

A Price Control for Everyone

A collection of individually authored essays on how RIIO-2 can deliver improved support for people in vulnerable circumstances

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Sustainability
first



Action for Warm Homes



With contributions from the following authors

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An Outline of Vulnerability under RIIO-2

Joel Atherton, Senior Policy Researcher, Citizens Advice



This Collection

For those who work in the energy networks sector, it might be clear why these businesses have a role to play in supporting people in vulnerable circumstances. But to an outsider, the rationale is not so obvious. In this introductory essay we present some background to vulnerability and we provide the context to the collection of essays that follow.

We look at Ofgem's responsibility for protecting energy consumers in vulnerable circumstances, along with a broad definition of vulnerability itself. Then more specifically we examine the role of energy networks – particularly the distribution businesses – and the reasons for their role in addressing vulnerability.

The individually authored essays in this collection then cover a range of topics, ideas and recommendations. Some focus on Ofgem's Stakeholder Engagement and Consumer Vulnerability incentive, arguing that it could be enhanced to deliver a more strategic approach to vulnerability. Another idea covered is that there should be a standalone vulnerability incentive under RIIO-2¹, one that both inspires energy networks to shine but also to collaborate and share best practice.

Further views explore the possibility of innovation funding being linked to supporting consumers in or at extreme risk of fuel poverty, or a more holistic approach to the objective behind the Fuel Poor Network Extension Scheme. Other ideas relate to the transition to the future's low-carbon economy, giving some context to the principle that nobody should be left behind and that associated costs should be recovered fairly. These are just a few of the ideas included in these essays, and we hope that this can mark a helpful stage in the open, productive and thoughtful development of support for people in vulnerable circumstances under RIIO-2.

The purpose of this collection of individually authored essays is to share views from a range of consumer representative organisations working in the RIIO space. The opinions and recommendations belong to the individual authors, and are not necessarily reflective of the authors' views as a group. All author organisations look forward to working with Ofgem, and the energy networks, to improve the lives of people living in vulnerable circumstances and ensure that RIIO is well designed to do so.

¹RIIO is the Ofgem price control for energy networks: Revenue = Incentives + Innovation + Outputs. RIIO-2 starts in 2021.

Energy is an essential service, which is why it is so important to ensure that people in vulnerable situations are not negatively impacted by the way the market functions. At Citizens Advice, we directly help thousands of people every day², and this gives us a unique insight into vulnerability and how people's lives can be affected.

Defining Vulnerability

Ofgem has a principle objective³ to protect the interests of existing and future energy consumers, which includes consumers who are in vulnerable circumstances. But vulnerability is complex. There is no single simple definition that captures all the ways in which someone might find themselves in a comparatively vulnerable situation. In fact, one of the essays in this collection specifically encourages Ofgem to work with others to produce a full inventory of the new ways that might emerge to create unfairness and leave people behind.

Vulnerabilities can arise when aspects of the energy market combine with someone's personal circumstances or characteristics to create situations where (compared with a typical consumer) they are less able to represent their interests or more likely to suffer detriment. Anybody can find themselves in a situation like that, but examples of high risk consumers could be people living on low incomes, pensioners, those that are chronically sick or living with a disability, or people living in rural areas.

There has been a great deal of work over recent years to increase the focus on vulnerability in the energy market. Industry-led activities have developed the sector's awareness of the diversity of vulnerability to help ensure robust and future-proof protections are in place, such as the Priority Services Register⁴ (PSR) and associated 'needs code', Energy UK's Commission for Customers in Vulnerable Circumstances⁵ and Ofgem's introduction of a broad vulnerability principle to the domestic supplier standards of conduct.

In Practice

Now what about the energy networks themselves and why should they be involved in this space? Two years ago, we published a report called Networks' Good Intentions⁶. This report investigated the extent to which energy networks – the companies that build

²<https://www.citizensadvice.org.uk/Global/Public/Impact/Impact%20report%202018%20%E2%80%93%20D4.pdf>

³<https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/protecting-and-empowering-consumers-vulnerable-situations>

⁴<https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/extra-help-energy-services/priority-services-register-people-need>

⁵<https://www.energy-uk.org.uk/publication.html?task=file.download&id=6613>

⁶<https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/networks-good-intentions/>

and maintain the wires and pipes that connect electricity and gas to our homes and businesses – are delivering on a category of regulated outputs called ‘social obligations’.

This is in recognition of the fact that these infrastructure providers impact almost every consumer in the country, through shaping our energy systems and especially in the event of power cuts or gas leaks. Furthermore, they deliver the essential service to heat our homes and power our appliances, and for some people the reliable delivery of this energy is particularly crucial. Consequently, energy networks have specific obligations to consumers who are in vulnerable situations. However, as we made clear in our report, we think that energy networks should only deliver social obligations where they are best placed to cost effectively improve outcomes for energy consumers.

We know through our advocacy work that many energy networks would like to do more to support consumers in vulnerable situations, but they need to be regulated in a way that allows and rewards them for making such progress. Networks have successfully established data-matching of priority services information within the electricity sector and are exploring how to extend this to the water sector. Collaboration between Ofgem, Ofwat and the UK Regulators Network has supported this work. These joint efforts should assist in identifying customers in vulnerable situations across the energy and water sectors. However, there is still a long way to go.

