



Action for Warm Homes

Energy Prepayment Review
Competition and Markets Authority
RBFA – 6th Floor South East
Victoria House
37 Southampton Row
London
WC1B 4AD

22nd February 2019

Dear CMA Review Team

NEA response to the CMA decision to launch a review of the Energy Market Investigation (Prepayment Charges Restriction) Order 2016

NEA understands the CMA is undergoing a review to decide whether the Prepayment Charges Restriction Order 2016 remains appropriate and if not, whether it needs to be varied or revoked. Thank you for the opportunity to feed into the process. Within this letter NEA contests that neither the speed nor scale of the smart meter roll-out or the introduction of the Default Tariff Cap warrants the revocation or significant variation of the prepayment charge restriction. We discuss why below.

The speed of the smart meter roll-out

Within the explanatory noteⁱ of The Order, the CMA explains, regarding the roll out of smart meters: “In the event that such roll-out were materially ahead of (or behind) schedule, the CMA will consider whether to revoke the Order early (or recommend that GEMA consider introducing further measure to protect prepayment customers until the roll-out is substantially completed) in light of such a change of circumstances.” NEA highlights that the recent National Audit Office report ‘Rolling out Smart Meters’ⁱⁱ found that the number of smart meters installed by 2020 will fall materially short of the Department’s original ambitions and is moving at a materially slower pace than was thought at the time of publication of The Order.

As a result, whilst NEA had hoped the benefits of SMETS 2 would mean suppliers would be now coming forward with cheaper tariffs for PPM customers (due to the reduced cost to serve these customers), this outcome has not materialised and NEA understands that currently no suppliers are offering SMETS 2 PPM. Therefore it is not clear what rationale there would be for allowing suppliers to pass smart metering costs through to these customers, without any prospect that they will benefit from cheaper tariffs.

NEA therefore believes that the CMA should consider preserving the PPM cap, until the roll-out is substantially completed, access to SMETS2 PPM is common place and a necessary assessment of the costs and benefits is possible. Without heeding this approach and revoking (or significantly reducing the current PPM price protection by bringing it into line with the Default Tariff Cap), PPM customers would instead face new costs for the smart metering programme they do not currently incur, without having any (or limited) access to the potential benefits. In addition, NEA is conscious that that there is a possibility the UK Government may extend the deadline for the

smart meter roll-out, if this transpires, the CMA should also revise the PPM cap deadline accordingly.

The introduction of a wider price cap

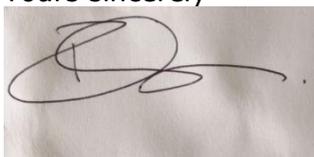
Since The Order was put in place, the Government has legislatedⁱⁱⁱ to introduce a wider price cap on all default tariffs. NEA was a key stakeholder during the passage of the Domestic Gas and Electricity (Tariff Cap) Act 2018^{iv}. As well as noting our general support for the provisions of the legislation^v, NEA also stressed Ofgem's statutory duties require them to take into account the needs of particular vulnerable groups of consumers; including those households living on low incomes^{vi}. NEA therefore urged Ofgem and the UK Government to act on the welcome preparatory^{vii} steps to preserve and extend the PPM cap to low income pensioners who received the Warm Home Discount automatically^{viii}. NEA also worked with the Government to confirm^{ix} that Ofgem could operate the extended Safeguard Tariff at the same time as the Default cap. NEA also prompted amendments to the Digital Economy Act^x which now allow suppliers to work with government to carefully identify those whose energy bills are putting them in financial difficulty and need most protection from price rises. NEA also welcomed the recognition that the Default Tariff Cap does not afford the longevity that Ofgem^{xi} and the UK Government^{xii} have said is needed for the most vulnerable customers.

Whilst this progress was encouraging, NEA was disappointed that when implementing the Default Cap, Ofgem did not adopt this approach and chose to remove 1 million low income pensioners who are not on prepayment meters, but are receiving the Warm Home Discount, from the Safeguard Tariff. The limited rationale noted that the Safeguard Tariff was only intended as a temporary measure and at the time of switching them over, these customers would feel little impact as both caps were set at the same level. Following the recent rise to both the Default and PPM Caps on the 7th February however, the majority of suppliers have now increased their prices to the level of the new cap and the evident risks we highlighted for the 1 million low income pensioners have now arisen^{xiii}. Whilst the PPM cap has also increased, if the PPM cap is revoked or wrapped into the wider Default Cap, this same negative impact will also be faced by all 4 million PPM customers. In turn this would prompt dangerous energy rationing, self-disconnection or according to our recent call for evidence^{xiv} a range of other unsafe coping strategies.

In addition, NEA is concerned that these negative impacts could be further compounded in the near future if Ofgem carry out their minded to decision to revise the network charging regime. Whilst this will not affect the PPM unit cost it is anticipated this would lead to further significant accruals of standing charges. This can have a hugely devastating effect on vulnerable PPM customers, as and when they do have the funds to top up their meters. **NEA therefore recommends that the current PPM cap should be retained until the issues noted above can be better understood and Ofgem^{xv} and the UK Government^{xvi} have set out clear options on what enduring protection will be needed for the most vulnerable customers, including low income PPM customers.**

We would be pleased to meet with you to discuss these issues further.

