



Action for Warm Homes

# CONSULTATION RESPONSE

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## National Energy Action (NEA) response to BEIS Future of the energy retail market: call for evidence

### About National Energy Action (NEA)

NEA<sup>1</sup> works across England, Wales and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, dry home. To achieve this, 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.

### Our Response

The energy retail market currently has several mechanisms for protecting low income and vulnerable energy consumers:

- The Default Tariff Price Cap, which is a replacement for a competitive marketplace for those households that do not switch.
- The Warm Home Discount (WHD), which provides an energy rebate each year to a set of low-income households, giving them additional confidence to heat their homes in winter.
- The Energy Company Obligation (ECO) which obligates energy suppliers to reduce the demand of fuel poor households through energy efficiency improvements.
- The Priority Service Register (PRS) which identifies households with physical qualities that might make them vulnerable to certain outcomes in the energy market
- Licence conditions that consider those that are most vulnerable in the market including:
  - SLC 0 - a provision to treat customers fairly and take account of the circumstances of vulnerable customers
  - SLC 27.8 – a provision to ensure that a household's debt repayment plan is based on how much they are able to afford to pay towards it.

However, even before this winter millions of households that find energy unaffordable, struggling to keep warm each winter. Extraneous factors, such as the current sustained increase in the global gas price can have a profound impact on the affordability of energy. On average, the price of energy has increased by £235 for domestic consumer across Great Britain since last winter. NEA estimate the record rise last month to the Default Tariff Price Cap resulted in over 500,000 more households pushed into fuel poverty and a further 1.2 to 1.5 million could face the same plight if the price cap goes up in April by between £400 and £600, as predicted by some industry experts. On 3<sup>rd</sup> February 2021 NEA warned increases to the GB price cap in April could see the average combined domestic dual fuel bill increase by

a further £550 per year. NEA also warned the cost of heating the average home will have doubled over 18 months. 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 plummet by over £1000 per year. In addition, inflation remains high, meaning that essentials outside of energy also continue to rise in price. This places a worrying burden on the shoulders of the poorest households, especially those living in the least efficient homes.

This winter presents an acute situation for fuel poor households in the energy market. Cold, damp and unsafe homes continue to cause shocking levels of unnecessary hardship and premature mortality. In polling conducted by YouGov<sup>3</sup>, 60% of British adults said that this level of increase in their heating bill would lead them to reduce the amount that they heat their home by either a fair amount, or a great deal. Worryingly, this included 62% of the Socio-Economic group C2DE, which are more likely to be low income, and therefore be underheating their home even before prices increase. NEA is incredibly concerned, therefore, that the likely upcoming increase to energy bills will lead to more people living in colder homes, more people become ill because of this, and ultimately more deaths next winter.

It is therefore welcome that the Government wishes to carefully analyse how the structure of the market could change in the longer term in order to prevent such a situation occurring again. Below we address the key questions set out in the call for evidence. As the national fuel poverty charity, we will primarily focus on what changes mean for fuel poor and vulnerable energy customers.

### **How the retail market can help achieve the best outcomes for consumers, no matter how they engage**

As we state above, there are a number of different existing mechanisms to help ensure good outcomes for vulnerable customers in the energy market. At an absolute minimum we would expect these mechanisms to be maintained, or expanded as planned as is the case with the WHD and ECO) so that there is not a move towards worse outcomes for vulnerable households at a time when the Government has stated its priority is to protect them.

However, beyond those current protections the retail market can be significantly improved for fuel poor and vulnerable households, and we have identified some priority areas that should be considered in order to do so:

- A social tariff in addition to the Default Tariff Price Cap and WHD.
- Providing additional regulatory protections for vulnerable households.
- Improving the experience of prepayment customers.

### **A new Social Tariff in addition to the Default Tariff Price Cap and Warm Home Discount.**

Beyond regulatory protections, NEA is a supporter of the price cap as a device to ensure that households pay a fair price for energy, and to ensure that energy suppliers do not make excessive profits. As of 2020 it was estimated that the introduction of the Default Tariff Price Cap had saved customers around £1 billion a year, equivalent to around £75-100 a year for typical households on default energy tariffs. This saving will now be substantially more, because of the protection offered to households this winter. The price cap, we believe, has driven good outcome for consumers in the market. While there have been supplier failures, which will cost energy customers additional money, the change processes that Ofgem are currently undertaking to alter the price cap methodology and implement more thorough prudential regulation will significantly reduce the risk of supplier failures at large scale in the future, NEA firmly believes that the price cap should continue to be in place as a general protection for energy consumers in the medium term.