We think many of the recommendations in Networks’ Good Intentions remain pertinent. In our view some of the most relevant to RIIO-2 are:

- Networks should explore collaborative and innovative approaches to delivering social obligations, when they are best-placed to deliver least-cost outcomes.
- Incentives should be designed to encourage energy networks to disseminate evidence of innovation and examples of ‘what works’ across the industry.
- Ofgem should encourage energy networks to work with partners to identify whole-house energy solutions, especially where opportunities exist to improve energy efficiency.

It is difficult to predict future demands on the energy system. However, it seems likely that electric vehicles, smart homes and the need for increased energy efficiency will all put different demands on our energy networks. As this evolves, it’s vital that the needs of all consumers - but particularly those in vulnerable circumstances - are taken into account when decisions about the future of energy networks are made.

So to reflect this – as part of our assessment of whether RIIO-2 is likely to deliver good outcomes for consumers⁷ – we proposed an additional outcome to Ofgem:

- Innovation funding and incentives should support consumers in the transition to a low-carbon future, particularly those consumers in vulnerable circumstances.

⁷<https://wearecitizensadvice.org.uk/will-ofgems-next-price-control-really-deliver-for-consumers-e9f01c034e>

This last recommendation is one of several that came out of a collaboration we organised with a group of consumer representative organisations this year. To take this work forward, we have reconvened this group of organisations to share their views and evidence on how RIIO-2 could deliver better outcomes for consumers in vulnerable circumstances. It is the views of these organisations that make up the essays in this collection, and we hope this consumer steer will help to shape Ofgem's vision for how RIIO-2 can improve outcomes for people in vulnerable situations.

How can I help you? – A vulnerability incentive for RIIO-2

Maxine Frerk, Associate, Sustainability First

Sustainability *first*

Introduction

Innovation is much talked about now in the energy space but the focus is primarily on the challenges of decarbonisation. What is missing is a sense of how innovative thinking can also help improve services for customers in vulnerable circumstances. Sustainability First in its Project Inspire⁸ sought to redress that balance, highlighting a range of innovative case studies from different sectors. While some were technical innovations many were simply new processes or ways of working.

One of the observations from that study was that many stakeholders saw the energy networks as providing more support to vulnerable customers than suppliers. One reason for this was considered to be the RIIO price control framework that provides the companies with a financial and reputational incentive to innovate in that space. It is vital that such an incentive is part of RIIO-2 but the question is what it should look like and what sorts of behaviours it should be looking to drive.

What do we want networks to do?

I'd like to start with a confession. When I was at Ofgem in the very early days of developing RIIO I was Partner for Consumer Policy. I was therefore asked what we should be requiring of the networks around vulnerability. I really struggled to think of things. We have come a long way since then and networks are now doing a lot in this space. The key to this shift was that the companies started to engage with stakeholders working in the area and really understand the day-to-day issues facing customers. They could tell them what was needed – the regulator couldn't.

Moreover, when SGN did this, stakeholders suggested they also asked their front-line engineers what situations they found it hardest to walk away from. They did and again that proved to be a valuable source of ideas.

So in moving into RIIO-2 the regulator should be wary of trying to define tightly what the companies should be doing but there is a role for the regulator to set bounds and perhaps to identify broad areas for focus. In its regulatory stances Ofgem makes clear that actions primarily intended to redistribute substantial costs are a matter for government. We shouldn't be looking to networks simply to make financial handouts (paid for by other customers many of whom may also be struggling to pay their bills).

⁸<http://www.sustainabilityfirst.org.uk/index.php/inspire>

What we are looking for is for networks to do their day job in a way that properly takes account of the needs of different customers – and to go the extra mile in doing so.

In inviting entries for the project Inspire ‘Dragon’s Den’ process we had a number of categories which could provide a framework for identifying what networks should be thinking about in RIIO-2.

The first category was on identifying vulnerability. Companies need to know who might need extra support and what sort of support that is. Not as easy as it sounds and innovative approaches to targeting customers, engaging with them to encourage sign-up, sharing information across sectors and reflecting on how best to deal with transient vulnerability – including when there are shocks/disruptions in the system – are all important.

The second category was on access to services which is in large part about communication. Network companies don’t often have cause to communicate directly with customers but when they do it can be critical if it concerns interruption to supply for example. And this is a field in which technology has opened up a whole new world whether it’s making use of Google translate or online sign language translation services or simply innovative use of text messaging as WPD have been doing.

The third category was on safety and security. Safety is in the DNA of the network companies and they remain keen to look for ways to keep their consumers safe too. One example of this is the locking cooker valve promoted by SGN which helps protect customers with dementia.

The final category was on affordability. While this might generally be more an issue for suppliers and how they deal with customers who are struggling to pay bills there is a role also for networks to play their part in helping reduce bills through new lower cost heating systems or energy efficiency. While I am not personally convinced by the proposal that networks should be given a leading role in energy efficiency – which is simply another way of funding such schemes outside taxation – there can be opportunities where it is a ‘no wires’ alternative to reinforcement or where companies can provide some incremental funding that might enable projects to go ahead as SSEN were doing.

