

Ofgem: Consultation on framework for consumer standards and policy options to address priority customer service issues

Energy Action Scotland response

Energy Action Scotland is the Scottish third sector organisation dedicated to ending fuel poverty. Energy Action Scotland has been working with this remit since its inception in 1983 and has campaigned on the issue of ending fuel poverty and delivered many practical as well as research projects to tackle the problems of cold, damp homes. Energy Action Scotland works with both the Scottish and UK Governments to develop policy and on energy efficiency programme design and implementation. Energy Action Scotland welcomes the opportunity to respond to this consultation.

Energy Action Scotland's response focuses primarily on those areas that it considers may impact most on fuel poor and vulnerable consumers. Energy Action Scotland is not a health organisation, but we are concerned about the health and wellbeing impacts of living in fuel poverty and that respiratory and cardio vascular conditions which are exacerbated by living in a cold, damp home make up a high proportion of Scotland's excess winter deaths, which are linked to living in fuel poverty.

A household is considered fuel poor in Scotland if the household's fuel costs are more than 10% of its income and what is remaining is not enough to maintain an acceptable standard of living.¹ Fuel poverty is driven by four main issues, these being high energy costs, low disposable incomes, poor energy efficiency of homes and how energy is used in the home.

We believe that funding programmes should prioritise vulnerable and fuel poor households with the sort of support that provides real and lasting benefits.

We welcome this opportunity to contribute our thoughts and feedback on consumer standards and customer service which are integral to ensuring that the needs of vulnerable and fuel poor households are not neglected by in favour of corporate efficiency priorities.

¹ Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019

Background to this response

During the energy crisis, and throughout the pandemic, vulnerable energy consumers have been exposed to some of the most **negative impacts** in the energy market. Whether it is prepayment customers finding it harder to top up during the pandemic (having to leave their house when the UK Government is advising all to stay at home), or financially vulnerable households falling into debt during the cost of living crisis, millions of individuals and households are being impacted. In Scotland it is estimated² that over **900,000 households**, over **35%** are living in **fuel poverty** and over 700,000 households are in extreme fuel poverty.

With these difficulties has come a greater demand from households to contact their energy supplier, and a greater need from energy suppliers to respond to this increased demand.

Households stress is at an incredible level, the pressures on advice and advocacy services have **geometrically increased** and even greater burdens are placed on public services including health, fire and rescue.

Our own experience as well as that of our members is that throughout this period customer service has fallen short of the standards that we believe is necessary for an essential service. **Fining companies** has become **normalised** as a cost of doing business and contributions to redress schemes has seen a significant amount returned to energy suppliers by the way of crisis payments or debt relief. None of which addresses the **fundamental decline** in standards and the crisis facing households.

Enhancing access to customer service

We understand from our members, from GPs, primary care link workers and colleague organisations that people **struggle to make contact with their supplier**. This causes distress to households struggling with debt and to people living with disabilities, long term conditions and other vulnerabilities in the household. It sends people to local advice services who are struggling to meet demand.

This is shifting the burden from corporate service providers to the third sector. The **third sector effectively subsidising energy companies** and the state to support vulnerable and struggling households.

When energy company support is available, those staff most often **lack the agency** to act. They are often unable to progress any support measures around debt and simply have to refer customers to colleagues.

² Scottish Government, Scottish House Condition Survey 2021, published May 2023
<https://www.gov.scot/publications/scottish-house-condition-survey-2021-key-findings/pages/3-fuel-poverty/>

There is also a need for **improved signposting**. Energy company staff must understand where Scotland specific information is required and the differences between Scotland issues and those of England & Wales customers. For example, our members report real issues with the consistency and accuracy of information provided for the Warm Home Discount in Scotland during 2022/23. Customer services staff largely unable to differentiate for customers and to advise them correctly. We believe that this has led to **raised customer expectations** which were not met and to delays in funds reaching hard pressed households.

Elected representatives in our UK and Scottish Parliaments have noted the challenges when they are acting on behalf of constituents. In meetings with Energy Action Scotland MPs and MSPs have reported significant increases in energy related issues at **constituency surgeries** during 2022/23.

It is therefore imperative that call **waiting times** are **reduced** and that call handling hours are increased to ensure that people can get back on supply as quickly as possible. Resolution in the best interests of the customer must be assured. At present we do not believe that is the overriding imperative of customer services which may even be at odds with the statements from senior leaders in industry.

Energy Action Scotland recommends that Ofgem implements proposed option 2 for improving ease of contact, with three amendments:

1. There should be a requirement to increase customer service capacity during peak demand to reduce call waiting times back to acceptable levels.
2. There should be a bespoke priority phone line for third sector advisors to use, to deal with the most challenging of issues faced by their clients, in order to reduce the costs such organisations face.
3. In light of the earlier two amendments requiring additional costs to deliver, the additional hours of customer service articulated in option 2 should be targeted only to those services that need to be out of hours, for example support for prepayment customers that need to top up.

