

POSITION PAPER ON THE PROTECTION OF VULNERABLE CUSTOMERS

Introduction

In many countries the monopoly energy companies were historically involved in varying degrees in policies and practices for the protection of vulnerable customers, as well as in general consumer protection arrangements for small or domestic consumers. However not all customers previously considered as 'non-eligible' are necessarily 'vulnerable'. The coming of competition in the household market and the possibility of new suppliers has required arrangements for those in need of special protection to be reconsidered. This has meant thinking about:

- Who are 'vulnerable customers'?
- Who should be involved in providing protection for these customers?
- What kind of protection is appropriate?
- How should this protection be paid for?
- How should protection of vulnerable customers be accommodated in a competitive energy market?

It is important at a national level to identify carefully who are the vulnerable customers and to define solutions in the context of Member State social policy which do not undermine the liberalised market framework.

This note reviews some of the issues involved in these questions and is intended to help inform discussion about alternatives to regulated tariffs, which have in some cases been seen as a way of protecting vulnerable customers.

Who are vulnerable customers?

Recent research by ECOFYS/ECORYS on behalf of the European Commission identifies a number of different approaches across the EU to defining vulnerable customers. These include:

- customers below a certain income threshold (Belgium, France) or otherwise unable to pay (Belgium, UK)
- customers who may be specially 'vulnerable to supply interruption' (e.g. Ireland)
- customers with 'special communications requirements' (Ireland, UK)
- customers in receipt of/eligible for social benefits (France, Hungary, Malta)

The scope of customer protection and within that the definition of vulnerable customers are matters for Member States to decide. Since in most cases these are derived from traditional practices and social policy, Eurogas does not comment on these varying definitions of vulnerable customers. Eurogas is simply concerned that any definition adopted is:

- clearly understood by all involved
- limited to tightly defined customer groups with particular needs, and
- not used to provide services of general benefit to all customers (which are more correctly seen as public service obligations and which are explicitly permitted in the 2003 Gas Directive)

The ECOFYS/ECORYS report concludes that if energy policies are to have a social element, 'income is the preferred indicator for selecting eligible consumer groups'. It is unclear whether this means they believe it is the best, or simply the most common indicator.

Who should be involved in providing protection?

Eurogas believes that in general, questions of consumer protection and the needs of vulnerable customers are social issues rather than energy policy issues. However, recognising the importance of gas and electricity and the particular burden for low income or other socially disadvantaged customers when faced by recent energy price increases, suppliers are sometimes involved in measures to address the problems that arise.

Member states and companies vary in their approach. In many cases, energy suppliers are involved in payment and tariff arrangements, and they may also be involved in the provision of energy efficiency measures. Frequently protection is also provided by other players e.g. the municipality or the state.

Eurogas is concerned that where energy suppliers are involved, the costs of administering the arrangements are as low as possible.

What kind of protection is appropriate?

Typically, protection of vulnerable customers is seen as necessary to ensure that customers with limited incomes or in receipt of state benefits are helped to pay their gas and electricity bills, especially at times of the year when an energy supply may be critical to life itself.

- A common form of protection therefore is to require special payment arrangements to be made for those customers who cannot pay their bills.
- Another is that these customers are not disconnected, reserving disconnection for those customers who can pay but choose not to.
- In some cases financial assistance can be provided or special 'social' tariffs provided.
- Alternatively a prepayment or budget meter can be fitted.
- Yet another approach involves the provision of energy efficiency measures to particular customer groups, thereby enabling them to save on future energy bills as well as helping to achieve environmental goals.

In all cases, Eurogas believes that targeted approaches should be used, to minimise costs and market distortions. Eurogas rejects the continued use of artificially low regulated tariffs, which have a major distorting effect, and often do not permit new entrants to compete. Market intervention of this kind is generally neither sustainable nor desirable.

The key question is not the nature the protection but how it is funded.

Who should bear the cost of protection?

Eurogas agrees with the concerns expressed in the ECORYS report when energy policy and social policy are confused. When suppliers are directly involved in the funding of such customer protection, it has the potential to distort the operation of the energy market. In principle Eurogas does not support cross-subsidies, and even a special tariff specifically intended for vulnerable customer groups may represent a 'socialised' solution involving a cross-subsidy from the generality of customers to vulnerable customers.

Thus if a Member State wishes to require a social tariff, Eurogas believes it should be transparent and it must be focused on socially disadvantaged customers, rather than applying, for example, to a particular consumption level or payment mechanism.

How should protection be accommodated in a competitive market?

Eurogas recognises that Member States will want to ensure that disconnection procedures for the non-payment of gas bills take proper account of the needs of those who are vulnerable or who for other reasons find it particularly difficult to pay. This policy concern can be introduced through legislation, licence conditions, codes of practice or in other ways. A similar approach can apply in the case of energy efficiency measures.

What is essential is that obligations apply to all energy suppliers in a competitive market or to none, in order to ensure that suppliers can compete equally.

Pricing concerns are much more difficult. One possibility is a social or default tariff funded by the state, but this must be compatible with competition and the liberalisation process in the country concerned. A better solution is an explicit state benefit for 'vulnerable' customers e.g. the use in Britain of a winter fuel allowance for all customers of pensionable age.

While it would be possible to consider state benefit which was payable if energy costs exceeded a certain level, Eurogas believes it would undermine competition for the group of 'vulnerable' customers if they effectively paid the same price whichever supplier they had chosen.

Conclusions

The ECOFYS/ECORYS report concludes that the concept of mingling energy policy and social policy seems not to be very popular, and makes the point very strongly that support for incorporating elements of social policies in energy policies is weak and maybe not needed because market forces could provide sufficient incentives for socially correct behaviour of suppliers.

Eurogas supports the suggestion that in effective and competitive markets, suppliers will be under strong pressure from consumer groups and others to adopt socially responsible practices with regard to e.g. payment arrangements and disconnection practices. These policies can be formalised in (voluntary) codes of practice. However we accept that the treatment of vulnerable customers is politically sensitive, and recognise that Member States may feel more formal rules are necessary.

However the policy issue is managed at Member State level, Eurogas reiterates that it is essential that targeted approaches are used, distortions to the competitive market are minimised and administrative costs kept as low as possible.