National Energy Action (NEA) response to the Joint BEIS and Ofgem Consultation "Flexible and Responsive Energy Retail Markets"

About National Energy Action (NEA)

NEA[1] works across England, Wales and Northern Ireland to ensure that everyone in the UK[2] can afford to live in a warm, dry home. To achieve this, we support the following Ofgem priorities:

- **Driving a step change in customer service for vulnerable groups and improving identification of vulnerability** by enhancing awareness of the Priority Services Register (PSR) and through our training courses, including "Identifying Fuel Poverty and Vulnerability", each year we train approximately 3,000 frontline staff, who will go on to help an estimated one million people

- **Encouraging positive and inclusive innovation through innovation projects** by ensuring exemplar network innovation projects are developed, disseminated fully and encouraging network companies to ensure fuel poor and vulnerable households directly benefit from these innovation competitions and allowances

- **Ensuring a fair and functioning energy market**; through regular engagement with Ofgem, NEA, alongside other consumer groups have helped secure key improvements[3] in the treatment of low income and vulnerable households. Most recently, this has included pushing Ofgem to commit to refining their distributional analysis tools to ensure that their decisions are fair and equitable

- **Working with partners to tackle issues that cut across multiple sectors** within our project with Northumbrian Water to identify the options for jointly combating water and fuel poverty together, bringing learnings and insights across two essential services

We also support the UK Government's aims by:

- **Delivering the smart meter rollout;** since 2016 NEA has worked with Smart Energy GB and our sister charity Energy Action Scotland to deliver the Smart Energy GB in Communities programme, working with trusted local partners to engage vulnerable consumers who might experience a barrier in taking up a smart meter

- **Supporting those struggling with their bills** though our continued participation in Warm Home Discount industry initiatives, and other similar schemes. Last year (2017/18) we led five industry initiative schemes, helping approximately 4,000 people with their energy bills

- **Trialling new innovations** such as our "Technology Innovation Fund" where overall over 44 projects were awarded funding (with an additional two programmes granted funding in 2017), involving 19 types of technology and 66 products, all targeted at people in vulnerable situations

- **Improving the energy efficiency standards of fuel poor homes;** through NEA's Health and Innovation Programme (HIP), NEA and our partners delivered energy efficiency advice and measures to over 9000 households. Households were typically on very low incomes, and 59% had a limiting or long-term health condition and/or disability. The vast majority of households (68.5%) moved up one or more EPC band

- **Increasing effective targeting of fuel poor and other vulnerable households*;*** our advocacy on the Digital Economy Act has helped energy suppliers to better identify households with certain needs and reduced the costs of delivery of the Warm Home Discount and the Ofgem's Safeguard Tariff

- **Tackling the financial burden of energy bills for those on low incomes*;*** though our income maximisation activities, including benefit entitlement checks, we helped secure over £500,000 of unclaimed benefits for low-income households in the last financial year alone

- **Enhancing and improving understanding of fuel poverty**; through our extensive research work, including our reports - "In from the cold", "Bridging the Gap", "Get Warm Soon?", "Under one Roof" and our annual Fuel Poverty Monitors. Our media work in 17/18 has generated 775 opportunities to see or hear about fuel poverty in the press, helping raise awareness of the issue and engage new audiences.

NEA's campaigning and policy work seeks to channel the in-house expertise gained from our delivery and research work. By informing policy making we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Summary of our response

Living in cold, damp and unhealthy homes continues to cause shocking levels of unnecessary hardship and premature mortality. Across the UK, at least 11,400 people die each year due to a cold home.[4] As well as the devastating impacts cold homes have on their occupant's lives, this problem can lead to fuel debt and energy arrears which increases costs to suppliers and their customers[5]. NEA believes dramatically improving domestic energy efficiency levels remains the most enduring solution to addressing energy affordability[6], however, we also know other key actions are required in retail energy markets to safeguard vulnerable domestic customers, particularly those living on the lowest incomes[7].

To achieve the best outcomes for vulnerable customers, both Ofgem and the UK Government need to undertake key actions and must take every opportunity to work together. The joint approach to the 'Flexible and Responsive Energy Retail Markets' is therefore welcome and is a key opportunity to address critical issues which effect consumer protections and vulnerable customers; in particular the future of the Warm Home Discount scheme, reducing current supplier obligation thresholds for obligated schemes and the future of price protection for the most vulnerable consumers.

Above all, NEA stresses the need for the UK Government to ensure the Warm Home Discount scheme continues and how essential it is to extend the scheme past 2021. Without certainty over the future of the scheme, NEA (and a wide range of other organisations) will not be able to maintain our work to award grants, fuel debt advice and wider services which save lives. This is despite industry initiatives often providing better value for money than switching or even direct yearly rebates which are the main focus of the current programme.

NEA also highlights that, despite the legislative powers to do so, not all payments within the scheme are made automatically through increased data matching. In the UK Government's Warm Home Discount 2018/19 consultation, the Government stated they will consider the potential role for new data matching powers under Part 5 of the Digital Economy Act which would enable an expansion of the provision of automatic rebates, through data matching, to working-age households. NEA strongly supported this concept which was first mooted in 2015 and we championed the secondary legislation in Parliament that makes this possible. One of the key reasons this is required is so many low income households are eligible to receive WHD but miss out on this support each year either because they are unaware of this support or fail in their applications due to the limited annual budget[8]**.** These low income working households face unimaginable gaps between their incomes and the essential cost of living[9] and miss out on support despite paying for the cost of the policy through their energy bills. NEA therefore believes the Warm Home Discount scheme must continue for existing low-income pensioner recipients and be provided automatically to more low income working families, using powers under the Digital Economy Act to ensure better targeting. Within annex 2 NEA demonstrates how the necessary increase to the annual WHD budget could be achieved without increasing energy bills or requiring additional tax funded support.

NEA has also welcomed both the Pre-Payment Cap and the Safeguard Tariff and was a key stakeholder during the passage of the Domestic Gas and Electricity (Tariff Cap) Act 2018[10]. As well as noting our general support for the provisions in the Bill[11], NEA also welcomed Ofgem and the UK Government's preparatory[12] steps to preserve and extend the Safeguard Tariff[13]. NEA also prompted amendments to the Digital Economy Act[14] which now allow suppliers to work with government to not only provide the WHD automatically but also identify a similar cohort of customers who need most protection from price rises and could have benefited from an extended Safeguard Tariff.

It was therefore disappointing 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. This was despite NEA working with the Government to confirm[15] that Ofgem could operate the extended Safeguard Tariff at the same time as the Default cap. Following the recent rise to both the Default and PPM Caps on the 7th February, the majority of suppliers have increased their prices to the level of the new cap and the evident risks we highlighted have now arisen[16], irrespective of the latest adjustments to the Default Cap.