Improving the quality of customer service

In addition to frustrations relating to the ability to reach a supplier, our experience has been that once a supplier has been reached, there are too many occasions where customer service does not meet the quality that we would expect of a provider of an essential service which has the potential to **dramatically impact** on the health and wellbeing of the customer.

Our members report a **lack of compassion, empathy and understanding** shown towards customers, who are often in the most vulnerable situations when contact is initially made with customer service teams. Third sector energy advice and support organisations consistently advocate that customers in difficult should contact their

energy supplier in the first instance, however, increasingly this is met with **frustration not resolution**. The Standards of Conduct say that “Suppliers must identify and understand the characteristics, circumstances and needs of vulnerable customers and satisfy themselves that their actions are resulting in vulnerable consumers being treated fairly”. Concerns raised by our members indicate that this is not the case.

An increasing number of Scottish households are in **debt** to their energy supplier³. There are very specific rules in the licence condition stating how energy suppliers should help their customers that are falling behind with their bills. SLC 27.8 outlines that a supplier must: have appropriate credit management policies and guidelines; make proactive contact with customers; understand individuals ability to pay; set repayment rates based on ability to pay; ensure the customer understands the arrangement; monitors the arrangements after they have been set up; re-engages with the customer after an initial occurrence of a failed repayment arrangement. Time and again, debt repayment plans are set at levels that do not reflect a household’s ability to pay. This approach leads to significant energy rationing, and increased levels of self-disconnection.

Energy Action Scotland supports the proposals in this consultation to:

1. have no minimum for a debt repayment rate across all suppliers and
2. to implement a reputational incentive based on the citizens advice customer service scoring.

Additionally, Energy Action Scotland recommends that Ofgem ensures that scoring for customer service separates off a satisfaction score for customers who are already known to be vulnerable (e.g. by having a separate score for PSR customers).

Ofgem should evaluate the effectiveness of such a reputational incentive. If this approach is shown not to work, a more penal approach must be investigated that genuinely creates a compelling business case for supplier to addressing failings.

The case for greater prescription over competition

There is a need for a **more prescriptive** approach where there is risk to health and wellbeing, for example where a pre-payment meter has been installed in a household with a level of vulnerability in the household that is struggling with debt or maintain continuity of supply.

Through this consultation, and in other areas of work that Ofgem has recently undertaken, there is a common theme surrounding the tension between adding requirements to the regulation of energy companies, or relying on competition to provide good outcomes for consumers. Energy Action Scotland firmly believes that additional requirements in some situations will result in **better outcomes**, particularly for households that live in situations that make them vulnerable to the impacts of fuel

³ Citizens Advice Scotland: Cost of Living Analysis 2022/23, May 2023

poverty. Prescription is essential when trying to drive particular outcomes for vulnerable customers. In short, good treatment of this group is not something that suppliers should compete on. The experience of all households, as customers of energy suppliers, should be excellent and meet a **high bar minimum** standard of service. We have no objections to suppliers exceeding this standard but it is clear that the application of **good, consistent and fair** customer service is not being achieved.

An area where Ofgem proposes more prescription is through the introduction of a reputational incentive which would require suppliers clearly display details of website hyperlinks to customer service quality data from a specified **independent third party** organisation such as Citizens Advice, **prominently** on their websites. Energy Action Scotland recommends that this should go further. Details should be embedded on supplier websites as well as in other communications (such as bills), to ensure that their customers see it. It is also important to track the effectiveness of such a reputational incentive, which has not often been used in energy supply. If it is deemed not to be effective, Ofgem should consider further options including limitations to the acceptance of new customers for suppliers failing to provide a positive experience for their existing customer base as measured by independent assessment and review.

Answers to the Call for Input

Question 1: Do you agree with our assessment on what good looks like for the issues consumers are facing relating to the priority issues of contact ease and identification and support/advice for consumers struggling with their bills. Are there any issues missing?

Please see comments on each of the areas is shown in the table below

Area of Focus	Ofgem's perception of what good looks like	Energy Action Scotland Comment
Finding methods of contacting supplier	Customers are able to easily and clearly identify methods of contacting their supplier.	At a high level we agree that this represents good outcomes, as long as this is about achieving equity of experience not average experience.
Method of contact meeting different customer needs	Customers, in particular customers in vulnerable situations, are able to identify a method of contacting their energy supplier that meets their needs.	We agree with the statement, however more detail is needed. For example, there is an increasing need to cater for digitally excluded households. Suppliers need to demonstrate that they can deploy an appropriate range of communication media.
Contacting suppliers and getting timely and appropriate response	Customers, in particular customers in vulnerable situations, are able to contact their supplier in a timely manner via their chosen contact method and get query resolution.	We agree with the statement, however more detail is needed. It should reference and articulate what are the reasonable call waiting times that supplier should meet, as well as ease of access across more of the day, and reducing the costs experienced by customers in accessing support. There should be no direct customer cost for access to the supplier.