In addition to that general protection, NEA believes that the most vulnerable households should be offered deeper price protection. While, at some level, this could be offered by Ofgem (much like the safeguard tariff that was offered pre price cap), it would take Government intervention if this additional price protection was to have a meaningful level of depth compared to the current Default Tariff Price Cap. We believe that any such additional protections would need to have the following characteristics:

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. **Reduces 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).

#### Providing additional regulatory protections for vulnerable households.

In order to improve the protections that are available for low income and vulnerable households in the energy market, NEA believes that there are several different things that can be done. These are shown in the summary table below

Area of Improvement	Specific Actions
<b>Households in need of support should be better identified so that support can be better targeted</b>	<ul style="list-style-type: none"> <li>Extend the Priority Services Register to better identify financial vulnerability to ensure that suppliers consistently offer support to customers in financial difficulty.</li> <li>Ensure suppliers make better use of available data, again, to identify those most in need or in financial difficulty</li> <li>Work with the UK Government to access shielded patients list which could help utility companies to provide more targeted support to their customers who are most vulnerable</li> <li>Section 36(3) of the Digital Economy Act should be further expanded to allow local authorities, public sector health bodies and energy network companies to undertake direct data matching access with the Department for Work and Pensions (DWP), independent of licensed gas and electricity suppliers.</li> </ul>
<b>More should be done to raise awareness of the support available</b>	<ul style="list-style-type: none"> <li>Ofgem and BEIS should have regard to how companies have used different communication channels to support non-digital consumers who may have missed out on support/advice during COVID-19. Ofgem should ensure utilities have plans in place to provide information on emergency support in different languages and formats, including Braille, BSL, and languages such as Polish, Punjabi and Urdu.</li> <li>Ensure that suppliers offer wider support for any customer failing to access support via WHD broader group.</li> <li>Promote Fuel and Water Direct to indebted customers, to increase awareness of this under-utilised support mechanism</li> </ul>
<b>More should be done to directly address debt, which has risen during the pandemic and is set to rise further with impending price increases</b>	<ul style="list-style-type: none"> <li>Consistent 'Ability to Pay' and debt collection principles should be implemented across all essential household bills.</li> <li>Signposting income maximisation services to all customers who are on a debt repayment plan.</li> <li>The UK Government, working with Ofgem, should encourage better UK wide working and engage with the Northern Ireland Executive and Utility Regulator (UR) to ensure vulnerable energy consumers in Northern Ireland benefit from a comprehensive and consistent response from the energy industry to COVID-19.</li> </ul>

	<ul style="list-style-type: none"> <li>• Raising awareness of the current support available across the GB energy market by using multiple communication channels to drive greater awareness of the support available.</li> </ul>
<b>Vulnerable households should be adequately protected when a supplier exits the market</b>	<ul style="list-style-type: none"> <li>• Ensuring that prepayment users retain the ability to top up, in both the period between the exit and the Supplier of Last Resort (SOLR) being appointed, and once the SOLR takes over.</li> <li>• Working with suppliers to guarantee that customers’ debts to a failed supplier are transferred to the SOLR so that this debt is regulated through the standard gas and electricity supplier licence conditions.</li> <li>• Limiting the increase of the price cap in April by passing through SOLR costs over a longer period than previously.</li> </ul>
<b>The full role of energy networks to support vulnerable customers should be realised</b>	<ul style="list-style-type: none"> <li>• Investigating how to repurpose GDN support for fuel poor households (i.e. through the Fuel Poor Network Extension Scheme) in creative ways, given that targets for the current scheme are unlikely to be met.</li> <li>• Ensuring that there is sufficient ambition in the RIIO ED-2 business plans for the DNOs to affectively deal with energy affordability issues in their network areas.</li> </ul>

### Improving the experience of prepayment customers

In 2014, the Competitions and Markets Authority (CMA) investigated the supply and acquisition of energy in Great Britain. As part of the investigation, the CMA took an interest in the prepayment energy market, investigating the extent to which any market detriment existed for Prepayment users.