This outcome is contrary to the stated commitments that were given during the passage of the Bill (see letter to Lord Grantchester from the Rt Hon Lord Henley, the previous Parliamentary Under Secretary of State for BEIS, in annex 1. Despite this avoidable negative outcome, NEA has welcomed the recognition from Ofgem[17] and the UK Government[18] that the Default Tariff Cap does not afford the longevity that is needed for the most vulnerable customers. This is also re-stated within this consultation and there is now an urgent need for Ofgem and the UK Government to develop a clear work stream on what protections will remain in place to support low income consumers that can't engage in the market once the market-wide cap is removed. We believe Ofgem and the UK Government can build on previous work to create sustainable price protection for the most vulnerable customers, target this on-going protection using Warm Home Discount (WHD) eligibility as a proxy and require smaller suppliers to deliver this vital protection. We also restate our consistent support for further reducing the current supplier obligation thresholds for obligated schemes, a recommendation that NEA made during the Competition Markets Authority (CMA) Energy Market Investigation in 2015[19].

In addition to addressing a fear of losing key entitlements such as the Warm Home Discount or an aversion to risk engaging with an unknown (smaller) supplier, NEA believes that a lack of affordability of energy is closely overlapped with other varied reasons for not switching or being stuck on a more expensive tariff or payment type. These may include:

- Limited internet access; which can currently cost low income energy consumers over £300 annually
- Poor mental health or limited financial capability
- A preference or need to manage their limited budget via receipt of a paper bill, payment by cheque, or cash in advance using a PPM;
- High debt and stringent or out of date credit checks;
- Their tenure and a reliance on the current payment type due to their landlord's stipulations;
- Access to the benefits of a smart meter and In-Home Display (IHD).

It is imperative that Ofgem, the industry, other regulators and the UK Government address these barriers in turn if they hope to improve the conditions for effective competition for all consumers. It is also increasingly important that vulnerable customers are not just protected from the market, but included in the opportunities that moving to a "net-zero" energy system presents. In order to ensure that the energy transition is fair and just, more innovation projects need to be completed with the intention of helping vulnerable and fuel poor households, either directly through the project, indirectly as a result of the findings, or as a combination of the two. It is vital that innovation projects funded through bills do not primarily go towards providing costly solutions to households who do not need help to, for example, heat their homes or pay their bills.

Finally, it is important that work between the regulator and Government does not stop with this project. It is increasingly true that required changes to improve the energy market require input from both regulator and legislators, so it follows that much greater cooperation will be required. Ofgem could do more itself to ensure that BEIS have better information when making policy decisions[20].

Key Recommendations in our response

1. Government must extend the Warm Home Discount past 2021 in order to ensure that this vital scheme can continue to help the most vulnerable customers to keep their houses warm in winter.
2. The Warm Home Discount scheme should be expanded and reformed so that the broader group receive automatic payments in a similar way to the core group does. This can be achieved in a cost neutral way whilst protecting the vital support provided within industry initiatives.
3. The Warm Home Discount and Energy Company Obligation supplier obligation thresholds should be reduced further, with smaller suppliers carrying the whole obligation (unlike the current WHD obligation, where smaller suppliers only have the core group obligation).
4. Ofgem should increase the flexibility within delivering the "industry initiative" part of the Warm Home Discount, something that will become much more important when all suppliers are obligated to deliver the scheme.
5. There is an urgent need for Ofgem and the UK Government to develop a clear work stream on what protections will remain in place to support low income consumers that can't engage in the market once the market-wide cap is removed.
6. To ensure costs are shared proportionately across the wider GB market rather than focused on those suppliers who do supply and support the most vulnerable customers, there would be a levelisation process, similar to that used at present for the Renewables Obligation and Feed-in Tariff schemes.
7. BEIS and HMT should follow the lead that Ofgem are taking in their draft consumer vulnerability strategy 2025 and create a framework for regularly assessing the distributional impacts of their decarbonisation policies and make them public. In addition to identifying the scale of quantum of costs on bills it is crucial to investigate how they are recovered and develop proposals for suitable mitigations.
8. Ofgem should investigate the setting of and recovery of standing charges costs and Fuel Direct repayments from standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy.
9. Ofgem must provide clarity that they will take enforcement action against licence conditions where vulnerable customers have not been treated fairly, especially when customer service does not meet the required standard.
10. Suppliers should be required to ensure that all customers have greater access to services to check benefits entitlements before debt repayment plans are agreed or signpost appropriate income maximisation services when repayment plans are reviewed.

Our response to this consultation

Question 1 - Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

NEA broadly agrees with the vision set out in the consultation. In particular, we are pleased to see three key considerations:

- Consistent consumer protection
- Competitive prices for all
- Ensuring consumers in vulnerable situations receive services they need

It is absolutely essential that there is consistent consumer protection in the energy market. This will become pertinent in the future where more choice of service becomes available, and we may see innovations like heat-as-a-service, or more bundling of energy with other products and services. We are currently in an era with reasonably good consumer protection, with Ofgem able to enforce against licence conditions when suppliers do not treat their customers fairly. Broadening of roles in the energy market cannot dilute this, and regulation/consumer protection must keep up with the pace of change. Innovation in the market must not come at the cost of protection for customers.

Customers must be able to access fair and competitive prices. We continue to believe that for the most vulnerable customers, this needs to come in the form of price protection, as currently seen in the default tariff price cap and prepayment price cap, and previously in the safeguard tariff. Our preference is for the reinstatement of the safeguard tariff for a proxy of vulnerable customers, possibly those receiving or eligible for the warm home discount.

The review of the future of the retail market must take the neds of consumers in vulnerable situations into account and build on the work done by Ofgem and BEIS respectively within the Consumer Vulnerability Strategies and Fuel Poverty Strategy.

NEA has some concern about the scope of "minimal market distortions". Whilst we agree that more suppliers need to take on social and environmental obligations in order to achieve a fairer market, we are somewhat concerned about the potential for useful interventions to be discarded because of this principle. For example, reducing the standing charge for prepayment customers who are susceptible to self-disconnect may not be "cost reflective" and therefore lead to a market distortion, but could have the effect of significantly reducing self-disconnections, and helping to ensure that fuel poor households can keep their homes adequately heated. NEA does not want to see a future retail market where a focus on cost reflectivity, and eliminating market distortions, has a disproportionately negative impact on lower income and vulnerable households.

NEA agrees with the principle of regulatory simplicity, but stresses that this must not come at the cost of the regulator having the ability to take action against suppliers and other market participants that behave in such a way that disadvantages their customers, especially when these are customers in vulnerable situations.

Question 2 - Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?

Yes, NEA believes that the effective provision of energy efficiency to fuel poor households is blocked by several deficiencies in the regulatory framework for both suppliers and networks. Namely:

- Ofgem must take enforcement action if suppliers fail to comply with their obligations under SLC 0 and SLC 26. Ofgem must stress its willingness to regulate all licensees to ensure they are compliant with the domestic Standards of Conduct and not accept large variances in the different protections and services being delivered across different energy suppliers, depending on their size and capacity.

- Ofgem should also enhance efforts to ensure all suppliers are meeting their obligations under the Smart Meter Installation Code of Practice (SMICoP) and not rely on the Self-Certification Pro-forma as evidence of compliance. In addition, Ofgem must ensure suppliers that deliver Government obligated programmes are communicating the support that is available in more consistent and accessible formats, provide adequate advice and are clearly signposting how other forms of supplier-led assistance can be accessed if the most vulnerable fail to benefit from different supplier-led schemes[21].

