

To all interested parties

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## Updating the Ofgem Consumer Vulnerability Strategy – CVS2025

Dear stakeholders,

Supporting and protecting consumers in vulnerable situations is a key priority for Ofgem. It is clear in our statutory duty that we need to consider the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas. Ensuring that the market delivers positive and fair outcomes for consumers who are struggling to engage cuts across all of our functions.

In our Forward Work Programme, we committed to update our consumer vulnerability strategy.<sup>1</sup> We were the first regulator to publish a consumer vulnerability strategy in 2013. In it, we set out our definition of vulnerability, which emphasised its situational aspects and also introduced the focus on the temporary nature of vulnerability.<sup>2</sup> Other regulators have since adopted a similar approach.

Over the last five years, we have strengthened protections and introduced incentives in this area to ensure that energy suppliers and distribution network companies focus on supporting and empowering these consumers. We have also worked with other regulators through the UK Regulators Network.<sup>3</sup> For example:

- We have introduced the overarching enforceable vulnerability principle into the domestic Standards of Conduct to ensure that suppliers are held to account for treating consumers in vulnerable circumstances fairly.
- Recently, we published our decision on the design and implementation of the default price cap, which will protect an estimated 11m consumers on default tariffs.
- Incentivised by our RIIO-1 price controls, distribution network companies have undertaken a number of activities such as providing funding to connect fuel poor households to the gas grid, innovative communication methods during blackouts and staff training on vulnerability.

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<sup>1</sup> Ofgem, Forward Work Programme 2018/19, November 2017, <https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-2018-19>

<sup>2</sup> We have defined vulnerability as when a consumer's personal circumstances and characteristics combine with aspects of the market to create situations where he or she is:

- Significantly less able than a typical consumer to protect or represent his or her interests in the energy market; and/or
- Significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial.

<sup>3</sup> We have worked with UKRN and Ofwat on data sharing to support consumers in vulnerable situations, <https://www.ukrn.org.uk/how-safe-and-secure-sharing-of-data-between-water-and-energy-companies-is-helping-customers-in-vulnerable-circumstances/>. We have also worked through UKRN on affordability, <https://www.ofgem.gov.uk/publications-and-updates/uk-regulators-network-ukrn-publishes-report-affordability>

Our annual vulnerability report shows some remarkable progress in the areas of disconnections, which is a terrible outcome for people. Down from thousands ten years ago to 17 in 2017. Ofgem and industry have worked hard to reduce disconnections. However, we are concerned that problem is shifting to people self-disconnecting while using a prepayment meter.

The report shows room for improvement in other areas. For example, we have had to take compliance and enforcement action, where suppliers were not treating consumers experiencing payment difficulty well.<sup>4</sup> Overall though, we see that many energy companies have brought in a culture change focussing on supporting consumers in vulnerable situations and working with consumer groups to provide support.

There are still a number of issues in the market, such as more vulnerable groups of consumers struggling to engage.<sup>5</sup> There are also issues with affordability of energy, and with debt. For example many people with disabilities struggle with higher energy costs that result directly from their condition.<sup>6</sup> We are also seeing increasing levels of consumers in energy debt, with around 1.2m electricity customers owing money to their supplier in 2017.<sup>7</sup> Debt is a particular concern, as there are links with mental health.<sup>8</sup>

The energy market is at a key juncture. Important developments include expected growth in use of renewable technologies, smart meters and other data-driven technologies, and electric vehicles. These developments will bring innovative consumer offerings and new business models, and the domestic retail market may look very different in future. We are also now designing the next price controls for RIIO-2, through which we want to continue to improve the service provided by distribution network companies to consumers in vulnerable situations.

Now is the right time to update the consumer vulnerability strategy. In the next few years, the transition to smarter technologies and new business models is likely to accelerate. We want to see an inclusive energy market, where consumers in vulnerable situations are not left behind and are able to take advantage of the opportunities provided by the evolving market. As highlighted in the BEIS consumer green paper, some issues need a renewed focus, including access to the best tariffs.<sup>9</sup> There is also a need for a whole system approach to ensure that markets deliver fair outcomes for all. Given this context, we think it is important to set out our key priorities for the coming years in a new vulnerability strategy (CVS2025).

In the next part of this letter, we set out what we have done so far to update our strategy towards 2025, and what our next steps will be. We also share an early view of the emerging themes.