Yours sincerely



Peter Smith
Director of Policy and Research

ⁱ Ofgem's response to the https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/584889/energy-market-price-cap-explanatory-note.pdf

ⁱⁱ The NAO report 'Rolling out Smart Meters' can be found here:

<https://www.nao.org.uk/wp-content/uploads/2018/11/Rolling-out-smart-meters.pdf>

ⁱⁱⁱ The Domestic Gas and Electricity (Tariff Cap) Act 2018 can be found here: http://www.legislation.gov.uk/ukpga/2018/21/pdfs/ukpga_20180021_en.pdf

^{iv} NEA provided oral evidence to the BEIS Committee during pre-legislative scrutiny of the Domestic Gas and Electricity (Tariff Cap) Bill in March 2018 and subsequently, following the publication of the Bill in Parliament, oral evidence to the Public Bill Committee in April 2018.

^v NEA noted the Default Tariff Cap could provide some temporary relief from unpredictable price increases, greater transparency in the pass through of energy related policy costs and the prospect that bills could fall if input costs drop. For the majority of customers who don't (or can't) engage in the market, this continues to be a positive development, despite the recent rises that were announced on the 7th February.

^{vi} In this context, whilst welcoming the new price protections for some vulnerable households who can't or don't engage in the energy market, NEA highlighted the risk that a million low income pensioners protected by the previous Safeguard Tariff could end up paying more than they would have done without the new Default Tariff cap.

^{vii} Ofgem consulted on how data-matching for an extended Safeguard Tariff may operate. NEA agreed with the introduction of a licence conditions obligating suppliers to take preparatory steps to have arrangements in place with the Department for Work and Pensions (DWP) for when the necessary data matching exercise. NEA also welcomes Ofgem addressing the unacceptable variance in the coverage of the previous Safeguard Tariff and we express our support for ensuring suppliers over 50,000 customers were able to deliver and target this vital assistance effectively in the near future. NEA also welcomed Ofgem committing to develop and implement the necessary data privacy impact assessments in time for when the extended Safeguard Tariff would have been implemented for all customers eligible for the Warm Home Discount (within both the WHD core and broader group), by no later than December. In addition, a letter by the Secretary of State to the BEIS Committee Chair noted the Government's support for working with Cabinet Office, the Department for Work and Pensions and Ofgem on amending the Digital Economy Act to extend the Safeguard Tariff. The Government subsequently amend the regulations to allow the powers within the Act to be used for this purpose. However, the consultation failed to provide clarity these steps will be introduced.

^{viii} NEA also stressed the need for and then the need to utilise the new data sharing powers that are now available via the Digital Economy Act which allow suppliers to work with government to carefully identify those for who energy bills are high and potentially putting them in financial difficulty.

^{ix} Following a series of cross party amendments NEA were subsequently given assurances in the House of Commons by Claire Perry MP, BEIS Energy Minister, and subsequently in the Lords by the Parliamentary Under Secretary of State Lord Henley during the final stages of the Bill that "Ofgem is proposing to keep the Safeguard Tariff in place if the new price cap is materially higher (i.e. gives less protection) than the level of the Safeguard Tariff". Following these developments, the Chief Executive from Ofgem also met with NEA, the Energy Minister and the Chair of the BEIS select Committee and gave similar reassurances.

^x Business and Energy Secretary Greg Clark said: "the effects of energy price rises are often felt most by those on the lowest incomes. Enabling energy suppliers to establish who should be on Ofgem's safeguard tariff cap will help these vulnerable consumers. The proposed amendments to the Digital Economy Act will allow suppliers to work with government to carefully identify those whose energy bills are high and potentially putting them in financial difficulty. These people can then be placed under Ofgem's safeguard tariff cap, protecting them from high bills and unfair price rises".

^{xi} Dermot Nolan, Ofgem CEO said to the BEIS Committee during the Bill's pre-legislative scrutiny "In my view, yes...I would envisage a very possible situation in which if a full, market-wide price cap was removed, Ofgem would continue with the price cap for vulnerable consumers"^{xii}.

^{xiii} Claire Perry MP, BEIS Energy Minister also stated publically to the Public Bill Committee in April that the UK Government recognised the need for the Safeguard Tariff to continue even if the SVT wide cap is in place by this winter. Further to this, the Minister also restated that the UK Government supported the positive case for the Safeguard Tariff to be expanded to those eligible for the Warm Home Discount scheme and this would be possible once the revisions to the necessary data-sharing in the Digital Economy Act schedules have been made.

^{xiv} Over 1 million low income pensioners are now likely to pay a minimum of £4m more than they would have done under the previous Safeguard Tariff.

^{xv} In total 60 respondents completed the Warm and Safe Homes questionnaire.

^{xvi} Dermot Nolan, Ofgem CEO said to the BEIS Committee during the Bill's pre-legislative scrutiny "In my view, yes...I would envisage a very possible situation in which if a full, market-wide price cap was removed, Ofgem would continue with the price cap for vulnerable consumers"^{xvii}.

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