or disabilities would be welcome.
- It may be useful to encourage and monitor consumer awareness of the energy transition and support available among vulnerable customer groups, as understanding is the first step to delivering behaviour change.

- We encourage Ofgem to proactively and closely monitor customer complaints and contacts about new products and services, and nip poor practice in the bud.

Q6. Do you agree with our proposals for annual supplier presentations to Ofgem on how they are delivering good outcomes for their consumers in vulnerable situations?

In principle yes. The presentations could encourage senior leaders in suppliers to better engage with consumer vulnerability issues, potentially making vulnerability a higher priority within the companies than it might have otherwise been. However, we recommend Ofgem learn lessons from the Ofgem challenge panels. In particular:

- Panels favour those companies that are good at the sales pitch, not necessarily good companies. There is a risk there for Ofgem that it should manage.
- It will be time consuming to do well. In addition, to the presentation itself, those involved will need to read material sent by the suppliers and there should be a published follow-up note with transparent feedback to the company and the public.
- To be fair and enable comparisons there should be continuity of those on the panel. Those participating will need sufficient time to engage consistently in the process.
- Ofgem needs expert members on the panel, to ask the right questions to get beyond the company spiel.
- Representatives from charities and stakeholder organisations can provide expertise and support legitimacy of the process. This may be especially useful given low levels of public trust in regulators.

Q7. Do you agree with our proposals for reporting the findings from these presentations, and for the inclusion of the key SOR metrics and research be included?

In addition to the proposed annual report, we'd like the presentations to be recorded and published. Other panels have been criticised for not being transparent about the questions asked, what they concluded and why, and this can be counterproductive, undermining trust.

Q8. Do you agree with our proposals for a dedicated section on our website to inform updates for the live Strategy?

Yes. In addition to publishing progress on the live metrics we'd find it really useful if Ofgem included key vulnerability related energy market data in the same section (or links to it). This can be really hard to find on the current website e.g. number of customers on different payment methods across the UK; payment differentials; levels of energy debt, numbers on a repayment plan etc. Parts of Ofgem's data portal are a little inaccessible.

In addition, Ofgem could also include links to its vulnerability research and insight so all the useful relevant information is together in the same part of the website

Lastly, as an easy win, we urge Ofgem to require companies to publish their vulnerability research and insight on their websites (or Ofgem's website), as is done in the water sector, so this can be used in the public interest. This would stop companies reinventing the wheel, save consumers' money and support Ofgem, government and civil society groups' work.

Ends