- Ofgem should ensure new licensees are required to submit a statement on how they will meet their obligations under SLC 0 and SLC 26 and act on calls from Citizen's Advice[22] to improve the "supplier of last resort" process to further protect customers in vulnerable situations.

In addition to the retail market, we believe that it is important to consider energy networks:

- NEA believes that DNOs have a significant role to play in the facilitating of energy efficiency. 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 these approaches become main stream and the most vulnerable customers can become key beneficiaries of the next price control. 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. We believe that this could be an option for reducing the need for extra capacity on the transmission network, as well as something that the ESO should consider in terms of overall system balancing. The effectiveness of this proposal has been explored in the SSE-N SAVE innovation project, where it was found that energy efficiency improvements in homes can have tangible positive impacts on constrained network substations. SSE-N estimate that Through the acceleration of the adoption of energy efficient light bulbs approximately 1 additional 7kw EV charger can be added to the network per 212 households assuming charging is at peak times and that constraints are at the higher voltage level. This could be even higher if expanded to larger efficiency measures, such as thermal efficiency in electrically heated households. The SCMZ project looks at how this can be achieved more directly, with the tender closing before the end of the year ahead of delivery in 2021.

- Gas distribution networks should also have a role to play in facilitating energy efficiency, as part of the Fuel Poor Network Extension Scheme (FPNES). We believe that GDNs should be able to fund energy efficiency improvements through the price control, giving them more responsibility to improve the energy efficiency of houses as they gain connections, and to be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings which would contribute towards their target for fuel poor connections. Ofgem have stated that one of the main reasons for not doing this is because they do not feel empowered to take this decision without Government direction. They have, however, included a ‘reopener’ in the RIIO-GD2 price control so that they can amend it if Government changes direction. We urge BEIS to consider this proposal, and to signal to Ofgem that GDNs should have a role in facilitating energy efficiency, and that this is broadly in line with the “whole systems thinking” that Ofgem wishes to cultivate within its RIIO 2 framework.

<u>Question 3 - Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?</u>

The fast pace in which the energy market is changing means that there is an increasing need to ensure that customers remain protected, as new products and services enter the market. NEA is particularly concerned about the lack of regulation around third party intermediaries (TPIs) and heat networks in the energy market.

It is clear that TPIs will have an increasingly prominent role in energy markets, through price comparison websites, auto-switching services and others. As the energy market complexifies as a result of moving towards half-hourly settlement and consequently time of use tariffs, these services will be helping consumers to make more complex decisions, with potentially greater impacts on their energy costs. TPIs could become the customer facing entities within the energy system, yet currently are not regulated to the same extent as suppliers. At a minimum, TPIs should be covered by Ofgem’s statutory responsibilities with respect to their dealings with domestic customers. They should be licenced businesses, with the licence including a standard condition similar to SLC0 for energy suppliers, meaning that customers will need to be treated fairly, and vulnerabilities identified.

<u>Question 4 - Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?</u>

NEA believes that whilst it could be beneficial to customers overall for suppliers to specialise and provide products and services to targeted groups of customers, it is unlikely to be beneficial all groups of consumers. We are particularly concerned that this will be of detriment to low income, vulnerable and fuel poor households. This is because specialist suppliers would likely, driven by market forces, try and attract customers who are low cost to serve. This, generally, excludes customers who are more vulnerable, and have more trouble paying bills. An eventual consequence of this, is that incumbent suppliers are left with a high proportion of high cost to serve customers, who are disproportionately low income, vulnerable and fuel poor. This concentration of higher cost customers would likely lead to a higher energy price for those customers, an unacceptable result, if the benefit is mainly lower prices for those who find it easier to pay their bills.

An acceptable outcome of allowing suppliers to specialise and provide products and services to targeted groups of customers, would be for them to contribute to the meeting the higher cost to serve of vulnerable groups of customers through some levy framework based on the number of customer accounts each supplier has. This would limit the incentive of targeting lower cost, more affluent customers, and would protect the prices for those who can least afford to pay for energy.

Question 5 – Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?.

NEA believes that incremental changes would be favourable in order to ensure that the risk of unintended consequences is minimised. In particular, NEA is concerned with any move to fundamentally reform the remits of existing regulators and in particular move to a more generic regulation for essential services.

Question 6 – Are there any other potential market distortions we should be considering as part of our review?

One market distortion that NEA is aware of is the amount of bad debt. This is unevenly spread around suppliers, and yet isn't necessarily due to bad or better practice from any individual suppliers. This is a failure of the market.

Whilst the most enduring way to address this distortion is to ensure that every home is properly insulated and needs are at reasonable level, we understand that this takes time and there is over a decade before the statutory fuel poverty target in 2030. Therefore, there needs to be complementary measures to ensure that households can adequately pay their bills. One key reason for energy debt and energy affordability issues is that unclaimed benefit entitlements remain endemic. Figures from the Department for Work and Pensions (DWP) reveal that 40% of families in Great Britain who are eligible for pension credit failed to claim the benefit during the 2016/17 tax year, leaving them missing out on an average of £2,500 for the year. 20% of families eligible for housing benefit, and 16% of those eligible for income support or income-related Employment and Support Allowance (ESA) are not claiming the support that should be available to them. Take up is affected by a range of factors such as a lack of awareness or the perceived stigma of receiving benefits. Suppliers can help address this by ensuring all customers have greater access to services to check benefits entitlements before debt repayment plans are agreed or signpost appropriate income maximisation services when repayment plans are reviewed. This should complement similar actions by the UK Government, each of the UK nations and other providers of essential services, as recommended in the Public Accounts Committee report on Consumer Protection which found many consumers face similar problems accessing water, energy, communications & financial services. If replicated consistently across all essential services this could potentially leverage an estimated £10 billion of unclaimed pension credit and income support towards paying for essential goods and services, including energy.

Extending the Warm Home Discount (recommended in more detail below) and better supporting benefits entitlement checks can greatly reduce the distortion created by bad debt in the industry.

Question 7 – Would removing the thresholds for the Energy Company Obligation and Warm Home Discount help remove imbalances in the retail market, and could this be done without significantly increasing barriers to supplier entry or expansion in the retail market?

Yes. The current thresholds create avoidable imbalances in the retail market and needless customer confusion. The lack of consistency across the market means that some eligible households do not receive support, merely because they have chosen to switch to a better deal, which benefit may only be temporary. We have stated on several occasions that the Energy Company Obligation (ECO) and Warm Home Discount (WHD) should be reformed so that every supplier carries an obligation. This was one of the key recommendations that NEA made during the Competition Markets Authority (CMA) Energy Market Investigation in 2015[23].

The argument against this has historically been that such a change would place undue administrative costs on smaller suppliers, but we do not think that this continues to be true. For WHD, it is clear that data matching has significantly reduced the burden for suppliers, and now serves to create a market distortion between larger and smaller suppliers. Further opportunities for data matching have been articulated by both NEA and BEIS, with more information provided in annex 2. If a broader group can be data matched, then the administrative costs of delivering the scheme would be minimal, further reducing barriers to entry. It is essential that smaller suppliers carry the whole obligation, and not just that of the core group, so that the market distortions created by the policy can be fully eliminated.