They reached the key conclusion that prepayment users face additional barriers to switching when compared to credit metered customers. In particular, the CMA found that prepayment customers face higher actual and perceived costs and barriers relating to the need to change meter to switch to a wider range of tariffs (where these are available from suppliers), a lack of access to information about switching processes and low access to the internet and confidence in using price comparison websites. The CMA also found that smart meters could be a solution to removing some of these market detriments, saying “suppliers ought to be able to profitably offer smart prepayment meter tariffs that are lower than the current prepayment tariffs based on dumb prepayment infrastructure”. This reflects NEA’s view – that smart meters offer a greater chance for prepayment customers to have a greater choice of tariff, and ultimately to save money on their bill.

In response to this market detriment, the CMA imposed a price cap for prepayment users, until the smart meter rollout had been substantively completed in 2020 (as was then the policy). NEA supported this approach and has worked hard to maintain price protection for prepayment customers. As the end of 2020 came close, and with the smart meter rollout not having progressed as planned, Ofgem have decided to continue the cap as part of the Default Tariff Price Cap but as noted later on this report, there is still uncertainty for domestic pre-payment customers about when this may price protection may cease or be extended still further.

In research conducted in 2021, NEA conducted analysis based on the feedback from a call for evidence which 132 organisations across the United Kingdom responded to, as well as expert interviews with 12 key stakeholders and prepayment users across the nations, to determine the benefits of the smart meter rollout for prepayment users, the barriers they face in doing so, and the interventions that should be made to ensure that they can access the benefits.

We found that there were significant benefits of smart metering for prepayment households, worth £5bn, and including £3.7bn from a better choice of energy tariffs. We also found, however, that there remained significant barriers to the uptake of smart prepayment, not least the lack of specific targets from the Government and regulator to replace prepayment meters with smart meters. In light of this, we recommended that:

- BEIS, in the new smart metering framework due to begin in early in 2022, should include a mechanism that rewards the replacement of legacy prepayment meters.
- Ofgem should strengthen, monitor and better enforce the New and Replacement Obligation to ensure that smart meters are used whenever a legacy prepayment meter is replaced or moved

We have subsequently recommended that Ofgem:

- Put this winter's voluntary agreement regarding smart prepayment into an enforceable licence condition
- Set a date by which all coin operated prepayment meters must be replaced by a smart meter.

These recommendations are yet to be acted on but should form a cornerstone of any attempt to ensure that the future retail market is fit for purpose.

### **How energy companies can help drive the private investment needed to achieve net zero**

#### **How the retail market, its underpinning regulatory framework and the energy price cap, may need to evolve to enable a lowest-cost, flexible and resilient energy system that continues to protect consumers**

NEA believes that there are three areas that need to be carefully considered in order to ensure that low income and fuel poor households can access a low cost, flexible and resilient energy system that continues to protect them. In addition to the areas above (a new social tariff, additional consumer protections and improving the experience of prepayment customers), these are:

- Ensuring that the smart meter rollout works for prepayment customers
- Ensuring that the market works for those who are digitally excluded
- Ensuring that there is sufficient transparency in the energy market

#### **Maximising the rollout of smart meters**

As stated above, NEA conducted research in 2021, to determine the benefits of the smart meter rollout for repayment users, the barriers they face in doing so, and the interventions that should be made to ensure that they can access the benefits. We found that there were significant benefits of smart metering for prepayment households, worth £5bn including £245m from smart solutions such as new innovative tariffs. We also found that there was a significant system benefit worth £168m from reduced energy infrastructure costs as a result of smart meters facilitating a smarter energy future. We also found, however, that there remained significant barriers to the uptake of smart prepayment, not least the lack of specific targets from the Government and regulator to replace prepayment meters with smart meters. In light of this, we recommended that:

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#### **Ensuring that the market works for those who are digitally excluded**

Creating a smart energy system will be important for achieving the lowest cost transition to net zero. However, many smart solutions rely on access to the internet, something that is not universal throughout the UK. A report from Ofcom<sup>4</sup> states that more than 1 in 10 adults do not use the internet, and the Office for National Statistics (ONS) estimates<sup>5</sup> that 5 million people in the UK have never used the internet in their lives.