Where companies are accessing innovation funding to support decarbonisation they should be looking to ensure a fair proportion of that is also benefitting customers in vulnerable situations. This facilitation/enabling role, whether this is through sharing funding, advice, information or forming new collaborative partnerships, is likely to become increasingly important, particularly in a ‘whole systems’ and ‘fairness for all’ world.

Focussing on these broad areas (or something like them) would give a structure to what networks are expected to deliver.

The other dimension for the companies to reflect on is scale. It's tempting to focus on new and shiny innovative ideas but the hard part often is moving to scale. Of course there may be limits for some projects – not all customers in vulnerable circumstances will want or need the same solution – but finding solutions that can have a wide impact is important.

Finally returning again to affordability, the fuel poor network extension scheme (FPNES) has to date been a specific obligation on the gas distribution networks and there is strong support for that continuing into RIIO-2 given the way it can radically reduce a fuel poor household's heating costs. Ofgem has raised concerns about how well it is targeted but this is a broader challenge for all fuel poverty schemes and it seems harsh to expect networks to do better than long-running government programmes. Indeed, there is a strong case for linking eligibility for the FPNES to government schemes which provide the central heating system without which the gas network extension is pointless. So, I would argue that Ofgem should worry less about precise targeting – all those benefitting will be struggling to some extent and people can move in and out of fuel poverty as their financial situation changes.

The other challenge for the FPNES is the fit with the decarbonisation agenda where the aim generally is to move people off gas. That might point to some additional requirements around consideration of alternatives – or more support for gas-based district heating – but it feels there should still be a role for this scheme going forward given the benefits it delivers to vulnerable customers.

How do we incentivise companies to excel?

It has been suggested by some people that companies should focus on customers in vulnerable situations as a part of their core business and shouldn't need an incentive. The increased focus on the idea of a 'Sustainable Licence to Operate' and Sustainability First's own 'Fair for the Future' project start to head down that path and it's right to a certain level. Companies should be responsible – and in crisis situations it is clear that they are driven by what is considered a public service ethos and public service values.

But for activities that cost money and take management time and effort they do need to be confident that these costs can be recovered (as the costs of delivering other elements of their day job are). In putting forward their business plans companies should be able to include these costs – along with a clear statement of what they intend to do and what their interpretation of their public purpose in this area is.

Ofgem have floated the idea of a 'use it or lose it' allowance for such activities which has merit in ensuring that the money is not simply pocketed as an 'efficiency' saving but doesn't necessarily ensure that what is being done is done well or is the most effective thing to do.

One option is for Ofgem to think about the role of the Customer Engagement Groups (CEGs) in this space. These groups should have an important role in making sure that what companies put in their business plans in this area reflects what customers really want or need. They could then have a role going forward in making sure that it is delivered in an effective way.

But what is it that will inspire companies to really innovate, to push the bounds and excel? I still believe there is value in some sort of incentive to recognise exceptional performance. A financial incentive does help focus minds but is difficult in what is a subjective area and can come down to a reward for being able to write a good report rather than for what has been delivered.

While Ofgem appears less inclined to offer these sorts of discretionary incentives in RIIO-2 there is a real challenge when it comes to how best to design standards in this area. As Ofgem has rightly highlighted through its focus on 'customers in vulnerable circumstances', vulnerability is a complex issue – it can be transient and the particular impacts can vary from person to person and from time to time. It is hard to set minimum standards and an element of subjectivity is inevitable.

If financial incentives prove too difficult then – if used properly – reputational incentives can be powerful too. It was striking with Project Inspire that people were still keen to showcase what they were doing even without a money prize because of the profile it gave them with important stakeholders. And the process used for judging initiatives involved a panel of independent expert judges but with a level of audience participation that gave the process a more open and transparent feel which the current Ofgem arrangements lack.

The other vital factor to think about in designing any incentive is that part of the goal should be knowledge sharing. What was really gratifying on Project Inspire was to see companies directly picking up ideas from others and implementing them in their own organisations. Creating the right spirit is important here. Competition can be helpful in motivating companies to do well but customers benefit most if these ideas are shared and companies are as focussed on implementing ideas that others have come up with as feeling they have to come up with their own sparkly new idea. This has been an explicit goal for the Network Innovation funding and should be here as well. Given the projections around social inequality, increasing insecurity of income and tenure, the aging population etc, sharing good practice as soon as possible – rather than keeping good ideas 'close' – is important if the sector is to be seen as operating in a 'fair' way.

Conclusion and Recommendation

In conclusion, Ofgem should include some form of vulnerability incentive in RIIO-2. It should be designed to encourage companies to excel but also to share and coordinate ideas. There needs to be money available to fund these activities and an allowance of some sort might actually work better if it allows companies to plan their activities with

confidence. However some sort of mechanism – potentially only reputational – is still needed to showcase best practice and drive companies to innovate and explore new approaches. The CEGs could have a role in holding companies to account in this space going forward and working together could help ensure good ideas are spread.

Making ‘no one left behind’ meaningful in our future energy system

Simon Roberts OBE, Chief Executive, Centre for Sustainable Energy



Introduction – from principle to practice in a system facing disruption

“A Smart Grid for All”; “Equal participation by all customer groups”; “Maximisation of accessibility to services for vulnerable customers”.