Question 2: Do you have any views on potential options to address priority issues and do you agree with the extra requirements we are proposing? Please supply evidence to support your response?

Over the last three years, through the pandemic and the energy crisis, access to customer service in the energy market has increasingly become more of an issue for customers as well as the third sector organisations who advocate for them in the market. Two issues have arisen in that time. Firstly, that suppliers do not necessarily offer **free phone lines** at the times that their most vulnerable customers need them, for example to get back on supply in the event that a prepayment meter runs out of credit. And secondly, the capacity to deliver appropriate levels of customer service has been lacking, resulting in significant call wait times to solve relatively simple issues. This adds to the costs of already **struggling customers**.

The proposals in this consultation look to solve the issue that relate to opening ours of customer service lines through extending those hours. Solving this issue is necessary, but not sufficient. Longer opening hours will provide relief for customers who need to contact during times that are currently classed as 'out of hours', but it will not necessarily reduce call waiting times, which has significant **cost consequences** for the **third sector organisations** that advocate for energy customers, as well as time/cost consequences for customers themselves.

Energy Action Scotland believes that reducing **call waiting times** must be a key priority for this work stream. On average, the waiting time to get through to an energy supplier has increased significantly since last year. These average figures do not tell the whole story. Our member organisations often have to wait well **over an hour** to get through to a supplier on behalf of a client to address issues. Not only that our members, whose staff have as a minimum a qualification in providing energy advice, report that resolution is becoming increasingly difficult when dealing with supplier staff who have a low level of awareness of the licence conditions, obligations and responsibilities of regulated energy supply.

Increased call waiting time comes at a cost for third sector and advocacy organisations. We estimate that the cumulative impact of these call waiting times results in each of our member organisations' advisors being unable to help hundreds of people each week. Many **local advice** teams are relatively small, have seen an increase of over 40% in demand, and as a result thousands of households are missing out on **vital support**.

Individuals also face a time penalty from such increases to call waiting times. Assuming that a customer calls their supplier twice a year, the additional cumulative amount of time that individuals face through an increased call waiting time is costing energy consumers £millions of equivalent value each year in total.

Energy Action Scotland recommends that Ofgem implements proposed option 2 for improving ease of contact, with three amendments:

1. there should be a requirement to increase customer service capacity in peak times to reduce call waiting times back to acceptable levels.
2. there should be a bespoke priority phone line for third sector organisations with appropriately trained advisors to use in order to reduce the costs that the sector faces in order to help households.
3. in light of the other two amendments requiring additional costs to deliver, the additional hours of customer service articulated in option 2 should be targeted only to those services that need to be out of hours, for example support for prepayment customers that need to top up.

Question 3: Do you have any evidence that suggests that we should be considering additional and/or different rules beyond what we have proposed? Please supply evidence to support your response?

Our experience has been that once a supplier has been reached, there are too many occasions where customer service **does not meet the quality** that we would expect of a provider of an essential service.

One issue that is consistently faced by our advisors is the lack of compassion, empathy and understanding that is shown towards people in the most vulnerable of situations. The Standards of Conduct say that “Suppliers must identify and understand the characteristics, circumstances and needs of vulnerable customers and satisfy themselves that their actions are resulting in vulnerable consumers being treated fairly”. Energy Action Scotland is **not convinced** that this is being met consistently across the market.

An **increasing** number of households are in **debt** to their energy supplier. There are very specific rules in the licence conditions stating how energy suppliers should help customers that are falling behind with bills. SLC 27.8 identifies that a supplier must: have appropriate credit management policies and guidelines; make proactive contact with customers; understand individuals ability to pay; set repayment rates based on ability to pay; ensure the customer understands the arrangement; monitors the arrangements after they have been set up; re-engages with the customer after an initial occurrence of a failed repayment arrangement. Time and again, debt repayment plans are set at levels that do not reflect **ability to pay**. This approach leads to significant energy rationing, and increased levels of self-disconnection. Indeed for many households in debt there is simply no affordable level of repayment that is achievable. This has increased significantly as costs of increased during 2022 and look set to endure for some considerable period to come.

Energy Action Scotland is concerned that there is acceptance that the levels of debt currently existing are somehow manageable for fuel poor and low income households. Levels of consumer **debt** within energy supply are **rising** and will continue rise while energy prices remain that a level in the region of double 2020. There is a lack of discussion around those who **cannot repay** their arrears and it is not clear how these customers will fare in the proposed standards.

