



Action for Warm Homes

Supporting vulnerable energy customers

This policy briefing has been developed by fuel poverty charity National Energy Action (NEA). We highlight what positive steps can be taken now by the UK Government and energy regulator Ofgem to respond to the current energy crisis.

Background

The price of energy has already increased by £235 for domestic consumers across Great Britain since last year and right across the UK the cost of energy is a significant concernⁱ. We estimate the record rise in October 2021 to the Default Tariff price cap resulted in over 500,000 more households pushed into fuel poverty (under the previous 10% measurement) and we have estimated further rises to the price cap in April are likely to result in a doubling of the cost of heating an average home compared to last yearⁱⁱ. Over the same period, those on the lowest incomes and households that contain someone with a long-term illness or disability that reduces their ability to work have seen their income drop by over £1000 per year. In addition, inflation remains at a record high, meaning that the cost of other essential goods also continues to soar. This places the biggest burden on the shoulders of the poorest households. While valuable, current mechanisms will not be sufficient to directly ensure the poorest can stay warm this winter or next.

A targeted approach is needed

NEA continues to highlight the urgent need for the UK Government to introduce additional policy mechanisms to directly support vulnerable energy customers. We have identified and costed the following policy options:

1. How to provide a one-off rebate to low-income households this winter
2. How to expand the GB-wide Warm Home Discount so that everyone who is currently eligible automatically receives more support without increasing energy bills for other consumers
3. How to support an additional 2.4 million low-income, working age households across the UK with the Winter Fuel Payment
4. How to help accelerate the repayment of utility debts across the UK

The costings in annex 1 provide further indicative information but in summary these key actions can be introduced quickly and would directly reduce prices for the poorest households at a modest cost. More broadly, they would demonstrate a strong commitment to supporting vulnerable customers through the current energy crisis.

Whilst NEA favours targeted mechanism which support the most vulnerable households, it has been suggested by some groups that the UK Government should consider removing VAT or policy costs from energy bills. Funding policies through levies is generally less progressive than through the tax system however NEA welcomes and supports the planned extension and expansion of both the Warm Home Discount (WHD) and Energy Company Obligation (ECO). We believe these vital programmes must remain funded by energy consumers as they directly help to reduce prices for the most vulnerable households who are the prime beneficiaries. In addition, as noted above we highlight how steps can be taken to expand the WHD without increasing bills for other customers.

NEA would also support limited action to remove 'legacy' policy costs on bills. This would mean that the on-going legacy costs for the Renewables Obligation (RO) and Feed in Tariff (FiT) would be paid for out of general taxation. This would save households £90 on their energy bills without creating policy uncertainty for investors in low carbon generation. If combined with cut in VAT on domestic bills this would save all consumers £150. This is broadly the same saving as providing additional rebates via the WHD or half the yearly benefit of providing further Winter Fuel Payments. However, such a move would be much more expensive, incurring a yearly cost of almost £4bn to HM Treasuryⁱⁱⁱ, more than twice the cost of implementing

a combination of all of our proposals above. Additionally, a universal reduction in VAT and environmental levies would not be targeted, giving more benefit to the wealthiest households compared to those who are most in need.

The role of Ofgem

While there is more that the UK Government can do to help low income and vulnerable households, we also believe there are some clear actions that Ofgem can take. These are in line with Ofgem's statutory remit and can ease the pressures on struggling households this winter. Like the UK Government, Ofgem have committed to make the needs of vulnerable consumers their key priority but there is much more that could, and should, be done. We believe that these opportunities include:

- I. Progressing work to ensure energy suppliers can consistently identify and act on financial vulnerability
- II. Investigating deeper price protection or a new social tariff to help make energy more affordable for a discrete and well-defined set of low-income energy customers (see annex 2).
- III. Working to ensure that the pass through of SOLR costs are spread over a longer period
- IV. Ensuring any modifications to how the price energy cap is calculated does not lead to more frequent adjustments to increase the pass through of policy costs and provides greater certainty for consumers during the colder months
- V. Reducing the wider burden of energy debt on customers by ensuring suppliers promote a range of debt repayment options
- VI. Working with UK Government to maximise opportunities to accelerate the deployment of smart meters
- VII. Supporting the UK Government's upcoming call for evidence on affordability by reviewing the negative distributional impact of how policy and regulated costs are currently recovered by energy suppliers and energy networks.