Energy networks provide various formulations for what boils down to a common principle they have embraced as they articulate their future at the heart of a smarter, more flexible and responsive ultra low carbon energy system. *“No one left behind”* probably captures it most succinctly.

The widespread espousal of such a principle – whatever the final wording – reflects a recognition by the networks that our energy system, as a provider of services meeting essential human needs such as warmth and illumination needs to provide for everyone. And that their continuing social licence to operate undoubtedly requires them to do so on terms broadly seen as ‘fair’.

But it also reflects a recognition that there are significant system changes underway – often characterised as ‘decarbonisation, decentralisation, digitisation and decreasing consumption’ – which will massively (and potentially rapidly) disrupt the current arrangements.

That’s because these changes bring with them completely new ways to generate unfairness (in terms of the distribution of system benefits and system costs) and to leave people behind (in terms of the complexity and cost of participation in the full range of benefits of the future energy system).

Yet, to date, there has been little attempt to spell out what, in the face of these disruptive transformations, this principle actually means in practice. What behaviours should we expect in future of energy networks and the wider energy system? And what does Ofgem as the regulator need to do to secure those behaviours and to embed this principle in all of its regulatory work?

This article starts to explore these questions. In doing so, it identifies some key areas for Ofgem and others to consider to ensure the ‘no one left behind’ principle becomes central to the rules – from charging methodologies to RIIO-2 to the basic standards of

consumer protection required of any market participant – which will shape our future energy system.

What does ‘no one left behind’ mean in practice?

While the ‘no one left behind’ principle implies a concern about everyone, its focus in practice should tend to be on those ‘ones’ who (a) have only limited capacity to ‘keep up’ and/or (b) who risk suffering disproportionate detriment if they are left behind.

There are different aspects to each of these two categories which are examined below. In terms of membership, there is likely to be a significant overlap between the categories as both are drawn principally from consumers who broadly fit existing definitions of ‘vulnerability’ within regulatory thinking.

The questions raised by the first category – those with only limited capacity to ‘keep up’ – are: What is involved in ‘keeping up’? And what capabilities does keeping up require?

In the context of a smarter energy future, ‘keeping up’ would effectively mean participating in ‘value earning’ smart energy activities, such as:

- Being rewarded (through time of use pricing) for flexing electricity demand to avoid peaks and/or match the output of local renewable generation.
- Reducing use of the electricity system through installing demand reducing equipment or ‘behind the meter’ electricity generation and storage.
- Becoming involved in ‘local’ or peer-to-peer energy supply (linked to local generation and potentially in future local green gas production) to secure lower than typical retail prices.

Each of these requires consumers to have:

The **capacity to participate** – which depends on a customer having the **intellectual** capability to understand which technologies or services will be of benefit to them, the **financial** capability to buy or borrow or sign up for the right kit or services for their circumstances to enable participation, and the **technical** capability to use it appropriately to optimise the rewards.

The **opportunity to participate** – which may depend on (a) whether the part of the system to which the consumer is connected has a need for their participation and, more importantly, (b) on a service provider actually offering them a service so they can participate in the first place.

The **willingness to take the risks involved in participating** – which can be technical (that the typically innovative equipment or service will not deliver the value it has promised) and financial (that the markets won’t actually reward the action to the level anticipated or the service provider will fail to deliver a decent service).

There are many households who are limited in all of these aspects of participation. This includes: those on low income with little access to capital or credit and an (appropriate) aversion to taking risks; those with limited understanding or capability to understand the emerging opportunities; and those (e.g. 'all day at home' pensioner households) with 'non-peaky' demand profiles who aren't the target market for new services.

So are there ways to increase the capacities and opportunities of such households to participate?

The answer to this is almost certainly 'yes'. One can easily envisage a programme of support for participation amongst specific vulnerable consumer groups. Which leads to the question of whether such a programme – potentially provided within RIIO-2 by network companies – should be treated as a system cost associated with putting this 'no one left behind' principle into practice. If so, the costs of such 'participation support' would be socialised across different system actors and treated as a legitimate part of any regulatory settlement.

But – and at the moment we're generating more questions than answers – what should be done about those who still are unable or unwilling to participate in 'keeping up'?

This links to the second category of 'ones' in our focus: those who are at risk of disproportionate detriment if (or when) they are 'left behind'.

What then are the issues associated with being left behind that the principle is seeking to avoid?

Aside from not participating and so losing access to the benefits of 'keeping up', being left behind would involve:

- Paying system costs associated with benefits available to others but which you are unable to access (e.g. for the network reinforcement needed because Tesla EV owners want to charge at home when they want rather than when and where would be optimal for the system) and which you will never be able to access (because, like 55% of the lowest income quintile households, you don't own a car).
- Not being offered a time of use tariff that rewards you appropriately for your existing 'system friendly' behaviour. For example, you are at home all day and already do your washing when it's sunny, so you're not in the target market for demand flexibility services and the systems benefits of your current behaviour are captured by others.
- Paying an increasing proportion of core electricity or gas network costs as other consumers install equipment which enables them to use the network less (e.g. 'behind the meter' storage) or not at all (by shifting from a gas boiler to a heat pump or to a communal heat network).