Digital exclusion refers to being unable to physically access the internet and/or have a high enough level of motivation or digital literacy to use it effectively and appropriately. Digital exclusion matters because of the way it increasingly shapes access to essential services that are critical to the alleviation of poverty, including fuel poverty. Over the past decade, ways of accessing the amenities and services that people need have migrated online; we now live in a digital society, and people who are excluded from the digital world are simultaneously often excluded from essential services and support.

The energy industry has mirrored this digital shift, with the consequence that millions of customers cannot access the best deals or often miss out on key services. Those without internet access or limited digital skills are more likely to miss out on the cheapest deals and are less likely to be able to access services such as the Priority Services Register (PSR), Warm Home Discount (WHD) and other financial or energy-related services. In extreme cases, these increased costs can lead to an increased risk of living in fuel poverty and harmful energy rationing practices.

These issues have been exacerbated as a result of the ongoing Covid-19 crisis. In 2020 NEA undertook a Call for Evidence (CfE) to investigate the impacts of the crisis on vulnerable and fuel poor households, to which we received 73 responses from charities, local authorities, energy suppliers, distribution companies, and other organisations across the breadth of the UK.<sup>6</sup> Digital exclusion was a common theme throughout responses. Most notably, respondents highlighted that the enforced cessation of face-to-face contact was severely hampering the support they were able to offer.

In the most recent Fuel Poverty Monitor, which explored the relationship between decarbonising heating and fuel poverty, we found that there was a high likelihood that digitally excluded households would not be able to easily access products, services and schemes to decarbonise their homes. In order to ensure that all households can benefit from a new smarter market, it is imperative that two actions are taken in parallel:

- To ensure that the design of the policy, regulatory and market framework is not set in a way to disadvantage those households that are digitally excluded, either directly or through incentivising digital only products and services
- To help increase digital connectivity and competence to reduce the number of households that are digitally excluded in the market.

### **Transparency in the energy market**

Additionally, in the most recent Fuel Poverty Monitor, NEA conducted analysis through a Call for Evidence (CfE), which gained responses from 122 respondents covering the breadth of the UK, and wider engagement with stakeholders, we have considered the opportunities, impacts and barriers for fuel poor households of decarbonising their homes. To further inform our research, we interviewed representatives from governments, regulators, and consumer advocacy groups to understand their views on the links between decarbonisation and fuel poverty. One important part aspect of the energy retail market that was consistently discussed was the need for transparency in the market that is needed to facilitate the transition to net zero. Our stakeholders told us that:

- Available information on the energy market could be better publicised to increase awareness.
- There needs to be a balance between customers paying fair prices and energy companies being able to stay afloat in a financially sustainable way. Transparency of pricing gives some way to judge this.
- There is a need to publish high-level indicators of the total cost to Government of the energy transition annually. Energy bill transparency necessitates strong governance, robust cost controls for Government spending, and stringent cost assessment of industry spending by regulators.

It was found that there are two important ways by which such transparency can be achieved:<sup>3</sup>

- Through price protection mechanisms
- Through routine public assessment of distributional impacts of energy policy

#### *Price Protection*

The Default Tariff price cap, which has been created through legislation from the UK Government and has been implemented by Ofgem, provides a key consumer protection for customers in the energy market. It not only provides

some temporary relief from unpredictable price increases but greater transparency in the pass through of energy related policy costs, and other energy costs. This transparency is valuable on two levels:

1. For stakeholders with the prerequisite knowledge and interest, there is the ability to fully interrogate the cap to understand the quantum of individual costs and how they are applied to bills.
2. For households, who often have less interest and knowledge, it can provide confidence that pricing is fair, and that price increases are justified, as they are calculated by a trusted third party in Ofgem.

While the Government has announced that there is no longer a fixed end date of the price cap, there is no guarantee that the price cap, or even a reference price that could shadow a price cap without being a legal limit, will be sustained into the future.

87% of our CfE respondents agreed that there should be price protection mechanisms, such as the Default Tariff price cap in the energy market. An alternative view was offered by some stakeholders. They said that given the current situation regarding rapidly increasing price rises, price caps that only update every six months do not necessarily represent the most current costs of providing energy to households. While this is true for the wholesale element of the market, policy and network costs tend not to change so rapidly, meaning that for those components, the price cap is usually relatively accurate.