Ofgem are also now considering potential changes to the price cap to avoid the financial risks that were faced by suppliers (and paid for by customers) this Autumn and shorter-term changes to ensure that the price cap is fit for purpose from April onwards. NEA has responded to [two price cap consultations](#), one on shorter term reforms and one on the longer term. Our main points are:

- The best option for fuel poor households for both the short and long term is to make minimal changes to the cap methodology (based on Ofgem's proposals) and as noted above seek to introduce more targeted price protection for the most vulnerable consumers from next winter.
- Ofgem must not allow suppliers to charge an exit fee for standard variable tariffs, as they have proposed.

NEA has engaged Ofgem closely on the details of these proposals and other consumer groups to ensure that any changes are satisfactory for vulnerable households. Our preference is for a separate price cap that gives a reduced cost for a well-defined, automatically selected group of vulnerable consumers (see annex on a possible mandatory social tariff).

Our final key priority is to permanently reduce needless energy waste in our homes. One of the key reasons the poorest households are so exposed to the current crisis is they live in the least efficient homes, some of the least efficient in Europe. This has left the UK more exposed to the current soaring gas price compared to many other countries and we are wasting billions of pounds each year as heat escapes through leaky roofs, floors and ceilings. Addressing the challenge of our leaky homes must continue to be a key priority^{iv}. As well as honouring the full manifesto commitments on energy efficiency, NEA reinforces that any cuts to ECO - the only programme which permanently reduces bills for the poorest households across GB - would be short-sighted response to the energy crisis which we would not support.

In conclusion, NEA is committed to working in close collaboration with the UK Government and regulator to urgently respond to the scale of the energy crisis. Without any additional support, millions will sink further into debt, and many will turn off the heating, leaving them at acute risk of serious ill-health and putting further unwanted strain on our stretched health services. The good news however is that there are several steps that can be taken now to support vulnerable energy customers and we hope this remains a key priority.

Annex 1 – Costing of our targeted options to reduce prices for vulnerable consumers

	Crisis Income Support this winter	Expansion of Warm Home Discount	Winter Fuel Payments to more households	Accelerating the repayment of utility debts	Social Tariff
Brief Description	Use the previous Government Energy Rebate mechanism to provide a one off, targeted rebate to the most vulnerable energy customers this winter	Expanding the Warm Home Discount scheme so that all currently eligible households receive the rebate, i.e. to those who currently qualify but do not receive a rebate due to limitations on the scheme envelope. These households could be data matched using the Digital Economy Act and any additional costs to the policy (which is currently levy funded) could and should be paid by using the GER rebate mechanism in option 1 for the duration of the next phase of WHD.	Providing a Winter Fuel Payment to low-income households beyond those who currently qualify (over 66s). Households eligible for the Cold Weather Payment represent a good proxy that can be automatically identified by DWP.	Providing financial support for households that have a debt repayment plan with their energy supplier. Government support would match every £1 paid by the customer by £1 of Treasury funding.	A below cost tariff, which would need to be: <ul style="list-style-type: none"> • Additional to existing support • Mandatory for suppliers • Auto Enrolled • Targeted at those most in need
Number of households helped	Over 4 million would receive the one-off rebate	~1.5 million are currently eligible but don't receive a rebate. Supporting these households is the first priority however the WHD could also be expanded to additional households would receive the rebate automatically	~2.4m additional households would receive a payment	1.4m electricity customers and 1.1m gas customers (not necessarily unique)	At least all prepayment customers (4 million households)
Which households would be helped	Low-income households in receipt of means tested benefits in across GB (or with support for NI Utility Regulator and NI Social Security Agency further households in NI)	Households in receipt of means tested benefits in Great Britain, however other households not on MTBs would be helped if the "Industry Initiative" component of the scheme was also increased considerably.	Households in receipt of means tested benefits across the United Kingdom (i.e. including Northern Ireland)	Households across the UK with the highest energy debt	All households with a prepayment meter, as well as other households vulnerable to fuel poverty
What would be the extent of the help	A £225 rebate off energy bills	Based on costings below a £225 discount would be provided to all eligible households off their energy bill	Up to £300 discount on their energy bill	Variable depending on debt - £200 on average	A tariff that is below the market price for supply.
Cost implications for the Exchequer	A cash injection of £900m would be required	A HMT funded injection of £500m into the scheme would be required (this assumes the lead proposals for a £125 increase to the scheme from the summer consultation is taken up).	A cash injection of £720m into the scheme would be required	A cash injection of ~£500m would be more than enough to help every customer on a debt repayment plan as of 2021 ^[3] across electricity and gas for a year.	Nil – would be a redistribution of costs between customers.