The practical focus of the 'no one left behind' principle for this category of 'ones' would therefore be to find ways to reduce these (and other) risks of detriment by, for example, ensuring that:

- Network charging fairly reflects both what (and who) is causing network cost pressures and the option value of having the network available even if rarely used.
- Service providers – including energy suppliers – are kept to their licence responsibility to 'know your customer' and, more specifically, to make sure they are offering their customers tariffs and services which suit their circumstances and which pass on the value of system benefits that their behaviour provides.

It should also involve exploring whether and how those who are unable to participate might be protected from carrying the costs of the transition to a smarter energy system.

The implications for RIIO-2 and beyond

So what does this mean for RIIO-2 and the development of thinking by Ofgem and by the network companies as they start to turn their business strategies into business plans – and for Ofgem's regulatory practice more widely?

Applying the practical implications of the 'no one left behind' principle means the following need to be taken forward into RIIO-2 and wider regulatory practice:

1. To understand fully the different ways in which the market and system transformations underway could create disadvantage, Ofgem should (a) work with others to develop a full inventory of the new ways which will emerge to generate unfairness and leave people behind and (b) consider, in the context of RIIO-2, the role of network companies as a key potential source of mitigation.
2. To ensure more vulnerable consumers have a chance to 'keep up', Ofgem, network companies and others should outline (a) what 'participation support' for smart energy services would look like, (b) how might it be developed and delivered to a decent standard across the market, and (c) how its costs could be recovered fairly across different system actors and cost-recovery mechanisms (from license obligations to allowable costs etc).
3. To protect those most at risk of being left behind and suffering disproportionate detriment as a result, Ofgem should (a) ensure licenced businesses follow through in full on their obligations to know their customers and (b) explore how the most at risk can be adequately protected from carrying undue costs and burdens they have neither created nor have the means to avoid.

Delivering positive social outcomes for fuel poor households from RIIO-2

Peter Smith, Director of Policy and Research, National Energy Action



Action for Warm Homes

Introduction

Based on Office of National Statistics (ONS) data, the UK has the sixth highest rate of excess winter deaths in Europe and we estimate cold homes still sadly kill an average of 9,700 people a year. Beyond the number of preventable winter deaths, many more people are using desperate and unsafe coping strategies across the UK this winter. According to the Committee on Fuel Poverty (CFP) since introducing the strategy in 2014/15 the total number of households in fuel poverty (just in England) is up by 210,000 to 2.55 million and BEIS Statistics show that there are still 220,000 fuel poor households living in the least efficient homes, meaning they need to spend well over £1,000 per year more than someone not living in poverty.

Throughout the first iterations of the RIIO regulatory regime for electricity and gas distribution (ED1 and GD1 respectively), NEA has worked with Ofgem and the network companies to cultivate and deliver support to low income and vulnerable households, especially for low income households off the gas network who face some of the highest energy costs. The main drivers for NEA's collaborations and recent work, was included within our response to Ofgem's RIIO-2 Framework consultation. Given this positive partnership work, NEA expressed concern within its response to the future RIIO-2 framework that little consideration had been given for how networks can continue to directly support those in or at extreme risk of fuel poverty within the next price control.

Whilst we accepted that was because the document did not intend to set out the precise sectorial, network specific outputs and incentives; we felt the absence of any details in this area risked undermining the value networks already place on directly benefiting vulnerable customers or when putting together their detailed business plans for the next regulatory period. Ofgem has however now made some initial decisions for the RIIO-2 period, making commitments to vulnerable customers and leaving the door open for networks to have a role in increasing the energy efficiency of domestic buildings. We welcome this more positive commitment and hope the major opportunity to cultivate a workable set of incentives which will help support fuel poor customers will now be seized. This essay aims to set out how.

Main Messages

Firstly, the DNO to DSO transition will present a wealth of opportunities for networks to find new, alternative ways of running their network, far beyond the traditional method of simply putting wires in the ground. It is important that the most vulnerable customers are not excluded from these opportunities and where possible are key beneficiaries. We propose to do this through reforming the current sharing factors and weighting DSR or demand reduction projects dependent on whether they defer or reduce BAU costs but also achieve direct social and environmental outcomes.

Secondly, DNOs have long had an incentive to reduce the losses on their networks. The cost effectiveness of these reductions has deteriorated with time, as the 'low hanging fruit' has been taken early. At the same time, there has been a clear gap in funding for low income households to benefit from more efficient appliances or white goods. The Government assume everyone has had access to increasingly efficient appliances (via improvements through EU products Directives) and therefore this reduces everyone's exposure to increasing policy costs, paid for regressively through energy bills. Sadly, this isn't the case for many low income households and reforming the current losses incentive so that DNOs/DSOs are incentivised to deliver these energy savings within domestic properties (by replacing energy inefficient appliances or electric heating rather than just focus on line losses) would be an effective way for networks to deliver a positive outcomes but again with a strong social and environmental benefit.

Thirdly, innovation funding has, for too long, mainly been focussed on projects that have an incremental impact on technical network operations, which possibly should have been part of networks' BAU activities. Innovation should have the potential to be transformative, and where possible should initially help those who need it most. Any future innovation funding (Network Innovation Allowances or Network Innovation Competitions) could therefore aim to directly support consumers in the transition to a low carbon future, particularly those in or at extreme risk of fuel poverty.