One consequence could be more, smaller suppliers, using the "industry initiative" part of the scheme to help deliver on their obligation. It is therefore crucial that Ofgem assess how the administration around this part can be improved, including greater flexibility in the delivery of projects. It is also crucial that these projects cannot be assessed based on reaching a "value for money" objective which often rules out help for those most in need, where each pound spent will not reach as far.

For ECO, the scheme could be designed on a way that suppliers could buy out their obligation, and proceeds go into an energy efficiency fund (as suggested in this consultation). There is also scope for suppliers to trade obligations with each other, something that NEA understands has been occurring at an efficient cost. The barriers that existed previously do not any longer, and this should be reflected in policy.

Question 8 – How could the delivery burden on suppliers from the Energy Company Obligation be reduced, for example through the introduction of a buyout mechanism?

NEA believes that the current obligation trading mechanism obviates any concerns and is a positive step in ECO. Implementation of any of the proposed mechanisms would only make the case clearer.

Question 9 – What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

It is clear that policy levies on bills are regressive, and therefore cause disproportionate detriment to the lowest income, vulnerable and fuel poor customer groups. There is little regular information as to the scale of this detriment as the Government has recently stopped publishing impacts of policies on consumer bills. We therefore do not know the distributional impacts that policy decisions are having on consumers. BEIS should reinstate the annual reporting and BEIS and HMT should follow the lead that Ofgem are taking in their draft consumer vulnerability strategy 2025 and create a framework for assessing the distributional impacts of their decarbonisation policies and make them public.

The following table is taken from Ofgem's[24] working paper on how to account for social and environmental policy costs within the Default Tariff Price Cap methodology. It is important to note that whilst ECO and WHD do contribute to policy costs on bills, they are more progressive than the other costs as low income and vulnerable consumers are purposefully targeted as the beneficiaries. This is not true of the other costs on bills. In particular, it is critical that BEIS monitor the impact of exemptions for Energy Intensive Industries from the indirect costs of the Renewables Obligation, Contracts for Difference, the Capacity Mechanism and Feed in Tariff schemes. Whilst NEA fully recognises the need to decarbonise and maintain the competitiveness of energy intensive users, we are currently deeply concerned by the impact of exemptions for Energy Intensive Industries from the indirect costs of the Renewables Obligation, Contracts for Difference, the Capacity Mechanism and Feed in Tariff schemes. The current approach requires domestic consumers to pay these policy costs and represents an erosion of the 'polluter pays' principle. The approach also provides a disincentive for energy intensive users to invest in more efficient processes. There is currently a live opportunity to address these areas and ensure that future carbon pricing leads to fairer outcomes for domestic customers.

TABLE 2: **Summary of costs to suppliers under each scheme**

	Are the costs within suppliers' control?	*What data is available on future costs?*	Do costs vary with volume?
Renewable obligation Under the RO, suppliers have an obligation to source an increasing amount of electricity from renewable sources. Suppliers can meet their obligation by presenting certificates bought from generators or making payments into a buy-out fund.	The main drivers of the cost of the scheme – the level of the obligation and the buy-out price – are both outside of supplier's control. However, suppliers have some flexibility over how they meet their obligation.	• Obligation level and buy-out price known in advance • OBR forecasts of total scheme costs	Yes – a supplier's obligation is based on its share of total eligible electricity supplied in a given obligation period.
Feed-in-tariffs Under the FiT scheme, owners of small-scale low- carbon generation receive payments for electricity they export to the grid. To fund the scheme all electricity suppliers are required to make payments into a levelisation fund.	The main driver of the costs of the scheme to suppliers will be the level of the tariffs, which are set by BEIS, and so outside of suppliers' control. The levelisation fund is designed to ensure that all suppliers pay the same in £/MWh.	• OBR forecasts of total scheme costs • Government impact assessments	Yes – a supplier's obligation is based on its share of total eligible electricity supplied in a given obligation period.
Contracts for difference CfDs are designed to give greater certainty and stability of revenues to low-carbon electricity generators. The payments to generators are funded via a compulsory levy on all electricity suppliers	Charges set by Low Carbon Contracts Company (LCCC) and BEIS - suppliers have no control over the costs of complying with the scheme.	• LCCC forecasts of quarterly charges • OBR forecasts of total scheme costs	Yes – suppliers charged on a £/MWh basis.
Capacity Market The CM is intended to ensure that there is sufficient electricity capacity to meet demand. The scheme is funded via charges to suppliers.	Charges set by LCCC and BEIS - suppliers have no control over the costs of complying with the scheme	• Total value of capacity payments known following T-1 and T-4 auctions • OBR forecasts of total scheme costs	Yes – suppliers charged on a £/MWh basis.
Energy Company Obligation Under ECO, suppliers have an obligation to meet targets for installing energy efficiency measures to eligible domestic consumers.	Suppliers cannot influence the carbon reductions or bill savings they are required to deliver. However, they do have material control over how (and when) they meet their obligation.	• BEIS impact assessments	Yes - a supplier's obligation is based on its share of gas and electricity supply by obligated companies in the period.
Warm Home Discount Under WHD, suppliers provide support to customers at risk of fuel poverty through a rebate of £140 to eligible customers.	Total target spending as set in the legislation will determine the number of rebates to be paid. Suppliers will not be able to influence these costs.	• Total target expenditure known in advance • OBR forecasts of total scheme costs	No – obligation based on a supplier's share of domestic customer accounts.
AAHEDC The scheme reduces prices for domestic consumers in areas with high electricity distribution network costs.	Charges set by National Grid – suppliers have no control over the costs of complying with the scheme.	• National Grid data	Yes – suppliers charged on a £/MWh basis.

In addition to identifying the quantum of costs on bills - which the Default Tariff cap (and PPM cap) provides some protection from – it is crucial to investigate how they are recovered. With the exception of ECO where there was some stipulation in the legislation about recovery of policy costs on gas as well as electricity (and the option under WHD for suppliers to attach charges to both fuels), how or where they are recovered (flat charge within the Standing Charge or on usage basis) has been left largely to the suppliers. This has resulted in some customers (especially all electric customers) being hit hardest, with policy costs contributing nearly 50% of the price of off-peak electricity. There is a real danger of some complacency by both Ofgem and UK Government on this issue and we urge this area to be investigated fully in a reinstated 'annual impact on bills' report, noted above and in HMT's upcoming investigation of the costs of meeting the net zero target. It should also be noted that Ofgem have also said very little on how they assume this might change with the adoption of Half-Hourly settlement and currently assume there is little or no variance between suppliers on this but that is very likely to change.

Considering these issues should also prompt proposals for suitable mitigations. These could take many forms; all electric homes could benefit from off peak units which are unencumbered of policy costs or allowing PPM customers to enjoy a similar allowance of units which are unencumbered of policy costs or other costs like network changes usually recovered as soon as credit is applied through (in most cases through, growing, standing changes). We would support both options but currently they are not being put at the heart of the discussion on HH settlement or HMT's cost review.