Types of Low Income Households (with an income of less than 60% of the median) who are vulnerable in the energy market	Description	Who receives support from our possible Interventions? ¹¹²				
		Immediate Government Electricity Rebate/Crisis Income Support this winter (£225)	To be paid before Winter 2022/23		Beyond 2022/23	
			Expansion of Warm Home Discount (£225)	Winter Fuel Payments to more households (£300)	Accelerating the repayment of utility debts (£200)	Social Tariff
With a Health Condition/Disability	Household has a health condition or disability that makes them vulnerable to living in a cold home. Likely to have a higher energy requirement than other households.					
Over the age of 66	More likely to ration their energy, living in a cold home, as a response to reduced affordability of energy. Also more likely to be vulnerable to the cold from a health perspective.					
Families with a child under 5	Likely to be facing stark choices between heating and eating. Child is vulnerable to developing a health condition if perpetually cold.					
Using a Prepayment Meter	Loses access to energy if cannot afford to top. This can mean a chronically cold home. Pays more for their energy because of their meter type.					
Living in an Inefficient Home	Home has an EPC of E/F/G. The increase in prices will be 2-3 x that for more efficient properties in absolute terms.					
Not connected to the gas network	Does not have access to the gas network and therefore uses either unregulated heating fuels (oil/LPG/District Heating) or inefficient heating.					
Living in Northern Ireland	Does not receive the consumer protections in the UK market of the price cap and Warm Home Discount					

Annex 2 - National Energy Action (NEA) position on energy social tariffs for vulnerable customers

This annex provides a brief overview of our initial thoughts on the value and possible structure of a new energy social tariff.

Background to Social Tariffs

In the 2000s, the UK Government and Ofgem introduced voluntary social tariffs in the energy sector as a form of 'social price support' for vulnerable consumers. This represented an attempt by Government to protect the poorest consumers from fuel price rises without the need to interfere in the market or invest excessive amounts of public money. By the end of March 2008, just over 200,000 customers were on social tariffs for electricity and just over 250,000 for gas.^v

The success of social price supports was however limited and by 2011, the Government decided that a better solution to the issue was through a new mechanism, the Warm Home Discount. (WHD). It was found that social tariffs were not targeted well on fuel poor households, and the voluntary nature of the implementation process meant a scattered approach. Outcomes were not particularly good. An impact assessment by the Centre for Sustainable Energy found that, while social tariffs generally resulted in beneficiaries being better off, many customers on the tariff were still paying more than direct debit customers with the same company. It also found that many would have been better off switching to the standard tariff provided by other companies.

In 2011, the WHD was introduced as a replacement to voluntary social tariffs which remains in place today. WHD offers a fixed rate rebate to a core group of consumers, made up of those receiving pension credit. Others may also qualify as part of the broader group, eligibility for which can be partly determined by individual energy suppliers participating in the scheme. The scheme is due to be reformed ahead of April 2022, with the intention being that all recipients will be automatically data matched, with no need for application. The purpose of the Warm Home Discount is clear – to provide a direct one-off reduction on the bill to give households the confidence to heat their home to a satisfactory level each winter. Its ability to achieve this is limited by the overall funding envelope. For many, the total amount available is not enough, and it is unable to reach all fuel poor households.

Additional to the Warm Home Discount are price caps. Originally, after the CMA investigation into the energy market, prices for prepayment customers were capped, which set a maximum value by which suppliers able to offer a limited unit rate and standing charge for prepayment customers. Ofgem then expanded this to other vulnerable energy customers. As Ofgem was progressing these caps, the UK Government brought in new legislation for a default tariff price cap. This would cover 14 million households. Ofgem took the decision to integrate the caps for vulnerable households into the broader cap, which resulted in those caps increasing in price for over a million vulnerable customers who are now paying more than they would have if the initial protection had stayed in place. The purpose of the current cap is to ensure that suppliers do not make an unfair margin, to shield households from price shocks, and to give confidence that each of the elements of their bill (especially policy costs) are being calculated by a trusted third party.