To rectify this, Energy Action Scotland supports the proposals in this consultation to:

1. have no minimum for a debt repayment rate across all suppliers; and
2. to implement a reputational incentive based on the citizens advice customer service scoring.

Energy Action Scotland recommends that Ofgem ensures that scoring for customer service separates off a satisfaction score for customers who are vulnerable (e.g. by having a separate score for PSR customers).

There should be **greater sophistication** in the calculation of the 'customer services performance' of suppliers that includes factors relating to scale, the socio-economic profile, vulnerability profile of the supplier to ensure that customers can better understand which supplier may offer them the best experience relative to their circumstances.

Ofgem should evaluate the effectiveness of such a reputational incentive. If this approach is shown not to work, a more penal approach must be investigated that genuinely creates a **compelling business case** for supplier to addressing failings.

Question 4: Do you agree with our proposed approach of introducing reputational incentives in our priority areas? Please supply evidence to support your response.

No, Energy Action Scotland recommend that this should **go much further**. Details should be included prominently on supplier websites as well as in other communications (such as bills), to ensure that their customers have a meaningful opportunity to view. It is also important to track the effectiveness of such a reputational incentive, which has not often been used in energy supply. If it is deemed not to be effective, Ofgem must consider options, including **limiting or halting new customer contracts**, to ensure that customer experience improves.

Question 5: Do you agree with what we have set out in the assessment chapter? Please provide supporting evidence with your views. For evidence regarding additional costs, please provide quantitative data.

No. We are concerned that achieving good customer service standards is being viewed as an additional cost obligation. The **minimum standards** that Ofgem are seeking to introduce are implicit within the current licence. Suppliers should be meeting these standards. If they haven't been meeting these standards, the price cap

has been wrong, covering the costs of providing a good level of customer service, when in reality this standard has not been met. Energy Action Scotland therefore recommends that Ofgem does not accept that minimum standards should automatically result in additional costs within the price cap. Suppliers have been for over 2 years had relatively stable customer numbers as a result of the majority of domestic customers now on the price cap and with many suppliers stopping or restricting new customer contracts as prices increased. Supplier profits within the price cap are calculated on a percentage margin in relation to costs. Costs have more than double and the quantum of **allowable profit** within the price cap has **increased**.

Question 6: Using the list of prospective data items we present in the monitoring chapter as a guide, what other additional data items could we aim to collect and from what data sources? Do you consider there are any challenges you may face when collecting/providing these? If so, please provide any supporting evidence you have.

One argument against being more prescriptive is that this will create new activities or a higher intensity of activities that will attract additional costs. Some will argue that the price cap needs to be increased as a result of these increased costs. We contend that this is not necessary. The minimum standards that Ofgem are seeking to introduce are **implicit within the current licence**. Suppliers should be meeting these standards. If they haven't been meeting these standards, the price cap has been wrong, covering the costs of providing a good level of customer service, when in reality this standard has not been met. Energy Action Scotland therefore recommends that Ofgem does not accept that minimum standards should automatically result in additional costs within the price cap.

There are areas where there should be **greater transparency**. The payment schedules of the Warm Home Discount is an area where there is little real time information available. Customer payment methods appear to create no payment prioritisation whilst there is a clear recognition of the challenges that different payment methods place on customers. The impact of receiving the discount for a vulnerable household is significant yet the cashflow requirements for customers is significantly different from prepayment to direct debit. During 2022/23 Energy Action Scotland members have raised issues regarding communications from suppliers to customers and that some have had **expectations built** and have received no discount and others experienced **delays in payments** with supplier commitments being made regarding payments by end March 2023. Data should be available on a national basis where such differentiation exists.

Question 7: Do you have any comments on the factors that should be considered in determining whether to use principle-based or rule-based approach to setting standards?

Through this consultation, and in other areas of work that Ofgem has recently been undertaking, there is a unresolved tension between adding more regulation of energy companies, or relying on competition to provide good outcomes for consumers. Energy Action Scotland firmly believes that only additional requirements in some situations will result in better outcomes, particularly for households that live in situations that make them vulnerable to the impacts of fuel poverty.

There is precedent for additional requirements in order to protect vulnerable energy customers across energy regulation. Most recently, the Code of Practice governing the **forced installation of prepayment meters** is much clearer and directing than previous guidance on the topic. This was deemed suitable because without the additional prescription, vulnerable customers would be left without protection. It is similarly true of customer service. Without prescription, **competition will not deliver** the outcomes that we would like to see (as proved by the current levels of customer service that have been driven by competition, yet do not meet an acceptable standard).

Question 8: Do you agree with our early view of reputational based incentive options for winter 2023 and the potential incentive options for development over the longer-term? Please provide explanations to support your responses.

See our answer to question 4 for our view on the reputational incentive.

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