<u>Question 10 – What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?</u>

As a minimum, Government should follow the lead that Ofgem are taking in their draft consumer vulnerability strategy 2025 and create a framework for assessing the distributional impacts of their decarbonisation policies and make them public. BEIS should also look to begin publishing the impacts of policies on consumer bills, something that has recently been stopped. In addition to identifying the scale of quantum of costs on bills it is crucial to investigate how they are recovered and also prompt proposals for suitable mitigations. These could take many forms::

1. First and foremost, the Government should consider the removal of these levies from bills, and into general taxation. This is a far more progressive way of recovering these costs, and would result in a fairer, more equitable outcome.
2. A series of parliamentary questions have determined the current level of annual income that the government receives through these schemes. Firstly, the ETS, in 2018 generated £1.4bn in receipts for the Treasury. The carbon price support mechanism has contributed £0.7bn in 2018/19 to the Treasury. As we progress through the next decade, we can expect the receipts from carbon taxes to increase, whilst the receipts from the CPS to decrease. With the ETS, if the UK is able to stay within the scheme post-Brexit, or creates a new, linked UK only scheme, the price of a certificate has been projected to double by 2030. We therefore believe that a fund should be created, using money from carbon taxes, to improve the energy efficiency of fuel poor homes and reduce the financial impact that carbon pricing has on those that are least able to afford it.
3. All electric homes could benefit from off-peak units which are unencumbered of policy costs and allow PPM customers to enjoy a similar allowance of units which are unencumbered of policy costs
4. Other costs like network changes, usually recovered as soon as credit is applied through (in most cases through, growing, standing changes), could be adjusted so they are recovered after a similar allowance of units which are unencumbered of these costs or repayments.

Overall, we would support both options but currently they are not being put at the heart of the discussion on HMT's cost review or other important policy making decisions.

<u>Question 11 – Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?</u>

No. As noted above, Government and Ofgem should investigate how current network (and policy costs) are recovered by suppliers, and consider whether future policy design could encourage recovery in a way that is more progressive. In the short-term Ofgem should investigate the setting of and recovery of these costs and Fuel Direct repayments from standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy.

<u>Question 13 – How could any potential distortions related to high cost-to-serve customers be addressed, for example by the provision of additional support services for customers struggling to afford their energy?</u>

As stated in question 6, we believe that increasing the provision of benefits entitlement checks could have a profound impact in the affordability of energy for low-income households.

Additionally, we believe that there is a need to ensure that policy costs, such as for the Warm Home Discount, are fairly shared across suppliers. This is needed because those suppliers with a greater proportion of vulnerable customers face an increased financial burden.

To ensure that these costs are shared proportionately across the wider GB market rather than focused on those suppliers who do supply and support the most vulnerable customers, there would be a levelisation process, similar to that used at present for the Renewables Obligation and Feed-in Tariff schemes.

This process would assess each supplier's share of eligible customers for each support scheme against their overall share of the market, and then each supplier would either pay into a central pot, or receive a payment from the central pot depending on whether their share of eligible customers was lower or higher than their overall share of the market.]

This levelisation of costs would ensure that all suppliers in the market share in the costs of supporting financially vulnerable customers in the market. By taking this approach and sharing the costs widely, the impact on the bill of a "non-vulnerable customer" will be limited as all such customers will contribute rather than just those who remain loyal to those suppliers who supply and support a high proportion of vulnerable customers.

There is also a concern about suppliers entering the market with a lack of focus on financial longevity, undercutting others in the market with little economic basis for doing so. It is long overdue that new suppliers should face stronger tests on their financial longevity as well as the levels of customer service that they are able to provide. However, we still expect that some suppliers will lose their licence and cease to be able to supply their customers. Therefore, the supplier of last resort (SOLR) process needs to be continually improved in order to provide additional protection to customers. We support the recommendations found in the Citizens Advice report "Picking up the Pieces"[25]. NEA also recommends Ofgem should ensure new licensees are required to submit a statement on how they will meet their obligations under SLC 0 and SLC 26. NEA believes that it would be incredibly useful, especially for those working on the 'front line', to be able to quickly assess the level of customer service and support that each energy supplier offers their most vulnerable customers.

Additionally, Ofgem must take enforcement action if suppliers fail to comply with their licence conditions relating to customer service. Ofgem must stress its willingness to regulate all licensees to ensure they are compliant with the domestic Standards of Conduct and not accept large variances in the different protections and services being delivered across different energy suppliers, depending on their size and capacity.

<u>Question 14 – Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?</u>

Whilst NEA does not have quantitative evidence to support our answer to this question, we do have extensive experience in working with low income and fuel poor households that struggle to pay their bills. Our experience shows that customers who are eligible for the WHD often do not want to switch to a supplier who does not offer it. Since households who are eligible for the WHD are invariably low income, and struggle to pay their bills, they have a higher propensity to be bad debt risks. This means that the risks of bad debt are likely to be carried by those suppliers who do offer the warm home discount, broadening the distortions created by ECO and WHD thresholds between larger and smaller suppliers. Removing this distortion would likely mean that households qualifying for WHD are more likely to switch supplier, creating a more liquid market and helping to reduce the risk of excessive prices for loyal customers.

<u>Question 15 – What are your views on the measures being considered to address loyalty penalties in different markets? What approach or – combination of approaches – would be most effective in the energy retail market?</u>

<u>And</u>

<u>Question 16 – What other approaches could be adopted to ensure loyalty penalties do not reemerge?</u>

As noted above, NEA believes that a lack of affordability of energy is closely overlapped with other varied reasons for not switching or being stuck on a more expensive tariff or payment type. These may include:

- Poor mental health or limited financial capability;
- Limited internet access;
- A preference or need to manage their limited budget via receipt of a paper bill, payment by cheque, or cash in advance using a PPM;
- Aversion to risk and therefore a reluctance to engage with an unknown (smaller) supplier;
- High debt and stringent or out of date credit checks;
- A fear of losing key entitlements such as the Warm Home Discount;
- Their tenure and a reliance on the current payment type due to their landlord's stipulations;
- Access to the benefits of a smart meter and In-Home Display (IHD).

It is important that Ofgem, the industry, other regulators and the UK Government address these barriers in turn. In order to address loyalty penalties which are linked to a lack of affordability of energy in the energy market, two complementary policies are required, helping the most financially vulnerable customers to avoid unnecessarily high energy costs.

1) Providing financial support to those who need it most can be done by reducing the core energy price paid by those customers compared to the wider GB customer base through a price capped tariff. Ofgem and the UK Government must build on previous work and target this on-going protection using Warm Home Discount (WHD) eligibility as a proxy. Ofgem must ensure that smaller suppliers are required to deliver this vital protection.

2) In addition to price protection, NEA stresses the need to extend and improve the Warm Home Discount Scheme (WHD), particularly industry initiatives which could cease at the end of the next scheme year. NEA therefore believes the WHD scheme must continue for existing low-income pensioner recipients and be provided automatically to more low-income working families, using new and existing powers under the Digital Economy Act to ensure better targeting. This should require close co-operation with the UK Government to make the case that the WHD has been an effective programme. It is also important that the behind the "Industry Initiative" are more flexible. This will help third parties, that ultimately will deliver this part of the scheme, to more adequately support the most vulnerable customers to pay their bills and cannot be based on reaching a "value for money" objective which often rules out help for those most in need, where a pound spent will not reach as far. There is a full analysis of this proposal in Annex 2.