These two elements – the price cap and the WHD perform distinct roles in the energy market, but as the price of energy increases, their cumulative function is not enough to protect the most vulnerable energy consumers adequately. Some, therefore, have been arguing for the introduction of a social tariff. But there are many different versions of social tariffs. Below, we articulate what NEA believes a new social tariff could look to achieve and our key principles that would need to meet to enhance protections for the most vulnerable consumers.

Minimum Requirements for a New Social Tariff

NEA has five minimum requirements for a new social tariff:

1. **Additional** - To enhance protections in the market for vulnerable households any new social tariff should be additional to the WHD and Default Tariff Price Cap. These policies perform different specific functions that cannot be replicated by a social tariff.
2. **Mandated** - To ensure that a social tariff is accessible across the market, it should be a consistent requirement for all suppliers. This will mean that those who qualify for a social tariff do not lose out because their supplier has not gone as far as other suppliers.
3. **Targeted at those most in need** - The social tariff must be available to the most vulnerable customers. Low-income and vulnerable households that use prepayment (especially those using legacy prepayment meters) currently see significant detriment in the market, which has been only partially corrected by the default tariff price cap.
4. **Reduce costs** - A social tariff must help vulnerable consumers reduce their energy costs and be priced below the default tariff price cap. To do this it is likely it would not include any 'headroom' for switching or costs for smart metering. It should also re-structure the recovery of costs from the standing charge to enable low-income households on PPM to access units of energy before policy or network costs are recovered.
5. **Auto-enrolled** – To ensure that customers that are not engaged in the energy market or are not supported by suitable energy advice, any social tariff should be based on auto enrolment for those deemed eligible. This can be done using suppliers existing customer data and/or data sharing with the Department of Work and Pensions (DWP).

In addition to considering how to support vulnerable customers via a new social tariff, NEA has highlighted how to expand support based on current policy mechanism (see paper above). For further information on our work to enhance the function and protections for vulnerable customers in the in the retail energy market, please contact peter.smith@nea.org.uk or matt.copeland@nea.org.uk.

ⁱ In a recent poll carried out by YouGov six out of 10 British adults say they would reduce their heating use by a fair amount/great deal if the cost of heating doubles. The polling was carried from 26th to 28th November 2021 to gather a nationally and politically representative view of the impact of a doubling of the cost of heating a home and investigate what impact, if any, this would have on home heating habits. 59% say they would reduce their heating use by a fair amount/great deal if the cost of heating doubles. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,684 adults. Fieldwork was undertaken between 26th – 28th November 2021. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). In Northern Ireland gas bills have increased in October in the Ten Firmus Gas Towns Network area by 35% and by 33% in greater Belfast and a further 178,000 customers saw bills rise by 21.8% when SSE Airtricity increased its gas prices for households and small businesses at the start of October adding £112 on to the typical average household bill. Power NI, which has a regulated price, has also increased its main electricity tariff by 6.9% in July. On 20 October the N.I. Utility Regulator also warned households in NI could be hit by a further increase in gas bills, possibly up to 50% in December and consumers could also expect regulated electricity prices to increase by up to 20% in January.

ⁱⁱ See: <https://www.nea.org.uk/news/energy-crisis-will-double-average-heating-bill-from-april/>

ⁱⁱⁱ Based on there being 26.8m electricity meters in operation as per the latest smart metering statistics

[Smart Meter Statistics in Great Britain: Quarterly Report to end September 2021](#), BEIS, 2021

^{iv} On the 19 October the UK Government published its long-awaited Net Zero strategy and Heat and Buildings strategy, which set out the funding for decarbonising our homes over the next three years. Providing clarity on spending over three is welcome as it provides the energy efficiency industry with a strong signal to invest in the supply chain and new green jobs. NEA is however very concerned that the investment dedicated for the Home Upgrade Grant is less than half of the funding pledged within the Government's 2019 manifesto for the poorest households in the least efficient homes.

^v House of Commons Library (2009), 'Fuel Poverty Bill: Bill 11 of 2008-09'