While we and our stakeholders place significant value on the transparency of the price cap, capping prices does little to impact the fairness of pricing mechanisms. For example, price caps do not currently determine the proportion of costs that are fixed (and therefore part of the standing charge) and variable (part of the unit rate). How costs recovered also forms an important part of fairness and affordability is a consideration that should not be forgotten.

#### *Routine public assessment of distributional impacts*

93% of respondents to our call for evidence stakeholders agreed that the overall policy costs recovered through consumer bills should be published and 93% of respondents agreed that there should be routine public assessment of the distributional impacts of decarbonisation policies funded through energy bills.

According to Ofgem, policy costs currently make up 15% of the average dual fuel bill, an amount that is not insignificant. While it is useful to know the total quantum of policy costs that consumers contribute through their bills, it does not paint the whole picture.

Each decision that the UK Government, devolved Governments, and energy regulators make about the energy market will have different impacts on different sets of consumers. In many cases, Governments will conduct an impact assessment, which looks to investigate the overall cost of a decision, who that might impact, and how. The groups that these assessments consider are relatively variable, and any consistency is mainly achieved through adherence to the Equalities Act, where the impacts must be assessed for the following characteristics:

- Age
- Disability
- Race
- Marriage/civil partnership status
- Sex, gender reassignment, religion or belief, and pregnancy and maternity
- Income

Beyond these characteristics, assessment of impacts is varied, and often minimal.

The now defunct UK Department of Climate Change (DECC) previously provided an annual assessment of the estimated impacts of energy and climate change policies on energy prices and bills.<sup>7</sup> This report was tied to the timing of HM Treasury's Annual Energy Statement and therefore provided a consistent and routine assessment of distributional impacts. This annual analysis included:

- Recent developments in UK energy prices and bills.
- International comparisons.
- How policies impact energy bills.
- The specific impact on household energy bills.

- Analysis of how different fuel prices would change the impact.

This robust analysis explained the policy costs that were added onto bills, and how those policies would likely impact on consumer bills. For example, while funding for energy efficiency is an initial cost on bills, it reduces average demand, so overall, over a period of time, reduces the average energy bill.

This analysis is no longer published, meaning that there is a lack of transparency as to the impact that levies have on bills, making the costs of the transition to net zero, as well as who pays these costs, harder to scrutinise. As we move towards net zero, with the potential for more of the costs of decarbonisation to be paid for through bills, this lack of annual analysis presents a gap in transparency.

In recent years, Ofgem has introduced their own model for assessing the distributional impacts of their economic regulation decisions.<sup>8</sup> This framework uses three groups of data to help us assess impact:

- Disposable income and energy expenditure – to assess how a policy may affect how much consumers spend on energy as a proportion of their income.
- Socio-economic factors such as age, disability status, and employment status – to assess how a policy may affect vulnerable groups.
- Attitudinal and technology adoption, such as engagement in the energy market and electric vehicle uptake – to give insight into how policies may affect those with different attitudes towards and experiences of the energy market.

Within these groups, the model assesses:

- Absolute financial savings or costs.
- Savings or costs as a percentage of disposable income.
- Equity-weighted financial savings, capturing the fact that an additional unit of income improves the welfare of a low-income household more than that of a higher income household.

This is a valuable model that increases the understanding of how economic regulation impacts on vulnerable groups. However, it should be noted that either the modelling is not completed for all decisions, or it is not always made public. For example, results of the modelling are not published for changes to the price cap for domestic electricity and gas prices in Great Britain.

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<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

<sup>2</sup> NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

<sup>3</sup> Polling was carried out by YouGov 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+). The polling results can be found at [https://docs.cdn.yougov.com/op3azx1z20/NEA\\_HeatingCosts\\_211129\\_W.pdf](https://docs.cdn.yougov.com/op3azx1z20/NEA_HeatingCosts_211129_W.pdf)

<sup>4</sup> [Online Nation](#), Ofcom, 2020

<sup>5</sup> [Exploring the UK's digital divide](#), ONS, 2019

<sup>6</sup> [Fuel Poverty Monitor 2019/20](#), NEA, 2020

<sup>7</sup> For one example of this publication, see [Estimated impacts of energy and climate change policies on energy prices and bills: 2011](#), DECC, 2011

<sup>8</sup> [Assessing the distributional impacts of economic regulation](#), Ofgem, 2020