

Ofgem 2021 Price Cap consultations



Centre for Sustainable Energy – Consultation Response

CSE is an independent national charity, established in 1979 and is twice-winner of the Ashden Awards for Sustainable Energy – most recently in 2014 for our “outstanding contributions to tackling fuel poverty in the UK”. Our vision is a world where sustainability is second nature, carbon emissions have been cut to safe levels and fuel poverty has been replaced with energy justice. Our mission is to share our knowledge and practical experience to empower people to change the way they think and act about energy.

We have 90 staff working mainly across three operational teams:

- Household Energy Services: supports disadvantaged households with home energy issues and operates a freephone telephone advice service Monday-Friday.
- Research and Analysis: delivers research for governments, utilities, cross-sector partners and has a significant policy impact.
- Local and Community Empowerment: supports groups and individuals to take action on climate change, and develops local projects, using the planning system and democratic rights. They manage grant programmes, develop engagement tools and run high-profile youth education programmes.

Since launching, CSE has provided advice and support to around 350,000 people, including over 100,000 vulnerable and disadvantaged people. In the last financial year alone (April 2020 to March 2021) we supported 14,465 households with 21,337 separate enquiries, collectively saving them more than £2.76 million (an average of approximately £191 per household). The vast majority of these clients were either in fuel poverty or at risk of fuel poverty and a significant proportion had a listed health condition.

The majority of CSE’s current advice projects are directly targeting low income households. Since the beginning of September we have spoken to around one thousand households who’ve face increased bills due to the energy crisis i.e. their fixed deal ended or their supplier went into receivership. These households are already struggling to cope with the increase in their bills. Table 1 shows that on average their current bills will have risen by £272 when their current deal ends i.e. they moved to a SVRT. Given many of the smaller suppliers that went bust offered very cheap but unsustainable deals, these households have faced much higher bills i.e. in our experience £500 to £600 on average.

Fuel prices in 2022

We have used the consumer archetypes¹ we produced for Ofgem in 2020 to examine fuel bills in 2022. There is very little information on future energy bills, but we have used an example tariff from Scottish Power who are marketing a two year fixed deal. It’s unclear if this represents a good deal for consumers, but it does correlate with trends for wholesale fuel prices and the likely end cost to consumers.

On average UK households in Great Britain face an average increase in their bills of £1,073 when compared to a fixed deal and £802 versus a SVRT. For some households their energy costs doubling will lead to further self-disconnection and rationing, the winter of 2022 promises to be a very hard one for low income households. Based on the archetypes we profiled, the following are of most concern:

- C5 - Very low incomes, single female adult pensioners, non-switchers, prepayment meters, disconnected (no internet or smart phones).

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2020/05/ofgem_energy_consumer_archetypes_-_final_report_0.pdf

- D6 - Low income, disability, fuel debt, prepayment meter, disengaged, social housing, BME households, single parents.
- E8 - Low income, younger households, part-time work or unemployed, private or social renters, disengaged non-switchers.
- G11 - Younger couples/single adults, private renters, electric heating, employed, average incomes, early adopters, BME backgrounds, low engagement.

We agree that the current methodology for the price cap is flawed and needs to be overhauled urgently to deliver a sustainable and competitive energy market. The level of increase in wholesale costs (nearly 500%) is unprecedented and has exposed those suppliers with poor trading strategies. It's clear that the costs related to procuring demand for unhedged and unexpected SVT has led to the cap materially departing from the efficient costs facing suppliers. However, any changes to the price cap need to ensure that consumers are still protected and that any decrease in costs is also passed on at a similar rate. We would also suggest that Ofgem consult further in 2022 on a differential cap to protect the most vulnerable households from high bills.

CSE's response:

1. CSE supports Ofgem's proposals (option 1) to amend the wholesale risk allowance cap from April 2022.
2. The current eight month lag between wholesale prices and their reflection in the price cap is clearly sub-optimal. We would advocate quarterly reviews of the price cap with additional powers to respond to exceptional circumstances which lead to an increase or decrease in costs.
3. We support Ofgem's proposals to correct for any material under or over-allowance of ECO4 costs in cap period nine (October 2022 – March 2023). When the ECO was originally introduced the BEIS impact assessment significantly under-estimated delivery costs leading to a reduction in the policy target, so these costs need to be accounted for in a timely manner.

Any future consultation needs to consider the role that the price cap is designed to play in the energy market i.e. if the cap needs to extend to all consumers or those that need protection as they can't fully partake in the market. Our analysis of bills shown above illustrates the need for further support and protection for vulnerable households on low incomes.