### What have we done so far?

Initially, we have engaged a wide range of stakeholders and consumer experts to gather feedback on three key questions:

- What issues will affect outcomes for consumers in vulnerable situations in the next 5-6 years?
- What role can Ofgem play to address those issues?
- How can we best measure success?

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<sup>4</sup> Ofgem, Vulnerable consumers in the energy market: 2018, June 2018, [https://www.ofgem.gov.uk/system/files/docs/2018/11/vulnerability\\_report\\_2018.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/vulnerability_report_2018.pdf)

<sup>5</sup> Ofgem, Consumer Engagement Survey 2018, October 2018, <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-survey-2018>

<sup>6</sup> Scope, Out in the Cold, March 2018, [https://www.scope.org.uk/Scope/media/Documents/Publication%20Directory/Out-in-the-Cold\\_2.pdf](https://www.scope.org.uk/Scope/media/Documents/Publication%20Directory/Out-in-the-Cold_2.pdf)

<sup>7</sup> Ofgem, Vulnerable consumers in the energy market: 2018

<sup>8</sup> Money and Mental Health Policy Institute, Money and mental health: the facts, June 2017, <http://www.moneyandmentalhealth.org/wp-content/uploads/2017/06/Money-and-mental-health-the-facts-1.pdf>

<sup>9</sup> Department of Business, Energy & Industrial Strategy, Modernising Consumer Markets, April 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/699937/modernising-consumer-markets-green-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/699937/modernising-consumer-markets-green-paper.pdf)

We have engaged with a wide range of stakeholders including consumer groups, charities, academics, other regulators, government and industry (including suppliers, distribution network companies and third party intermediaries such as price comparison websites). We have held events in Cardiff, Glasgow and London and we aim to publish a summary note of our engagement early next year.

Many stakeholders raised wider societal issues affecting certain customers, such as changes to welfare and increasing income volatility. A number of trends in health conditions (such as mental health) were mentioned as well. When it came to energy system changes, stakeholders mentioned the need for decarbonisation to be fair, and that system changes should not unduly disadvantage consumers in vulnerable situations who may be less flexible. There was also concern about growing complexity, for example time of use tariffs.

In terms of players in the market, there was concern about inconsistency of service to consumers in vulnerable situations, particularly from some of the newer suppliers. Stakeholders were also concerned about the increasing role of unregulated third party intermediaries and more complex time of use tariffs. Stakeholders raised a wide variety of options to address these issues and a few offered suggestions on how to measure success.

### How we plan to use your feedback

Based on the engagement with stakeholders so far, we have identified five themes where improvements can be made for consumers in vulnerable situations:

1. Improving identification of vulnerability and smart use of data.
2. Driving a step change in customer service.
3. Supporting those struggling with their bills.
4. Encouraging positive innovation.
5. Ofgem working across boundaries (eg with Government departments and other regulators).

We will investigate these five themes further and publish the final priority areas in the draft strategy in spring next year. Alongside considering these five themes, we are minded to take a number of positions for the updated strategy, including retaining the current definition and retaining the scope of the strategy to only include domestic consumers.

We would like to thank all stakeholders who have made time to engage with us so far and we welcome any feedback on the themes we have highlighted or any of the minded to positions set out in this letter.

### Next steps

We will organise further opportunities for stakeholders to engage with us on the strategy in the next few months. However, if you want to speak to us before then or want to share any feedback on anything we have raised in this letter, please do get in touch via [CDconsultations@ofgem.gov.uk](mailto:CDconsultations@ofgem.gov.uk).

We are keen to hear the views of experts and those close to the issue. We will therefore publish a series of guest blogs on topical issues related to vulnerability. As part of this, we have recently published a guest blog from Scope on how disabled people are experiencing the energy market.<sup>10</sup> We are also updating the Consumer Vulnerability Strategy section of our website: <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/protecting-and-empowering-consumers-vulnerable-situations>

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<sup>10</sup> Scope, Guest blog: improving the energy market for disabled people, November 2018, <https://www.ofgem.gov.uk/news-blog/our-blog/guest-blog-improving-energy-market-disabled-people>

Over the next few months, we will draft the strategy and draft work plan with the aim to publish these for consultation in spring 2019. We plan to publish the final strategy in the summer.

Yours faithfully,

Mary Starks  
Executive Director  
Consumers & Markets