In each of the policies, customers would be identified through data held and shared by the Department for Work and Pensions in a similar way to the current Warm Home Discount data matching process and potentially using the powers that are already set out in the new Digital Economy Act and associated secondary legislation. The specific eligibility criteria would be set by the Government and Ofgem to ensure consistency regardless of which supplier a customer chooses for their energy supply.

To ensure that these costs are shared proportionately across the wider GB market rather than focused on those suppliers who do supply and support the most vulnerable customers, there should be a levelisation process, similar to that used at present for the Renewables Obligation and Feed-in Tariff schemes.

This process would assess each supplier's share of eligible customers for each support scheme against their overall share of the market, and then each supplier would either pay into a central pot or receive a payment from the central pot depending on whether their share of eligible customers was lower or higher than their overall share of the market.

This levelisation of costs would ensure that all suppliers in the market share in the costs of supporting financially vulnerable customers in the market. By taking this approach and sharing the costs widely, the impact on the bill of a "non-vulnerable customer" will be limited as all such customers will contribute rather than just those who remain loyal to those suppliers who supply and support a high proportion of vulnerable customers.

<u>Question 17 - What protections or support may be required to engage consumers in vulnerable situations in the future market?</u>

In addition to our answer to questions 15&16, we believe that there are some additional protections required:

- Ofgem should become active in reviewing supplier pricing practices for domestic customers and should actively review whether there are categories of domestic customers paying, or who may in the future pay, standard variable and default rates for whom protection against excessive charges should be provided.
- In order to ensure that suppliers actively and effectively compete on customer service, Ofgem must work with the UK Government to enhance tenants' knowledge of their rights to switch, choose their payment type, benefit from smart meters, and protect tenants from the on-selling of sub-metered electricity and non-regulated fuels via their landlords. Without the knowledge of switching, competition will not manifest between suppliers, and customer service will not reach the level that it otherwise could.
- Ofgem should provide licensees, consumers and third-party advocates with guidance on what sort of households could most benefit from, and should be targeted for, PSR services. This will help with proactive identification and targeting, and consistent service delivery across providers. Ofgem should recognise that the PSR is currently used to register consumers who need to receive extra protection against disconnection, for example in the winter months. A register of these consumers and others who have been 'flagged' as vulnerable, as well as current protections under existing licence conditions, especially against disconnection, must not be put at risk or eroded due to Ofgem's proposed PSR changes.
- In order to ensure that the energy transition is fair and just, more innovation projects need to be completed with the intention of helping vulnerable and fuel poor households, either directly through the project, indirectly as a result of the findings, or as a combination of the two. It is vital that innovation projects funded through

bills do not primarily go towards providing costly solutions to households who do not need help to, for example, heat their homes or pay their bills.

Annex 1 – Letter to Lord Grantchester from RT HON Lord Henley on the price cap.

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22 June 2018

Dear Lord Grantchester,

I am very grateful for your continued interest in the actions of Government in protecting consumers, and for your support for the Domestic Gas and Electricity (Tariff Cap) Bill.

When we last met, we discussed protections for vulnerable consumers.

Firstly, we're working on information sharing to help better target assistance for those in fuel poverty.

On 17th May the Government laid the Digital Government (Disclosure of Information) Regulations,[1] before Parliament. That affirmative statutory instrument is designed to enable specific public bodies to share information to improve the provision and targeting of public services to benefit individuals and households. This includes the ability to share information for the alleviation of fuel poverty. The Regulations are scheduled for debate in both Houses on 25 June.

The new powers will enable the Government to share information with energy suppliers, so they can more readily identify households in need and provide support to those who are eligible. This support is specified in the list of fuel poverty measures in the Act and amending Regulations. It includes the Warm Home Discount (WHD), Ofgem's Safeguard Tariff and the Energy Company Obligation (ECO).

Secondly, on the matter of whether Ofgem's Safeguard Tariff will remain in place alongside the new price cap proposed by the Bill, I can confirm 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. Ofgem have also committed to ensuring that vulnerable consumers are on the cap that gives them the highest protection, to ensure these consumers do not lose out when the wider price cap comes into effect. As I am sure you're aware, the existing Pre-payment Meter (PPM) Cap will be unaffected by this Bill and will be retained subject to a review of its duration by the Competition and Markets Authority (CMA) in 2019.

Thirdly, you also raised whether powers were required to allow a further price cap for vulnerable consumers to be brought after this cap has ceased. I can confirm that Ofgem already has the power to protect vulnerable consumers in this way as evidenced by the extension of the pre-payment meter cap to Warm Home Discount customers by licence modification.

You may recall the comments made by Dermot Nolan, Ofgem CEO, to the Committee during the Bill's pre-legislative scrutiny on the ongoing support Ofgem may provide to vulnerable consumers upon the removal of the price cap. When asked whether a price cap or other protection may be needed for vulnerable consumers upon the removal of a market-wide price cap, Mr Nolan responded "*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*"[2].

I hope you find these points useful. I would, of course, set these out clearly in my response to any debate on these matters at Report on 27 June.

Yours sincerely,

THE RT HON LORD HENLEY

PARLIAMENTARY UNDER SECRETARY OF STATE

[1] Link to Draft Digital Government (Disclosure of Information) Regulations 2018:
https://www.legislation.gov.uk/ukdsi/2018/9780111169445/pdfs/ukdsi_9780111169445_en.pdf

[2] See Page 9 of the BEIS Select Committee Oral Evidence Session from 10th January 2018:
http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/business-energy-and-industrial-strategy-committee/prelegislative-scrutiny-of-the-draft-domestic-gas-and-electricity-tariff-cap-bill/oral/76719.pdf

Annex 2 – Delivering automatic Warm Home Discount rebates for working families

The analysis below assesses the options for and cost impact of extending the WHD rebate to all households eligible in the Broader Group. As noted in the introduction, the paper concludes that this can be achieved without increasing energy prices for other consumers and adjusting existing tax-funded support. Unless otherwise stated, the source for figures used in this analysis is BEIS's Impact Assessment for extending the WHD to 2018-19[26]. It should be noted that this cost analysis is indicative only[27].

Impact of providing an automatic WHD rebate to all households in the Core and Broader Groups within the current spending envelope

One option that has previously been actively considered by the UK Government was to extend automatic rebate without increasing the scheme envelope. If data-matching was extended to the Broader Group so all WHD eligible households (Core Group and compulsory Broader Group including low income working families) received an automatic rebate this would equate to an estimated 2.8[28] million rebates. Within the current spending envelope (£320 million) this would mean the value of the rebate for all households would decrease by £26 from £140 to £114. This equates to a c.18% reduction in the value of the rebate. If the vital support for debt advice and income maximisation services under industry Initiatives was retained (which NEA stresses is crucial as it can provide better value for money than fuel debt write off or even direct yearly rebates) this would leave £280 million available for rebates to 2.8 million households. Under this scenario the value of the rebate for all households would need to decrease by £40 from £140 to £100. This equates to a c.29% reduction in the value of the rebate. Given the number of frail and elderly people that died last winter, NEA does not believe the Government should reduce current support for low income pensioners, nor should the GB wide policy be targeted solely at fuel poor households under the Low-Income High-Cost (LIHC) definition.