Further policy options

Whilst not part of this consultation, and also not a policy that is directly within Ofgem's remit, we would advocate a one year emergency expansion of the Warm Homes Discount in scheme year 2022/23. This expansion would help address the significant increase in consumers bills which we are anticipating in 2022. In particular we would recommend:

- a) Doubling the size of the Warm Homes Discount (in terms of energy supplier expenditure).
- b) Increasing the level of Warm Homes Discount given to households by £60 to £200.
- c) Introducing the Core Group 2 with DWP data-matching will streamline the process of offering the Warm Homes Discount, but the new proposals exclude households on disability benefits. We would advocate for the reintroduction of the Broad Group for households who are particularly vulnerable to the cold and are no longer eligible for Warm Homes Discount i.e. those claiming disability benefits.

Table 1: Analysis of average consumer bills using Ofgem's Archetypes

Archetype		Numbers of hhlds	Heating fuel	Average hhld income (BHC) (GB avg: £34k)	Elec kWh (GB avg: 3,980)	Gas kWh (GB avg: 13,180)	Current fixed	SVRT	New bill	% income	Increase vs. Fixed	Increase vs. SVRT	Main attributes (key words)
A	A1	2,761,000	Mains gas	£48,000	3,250	9,650	£ 1,005	£ 1,247	£ 1,974	4.1%	£ 970	£ 727	High incomes, owner occupied, working age families, full time employment, low consumption, regular switchers.
	A2	2,916,000	Mains gas	£54,600	4,920	20,520	£ 1,586	£ 2,031	£ 3,388	6.2%	£ 1,803	£ 1,358	High incomes, owner occupied, middle aged adults, full time employment, big houses, very high consumption, solar PV, environmental concerns.
B	B3	3,674,000	Mains gas	£28,600	3,670	15,350	£ 1,232	£ 1,564	£ 2,579	9.0%	£ 1,347	£ 1,015	Average incomes, retired, owner occupied - no mortgage, electric vehicles, environmental concerns, lapsed switchers, late adopters.
	B4	2,323,000	Mains gas	£40,600	4,090	15,630	£ 1,311	£ 1,662	£ 2,729	6.7%	£ 1,418	£ 1,067	High incomes, owner occupied, part-type employed, high consumers, flexible lifestyles, environmental concerns.
C	C5	1,922,000	Mains gas	£15,200	2,570	11,270	£ 933	£ 1,172	£ 1,906	12.5%	£ 973	£ 734	Very low incomes, single female adult pensioners, non-switchers, prepayment meters, disconnected (no internet or smart phones).
D	D6	1,547,000	Mains gas	£18,100	3,920	12,340	£ 1,192	£ 1,494	£ 2,401	13.3%	£ 1,209	£ 907	Low income, disability, fuel debt, prepayment meter, disengaged, social housing, BME households, single parents.
	D7	1,205,000	Mains gas	£34,000	4,140	15,600	£ 1,319	£ 1,671	£ 2,741	8.1%	£ 1,423	£ 1,070	Middle aged to pensioners, full time work or retired, disability benefits, above average incomes, high consumers.
E	E8	2,356,000	Mains gas	£23,400	3,620	11,950	£ 1,130	£ 1,416	£ 2,279	9.7%	£ 1,148	£ 862	Low income, younger households, part-time work or unemployed, private or social renters, disengaged non-switchers.
	E9	3,093,000	Mains gas	£37,000	3,200	10,440	£ 1,018	£ 1,269	£ 2,026	5.5%	£ 1,008	£ 757	High income, young renters, full time employments, private renters, early adopters, smart phones.
F	F10	1,912,000	Oil, Electric	£38,900	5,750	0	£ 1,166	£ 1,371	£ 1,914	4.9%	£ 748	£ 542	Middle aged to pensioners, full time work or retired, owner occupied, higher incomes, oil heating, rural, environmental awareness, RHI installers, late adopters.
G	G11	1,510,000	Electric, Oil	£30,200	5,250	0	£ 1,081	£ 1,268	£ 1,764	5.8%	£ 683	£ 495	Younger couples/single adults, private renters, electric heating, employed, average incomes, early adopters, BME backgrounds, low engagement.
H	H12	644,000	Electric, Oil	£14,500	4,030	0	£ 873	£ 1,017	£ 1,398	9.6%	£ 524	£ 381	Elderly, single adults, very low income, medium electricity consumers, never-switched, disconnected, fuel debt.
	H13	526,000	Electric, Oil	£22,000	5,360	0	£ 1,099	£ 1,291	£ 1,797	8.2%	£ 697	£ 506	Off gas, low income, high electricity consumption, disability benefits, over 45s, low energy market engagement, late adopters.