In addition to what the electricity networks could do for low income and vulnerable customers, the gas distribution networks also must be able to build on what they have started during the RIIO-1 price controls. Estimates suggest that accidental Carbon Monoxide (CO) poisoning causes approximately 40 deaths each year in England and Wales, the latest industry data on domestic CO incidents shows four deaths from acute CO poisoning. All were caused by a lack of gas appliance servicing, poor ventilation or where old flues have become blocked. All of the victims were over 60. Beyond the four deaths from acute CO poisoning, there were also approximately 200 hospital admissions and 4,000 attendances at emergency departments for treatment.

NEA's research for the Gas Safety Trust (GST) has shown a strong correlation between households living in fuel poverty and their risk of higher Carbon Monoxide (CO) levels. GDNs already have incentives around CO awareness, and this has been fairly successful from a wider societal perspective, reinforcing safety and social responsibility messaging. Incentives already in place should be enhanced to raise awareness of the risks of CO

poisoning and the direct links between the equally life threatening risk of being in fuel poverty. An incentive re-focussed on those most at risk would reinforce these messages and the direction of travel for most GDNs and could help fuel poor households understand the need to upgrade their systems and provide them with greater access to local or national support schemes to do so.

Finally, the fuel poor network extension scheme (FPNES) is proven to be a cost-effective way of reducing fuel poverty and enhancing EPC ratings. This scheme gives fuel poor households a chance to obtain first time central heating, which can be crucial to ensure homes can be kept warm at the coldest times in winter. NEA therefore hopes GDNs will be required to continue to deliver direct assistance to fuel poor households via a reformed FPNES mechanism. Expanding the scheme would not only serve to increase its value but enable non-gas solutions where this would be the right solution for the householder and the property. Instead of solely providing new gas connections, GDNs should be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings. We hope they would also aim to maximise affordability outcomes by standardising related energy advice and ensuring homes assisted via FPNES also have basic levels of insulation. On top of these proposed changes to incentives, wider vulnerability principles are already in place for suppliers and could be used for networks to ensure that they uphold their obligations to treat their customers fairly and respond to the enhanced needs of those in vulnerable situations.

Summary and Conclusions

For the electricity distribution networks, we proposed:

- Reforming the current share factors and weighting DSR or demand reduction projects dependent on whether they have a direct social and environmental outcome;
- Reforming the current losses incentive so that DNOs/DSOs are incentivised to deliver energy savings within domestic properties by replacing energy inefficient appliances or electric heating;
- Any future innovation funding (Network Innovation Allowances or Network Innovation Competitions) should directly support consumers in the transition to a low-carbon future, particularly those in or extreme risk of fuel poverty.

For the gas distribution networks, we proposed:

- GDNs must be required to continue to deliver direct assistance to fuel poor households via a reformed FPNES mechanism. Instead of solely providing new gas connections, GDNs could be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings;

- Enhance and refocus the incentives already in place to raise awareness of the risks of Carbon Monoxide (CO) poisoning to tackle the direct links between the equally life threatening risk of being in fuel poverty;
- Ensuring basic levels of wall and/or loft insulation are installed within the properties that are supported by the FPNES;
- Improving targeting by allowing GDNs to access information directly from central government using powers under the Digital Economy Act to illicit what in home energy efficiency measures households are able to access via assistance schemes such as the Energy Company Obligation (ECO);
- Provide an incentive to improve targeting by allowing the full recovery of DUoS where the household who is assisted is living in fuel poverty and potentially deflate the ability to recover DUoS from other customers who may just be eligible for the FPNES but not living in fuel poverty;
- Standardise the provision of in-home advice so households who benefit from First Time Central Heating are able to operate the new system, any new controls, receive basic advice about which energy tariffs.

If these proposals are enacted, we believe that fuel poor and vulnerable customers would be significantly better off than they are today and it would move the country closer to meeting its statutory fuel poverty and carbon targets. Not only would the future be much brighter for those that desperately need extra support, NEA stresses that these positive changes mainly adjust existing mechanisms and could be achieved without increasing costs to other energy customers. We hope this can inform the details of how Ofgem cultivate a workable set of incentives and help the companies continue their on-going work to help customers who are in the most vulnerable situations.

Incentivising support for vulnerable customers

Dr Jamie Stewart, Policy Officer, Citizens Advice Scotland



Introduction

Scotland is often seen as being at the forefront of the low carbon energy transition. There are high levels of renewable penetration⁹, some of the toughest emission reduction targets in the world¹⁰, a strong political support for localised and community owned energy projects¹¹ and a tighter 2032 target for the phase out of petrol and diesel vehicles¹². While this presents some exciting opportunities for some, it poses risks for others – such as those who are unable to afford or engage with low carbon and innovative technology or those who are simply vulnerable to variable energy prices.

26.5% of households in Scotland are in fuel poverty¹³. 17% of properties are off the gas grid¹⁴ and energy demand is higher resulting in higher fuel bills than other parts of the UK. Given this context, CAS believes that protecting and supporting vulnerable consumers now, and as the energy market evolves, is essential. We think that network companies, with their wide customer reach and experience of customer care are well placed to increase their levels of support. This essay explores how electricity distribution network operators (DNOs) have supported vulnerable consumers in Scotland under RIIO-1 and considers how the RIIO-2 process can drive better outcomes for vulnerable consumers in Scotland.