Table 1: Value and number of WHD rebate(s) within the current spending envelope if rebate is paid to all households in the Core and Broader Groups within the current spending envelope

	WHD 2018/19: Automatic rebate for Core Group only and 'first come first served' rebate for Broader Group	WHD 2019/20 Option 1a: Automatic rebate for Core and Broader Groups	WHD 2019/20 Option 1b: Automatic rebate for Core and Broader Groups and retain current £40m Industry Initiatives cap
Total number of WHD eligible households	2.8m	2.8m	2.8m
Spending envelope available for rebates	£280m	£320m	£280m
Spending envelope available for Industry Initiatives	£40m	None	£40m
Total spending envelope	£320m	£320m	£320m
Total number of rebates[29]	2m (est.)	2.8m	2.8m
Number of eligible households who do not receive the WHD	0.6m	None	None
Value of rebate	£140	£114	£100
£ change from current rebate value	No change	-£26	-£40
% change from current rebate value	No change	-18%	-29%

Impact of NEA preferred policy option: Provide an automatic WHD rebate to all households in the Core and Broader Groups at the current rebate value of £140 and retain Industry Initiatives

If all 2.8 million eligible Core Group and Broader Group households within the standardised criteria30 received an automatic WHD rebate valued at the current amount of £140 this would increase the spending envelope by £112 million from £320 million to £432 million, if spending for industry initiatives is maintained (NEA's preferred policy option).

Table 2: WHD spending envelope retaining current value of rebate and Industry Initiatives

	WHD 2019/20 Option 2b: Automatic rebate for Core and Broader Groups and retain £40m Industry Initiatives cap
Total number of WHD eligible households	2.8m
Total number of automatic rebates	2.8m
Total number of 'first come first served' rebates	None
Total number of rebates	2.8m
Value of rebate	£140
Spending envelope available for rebates	£392m
Spending envelope available for Industry Initiatives	£40m
Total spending envelope	£432m
£ change from current envelope	+£112m
% change from current envelope	+35%

Impact on bills

Assuming a unique Meter Point Administration Number (MPAN) equates to a single customer there are 28,100,000 domestic electricity customers in Great Britain and 23,200,000 domestic gas customers in Great Britain. This equates to 50,595,000 domestic energy customers in total. In their Supply Market Indicator Methodology Ofgem explain how they derive the WHD cost per customer. Specifically: 'To calculate the cost of WHD as a proportion of the customer bill, we divide the total cost of the scheme by the number of gas and electricity customers of the large energy suppliers' (p. 17)[31]. Assuming a market share for larger suppliers of 97% – then the **additional** cost of delivering an expanded WHD scheme to provide an automatic £140 rebate to all Core and Broader Group households whilst retaining Industry would be approximately **£4.50 or a 0.4% increase** on average dual fuel bill or less than 16% increase in overall environmental and social obligation costs[32]. It should also be noted that this intervention would sit outside of the Levy Control Framework (LCF) but for illustrative purposes the total cost of the reformed WHDS would represent ~4% of the total current LCF budget[33].

Table 3: Impact on bills of expanding WHD envelope

	WHD 2018/19: £320m spending envelope spread across larger suppliers only	NEA preferred policy option
Total cost of WHD scheme	£320m	£432m
Total number of gas and electricity customers (GB)	50.6m (est.)	50.6m (est.)
Cost spread across customer base	Currently Obligated Suppliers (>150k accounts)	Currently Obligated Suppliers (>150k accounts)
Cost of delivering WHD per customer	£6.43	£8.68
Cost of delivering WHD per dual fuel customer[34]	£12.86	£17.36
£ change on average dual fuel bill of £1292[35]	No change	£4.50
% change on average dual fuel bill of £1292	No change	0.40%

Conclusions

Until all fuel poor homes achieve a minimum energy efficiency rating of Band C by 31 December 2030, there is a need to enhance actions to directly reduce energy costs for low income households. NEA supports current efforts to reduce energy bills via existing policies but we did not support the removal of the Safeguard Tariff for non-PPM customers or the possible removal and/or reduction of rebates to current recipients of the WHD. Without heeding these concerns, we have highlighted the value of WHD rebates currently provided to poorer pensioners (or those that have applied successfully in the past for support under the Broader Group) may be reduced by up to 29% or even stopped altogether. Given the continued number of excess winter deaths and in addition to the recent impact of low income pensioners protected by the “Safeguard Tariff”, this would be a worrying abdication of the UK Government’s and Ofgem’s duties to protect vulnerable people. As well as continuing to support elderly people who struggle to afford to adequately heat and power their homes, the alternative reforms we propose would help at least an extra 0.6 million and possibly more than 1.5 million [36]more households who are in full or part-time work but can’t currently afford basic essentials, including energy. As noted above, NEA believes the impacts of additional costs on bills could be offset in the longer-term by the benefits of smart systems and flexibility plan. The net increase of £4.50 or 0.4% on an average dual fuel bill could be justified on the basis that the smart systems and flexibility play will be delivering estimated savings far and beyond the costs which we present here (although low income consumers are unlikely to be first to benefit from any cost reductions). Alternatively, the Government could use a mechanism such as the Government Electricity Rebate to reduce the impact on non WHD discount customers of providing further WHD rebates and retaining Industry Initiatives and retarget existing tax-funded support via the Winter Fuel Payment or Cold Weather Payment to make this needed intervention cost neutral for the taxpayer or HM Treasury (see options below). Our preferred option is using the Cold Weather Payment to fund the enhanced WHD policy. Without increasing energy prices for other consumers (and by adjusting existing tax-funded support) it would help the same households as the CWP but instead it would front load a higher payment at the beginning of winter and ensure the assistance directly reduces energy bills. This reform should also be considered alongside reducing the supplier threshold to 50,000 customers and encouraging them to take part in industry initiative schemes. We hope that these key decisions will be included within the revised Fuel Poverty Strategy and the upcoming Comprehensive Spending Review (CSR). Thereafter the extended policy would continue for the duration of the next spending review period.

Summary of options for delivering reforms for the next stage of WHD

Option	Spending Envelope	Auto Rebates	Total Rebates	Rebate Per Customer	Marginal Cost to Customer
1. Do Nothing (i.e. Status Quo)	£320m	1.28m	2.2m	£140	£0
2. Broader Group Auto Rebate – Same Envelope	£320m	2.8m	2.8m	£64	£0
3. Broader Group Auto Rebate – Same payment	£432m	2.8m	2.8m	£140	£8.68 (+0.4%)

Options for paying for additional WHD rebates

Proposal	How it would work	Financial Rationale	Pros	Cons
Levy	Levy costs onto bills as usual. Cost will be more than made up by the savings made in the Smart Systems & Flexibility plan	The smart systems and flexibility plan will deliver on average over £1bn a year up to 2050. Using a levy would essentially ensure that these savings are passed through in a more progressive way.	- Redistributes savings made in the SS&F plan in a more progressive way. - Relatively admin light	- Adds more cost onto bills.
Tax – Use Winter Fuel Payment money	Fund through a levy that is offset by a “Government Electricity Rebate” (GER) general taxation, but stop the winter fuel payment	The winter fuel payment costs the government ~£2bn/year. Reducing this by 17% would more than offset the cost added cost of extending WHD auto rebates	- No net cost to the taxpayer. - More progressive use of government money.	- Reduces payments from pensioners who may need it - Reintroduction of GER may add extra admin