As set out in Ofgem's *Vulnerable Consumers in the Energy Market* report¹⁵ DNOs have a responsibility to empower and protect customers in vulnerable situations, through obligations placed on them in their licences. DNOs must maintain a Priority Services Register (PSR)¹⁶ and provide a number of services and support to these customers free of charge. This licence obligation along with Guaranteed Standards of Performance

⁹Energy in Scotland 2018

<https://www.gov.scot/Topics/Statistics/Browse/Business/Energy/EIS2018>

¹⁰The proposed Scottish Climate Change Bill requires 90% emission reduction by 2015

<https://beta.gov.scot/policies/climate-change/>

¹¹Scottish Energy Strategy 2017

<https://beta.gov.scot/publications/scottish-energy-strategy-future-energy-scotland-9781788515276/>

¹²Programme for Government 2017

<https://beta.gov.scot/publications/nation-ambition-governments-programme-scotland-2017-18/>

¹³Fuel poverty is defined in Scotland as when a household uses 10% or more of their income on fuel in order to maintain a satisfactory heating regime. <https://www.gov.scot/Topics/Statistics/SHCS/Downloads>

¹⁴Scottish House Condition Survey 2016

https://beta.gov.scot/binaries/content/documents/govscot/publications/statistics-publication/2017/12/scottish-house-condition-survey-2016-key-findings/documents/00528448-pdf/00528448-pdf/govscot:document/15https://www.ofgem.gov.uk/system/files/docs/2018/06/ofgem_vulnerability_report_2018.pdf

¹⁶Priority Services Registers (PSR) are databases maintained by energy suppliers and network companies, recording details of consumers who may require additional support due to their circumstances (e.g. in the event of a power cut or in making direct contact about a payment issue or planned maintenance work).

(GSOPs) ensures that distribution companies provide a certain level of service to customers.

These obligations mandate that distribution companies support vulnerable customers during planned and unplanned events such as maintenance work and storms, for example with tailored communications and hot meals during power outages. Since the obligations were introduced this level of customer care has to some extent become 'business as usual'. While DNOs have to compensate customers for levels of service below the guaranteed standards, obligations alone may not necessarily encourage companies to improve upon the minimum service they are required to deliver. To help drive performance beyond meeting obligations, the stakeholder engagement and consumer vulnerability (SECV) incentive was introduced in RIIO-1.

The Stakeholder Engagement and Consumer Vulnerability Incentive

The SECV incentive within the social obligations category of RIIO-ED1 encourages DNOs to maximise their role in addressing vulnerability. Network companies are rewarded financially under the SECV incentive for directly or indirectly delivering benefits to customers in vulnerable situations, in particular for those customers on their PSRs. The incentive is non-prescriptive and companies are encouraged to take an innovative approach that delivers measurable benefits for vulnerable consumers. While it is widely recognised that the incentive has driven up support for vulnerable customers it is important for Ofgem to consider how the incentive could be improved under RIIO-2 to deliver even better outcomes for a greater number of vulnerable consumers. This is something which CAS addressed in our recently published report *Pylons, Pipes and People*¹⁷. In this we called on Scottish DNOs to increase the scale and ambition of their programmes to support vulnerable consumers. This essay makes a number of recommendations about how the SECV incentive and DNO activity can be developed to deliver better outcomes for vulnerable households.

What does support currently look like?

Common across all electricity network companies is the promotion and use of the PSR to deliver additional services to customers during planned and unplanned events. On a yearly basis network companies aim to increase the number of customers on their PSR while also ensuring that the data is cleansed appropriately and up to date. However, as the SECV incentive is non-prescriptive, the services that companies deliver outwith support during planned and unplanned events vary significantly. DNOs support a range of programmes which aim to reduce customer vulnerability which are often delivered by partnership organisations through referrals. Programmes can for example include energy efficiency advice, debt advice, tariff switching support, maximising income, fire

¹⁷<https://www.cas.org.uk/publications/pylons-pipes-and-people>

safety visits, befriending services, home visits for people with dementia and community resilience funding.

Performance to date

Each year the network companies' performance in stakeholder engagement and consumer vulnerability is assessed by an independent panel of experts, chaired by Ofgem¹⁸. Along with the written submission that DNOs have to submit to Ofgem, companies are invited to attend a 20 minute question and answer session with the panel of experts. To assist the panel in making a final decision on a company's scoring, an assessment is also made by an independent assessor¹⁹. The final score given to the company is based on year on year improvements and dictates the financial reward that companies receive from the incentive.

While all scores have been average or above, with every company receiving a financial reward since the vulnerability component of the incentive was introduced in 2015-16, there remains a varying level of performance from different DNOs across GB. In 2016-17 scores across all GB DNOs ranged from 5.23 to 8.53 out of 10, with corresponding rewards of £0.82 million to £6.17 million for that year.

As noted in Ofgem's *Vulnerable Consumers in the Energy Market* report²⁰, the expert panel found that network companies now consistently include support for vulnerable consumers in their strategic priorities. It found that DNOs have a good understanding of how varied vulnerability can be and that companies were expanding their PSRs and updating customer vulnerability data. Examples of best practice were also identified in the report and include activities such as: vulnerability mapping; engagement of hard to reach customers during a black out; virtual reality based training for staff around autism awareness; increased partnership working between DNOs and third parties to deliver solutions for vulnerable consumers; and increased partnership working between DNOs, GDNs and third parties to identify hard-to-reach customers and increase PSR referrals.

How to encourage further performance from DNOs to deliver better outcomes for vulnerable consumers

While a competitive non-prescriptive incentive may help to drive innovative solutions to serve vulnerable consumers, it also comes with a number of disadvantages. The Citizens Advice publication *Networks Good Intentions*²¹ highlights that the level of investment

¹⁸<https://www.ofgem.gov.uk/publications-and-updates/stakeholder-engagement-panel-members-2017-18>

¹⁹Ofgem are consulting on whether the independent assessment should be removed for the remainder of RIIO-1

<https://www.ofgem.gov.uk/publications-and-updates/consultation-changes-secv-and-sei-guidance-documents>

²⁰https://www.ofgem.gov.uk/system/files/docs/2018/06/ofgem_vulnerability_report_2018.pdf

²¹Networks Good Intentions, Citizens Advice 2016

<https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/networks-good-intentions/>

assigned to social obligations varies significantly between companies and regions. This is a concern to CAS as it may lead to varying levels of service provision across different regions in GB. While it is difficult to fully understand what controls the level of investment in vulnerability programmes, network companies have to consider the priorities of three groups (Figure 1), which may lead to varying levels of investment and focus.



Figure 1

In a price control that, through the SECV incentive, encourages network companies to engage and listen to their stakeholder and customer priorities, it may be that customer priorities do not align with the aims of a regulatory incentive such as the SECV. If for example, customer research prioritises 'keeping bills as low as possible' the company must take a strategic decision about how much to invest in vulnerability programmes. Less investment will lead to poorer outcomes for vulnerable consumers and a lower SECV score. Higher investment will lead to better outcomes for vulnerable consumers, a higher SECV financial reward but potential misalignment with customer priorities. Should support for vulnerable consumers be left to the discretion of network companies? We suggest that providing innovative support programmes for vulnerable consumers should be guaranteed no matter where a household is located in GB. We think that Ofgem should explore mandating companies to 'ring fence' investment for this. This would ensure that there is more consistency between funding levels, thus avoiding a 'postcode lottery' effect and also help DNOs to reconcile any misalignment between competing priorities.

We argue that support for vulnerable consumers delivered under the SECV must also be more outcomes focussed and deliver tangible benefits. The depth and breadth of services and outcomes is important and programmes that deliver long term positive impact such as reduced fuel bills, increased comfort and wellbeing, reduced anxiety and resilience should be rewarded. While companies deliver different types of programmes, where possible outcomes should also be reported consistently across companies to allow for comparability.

It is also important that the investment in such programmes is transparent. It is currently difficult to determine the different levels of investment in support programmes, with DNOs reporting in different metrics in their SECV submissions. Some companies report on direct financial support to consumers while others report on the holistic costs of delivering a programme that includes staff time and system and administration costs. Understanding investment in the SECV activities is also important to ensure that financial rewards being paid out do not exceed the costs of delivery. As noted before, the financial rewards paid to DNOs under the SECV can be substantial and are ultimately borne by consumers. It is important that payments made under the incentive are fair and are broadly reflective of the investment made in innovative programmes that improve consumer outcomes rather than 'business as usual' activity.

Our *Pylons Pipes and People* report also highlighted that DNOs would like more feedback to explain variation in scores given by the independent assessors and the expert panel. This will help to build confidence in the SECV assessment process and encourage improved performance.

Conclusions

The SECV incentive is encouraging good practice from DNOs. However the incentive should be reshaped with more tightly defined outcomes to ensure that support for vulnerable consumers is consistent across DNO regions and not a postcode lottery. While a competitive incentive has advantages in encouraging innovation, Ofgem should also develop a more rigorous method of ensuring that best practice is shared amongst companies under RIIO-2. While this can be facilitated by Ofgem, it will also be important to assess how best practice policy is truly implemented by companies. This would help to ensure that the level of service delivered across different regions is fair and equitable and raise performance across the board.

An outcomes focussed approach to both programme delivery and assessment is needed to ensure that company SECV scores and financial rewards are not based around who can write the best submission. Financial rewards delivered under the SECV should be based on evidence of improved long-term consumer outcomes for as many vulnerable households in the network area as possible. It is also important to ensure that services delivered continue to recognise the diverse nature of vulnerability.

As highlighted throughout this essay we believe that network companies are well placed to support vulnerable households both during network related events but also with support in the broader transition to a lower carbon, smarter and more flexible energy system. So the challenge is set.

Policy Recommendations

To drive better performance and a more strategic approach to vulnerability, Ofgem should consider increasing the share of the vulnerability component of the SECV incentive to at least match the stakeholder engagement component in the assessment process²².

Ofgem should consider whether spending on programmes to support vulnerable households should be 'ring fenced' to ensure a fairer and equitable level of service across GB.

Under the SECV incentive DNOs should be rewarded for delivering real consumer benefits such as fuel bill savings, increased comfort and warmth, reduced anxiety and resilience.

²²Vulnerability only currently accounts for 25% of the SECV incentive assessment process.

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