Tax – Use CWP Money	Fund through a levy that is offset by a "Government Electricity Rebate" (GER) general taxation, but stop the cold weather payment	In the last 8 years, cold weather payments have costed on average £100mn/year and up to £450mn in a single year. Eliminating this would free up the budget required to cover the cost of extending WHD auto rebates.	- No net cost to the taxpayer - CWP seen as difficult to administer by DWP. - BEIS could administer this proposal at little cost compared to the CWP - WHD payment comes pre-winter as opposed to CWP, so is more useful. - Directly reduces bills as opposed to income supplement (as CWP is)	- In warm years, could cost government more money is saved. - Reintroduction of GER may add extra admin (compared to the levy)

[1] For more information visit: www.nea.org.uk.
[2] NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.
[3] NEA has worked closely with Ofgem and others to:
- Changes to warrant charges for vulnerable energy consumers
- Enhanced partnership working with network companies and energy suppliers to improve the Priority Services Register (PSR)
- Ofgem seeking to improve performance from suppliers to identify, respond to and prevent vulnerable consumers from falling into further debt
- New protections for consumers who receive back bills
- The RIIO GD-2 framework has a focus on identifying and supporting customers in vulnerable situations;
- The CMA recommended a prepayment cost cap that is currently enforced and expanded through the safeguard tariff
- Successful implementation of the default tariff price cap with extra protections for those receiving WHD.

[4] NEA's recent joint briefing with E3G highlighted the UK has the sixth-worst long-term rate of excess winter mortality out of 30 European countries. Over the last five years there has been an average of 38,000 excess winter deaths in the UK every year. Of these, 11,458 die due to a cold home – approximately the same as the number of people who die from breast or prostate cancer each year. The new analysis was released on Fuel Poverty Awareness Day the national day highlighting the problems faced by those struggling to keep warm in their homes. To read the press release and the full cop of the report visit: http://www.nea.org.uk/media/news/230218/
[5] In turn, some suppliers let high numbers of customers build up on average over £800 debt before repayments start. There is therefore a clear need for suppliers to do more to spot severe debt earlier, and step in to help customers manage it irrespective of the main recommendations we make in this response.
[6] NEA stresses to the UK Government the central importance of domestic energy efficiency remaining the most enduring solution to achieve collective goals; ending fuel poverty, a successful industrial strategy8 , supporting small business growth in every region, helping to achieve carbon emissions reductions, improving local air quality, reducing health & social care costs whilst providing real benefits to households who are struggling financially. In this context, NEA has warmly welcomed the publication of the National Infrastructure Commission's (NIC) interim National Infrastructure Assessment (NIA). The interim NIA rightly identifies the need to urgently address the energy wastage in UK homes and states dramatically enhancing energy efficiency must be a key national infrastructure priority. NEA is also an active member of the Energy Efficiency Infrastructure Group who strongly support this approach. This approach is also currently supported by a growing number of Non-Departmental Public Bodies, academics, industry and NGOs. They all highlight why ending cold homes and reducing needless emissions via improving domestic energy efficiency must be a priority; no other form of investment can deliver so much.
[7] NEA highlights that net disposable income after housing costs of a low income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposable weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.

[10] 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.
[11] 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.
[12] 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.
[13] 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.
[14] 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".
[15] 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.
[16] 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.
[17] 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"[17].
[18] Claire Perry MP, BEIS Energy Minister also stated publicly 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.
[19] See transcript of the CMA Energy Market Investigation's hearing with consumer advice organisations on 2 September 2015
[20] For example, E-serve could be dramatically improved if Ofgem looked to capture the customer contributions made in the ECO scheme or report on the positive impacts delivered within WHD industry initatives.
[21] Energy suppliers offer a range of services but these are often poorly promoted as part of ECO by obligated parties or their suppliers and contractors. Without adding costs to the ECO scheme, obligated parties and their suppliers and contractors should be able to provide information on how households can register for priority services, get the best energy tariff, check if they can receive the WHD and hence benefit from the Safeguard Tariff, make a meter reading, benefit from a smart meter, how to maximise their income, contact their supplier to discuss energy debt, benefit from a carbon Monoxide alarm or free gas safety check.
[22]See full report here: https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/picking-up-the-pieces/
[23] See transcript of the CMA Energy Market Investigation's hearing with consumer advice organisations on 2 September 2015
[24] See: https://www.ofgem.gov.uk/system/files/docs/2018/04/working_paper_4_-_environment_and_social_obligation_costs.pdf.
[25] The Citizens Advice report "Picking up the Pieces recommends that: 1) Ofgem also needs to introduce
new ongoing requirements and monitoring to ensure thatall suppliers are offering an adequate service; 2) Government should change the rules to require administrators of smaller energy companies to also consider consumer interests and to follow Ofgem rules; 3) Government should amend legislation to require the bills for the Renewables Obligation to be paid more frequently; 4) Ofgem should use its licensing review to take steps to limit excessive customercredit balances, and ensure suppliers have processes in place to protect them https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/SoLR%20report%20FINAL_v2.pdf
26 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/716463/Warm_Home_Discount_FS_IA_Signed.pdf
27 In particular, it does not account for any potential future increase in the size of the eligible WHD cohort nor does it account for any potential future increase in the rebate amount to adjust for energy costs and inflation.
[28] This figure is estimated, based on figures provided by BEIS based on data from DWP. The estimate of broader group recipients communications with the BEIS Warm Home Discount team who estimate from DWP data that a further 1.7m households are captured by the mandatory broader group criteria. An estimate of all customers that qualify for the broader group would increase this number by over a million, based on the WHD 2019/19 Impact Assessment (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/716463/Warm_Home_Discount_FS_IA_Signed.pdf)
29 For the existing scheme numbers, the BEIS impact assessment assumes that some of the industry initiative money is used for rebates. The table is consistent with this, for the existing scheme. For the proposed scheme, we assume that no industry initiative money is spent on rebates.
[30] The compulsory Broader Group criteria is set out in Ofgem's Guidance for Suppliers (Version 6.1), August 2018.
[31] See: https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/smi_methodology_apr2015_0.pdf.
[32] This is based on Ofgem's assumption in 2016 that environmental and social obligation make up to 8% typical dual fuel bill, see:
https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/understand-your-gas-and-electricity-bills. However, just
8748
[33] CCC, 2017, Energy Prices and Bills - impacts of meeting carbon budgets, Annex Levy Control Framework costs and cost sensitivities.
34 This cost takes account of the £476 million spending envelope only and excludes any administration costs that may be incurred and passed on by suppliers for delivering WHD.

[35] This is based on the price cap for the average dual fuel customers, as set on January 2nd 2019. The cap will increase on the 1st April 2019, meaning that the percentage of the bill that an increased WHD levy would account for would reduce.

[36] If only the compulsory broader group is awarded an automatic rebate, then 0.6 million more homes will be helped. If the whole broader group can receive the rebate automatically, then this will increase to 2.2m customers.