

National Energy Action (NEA) response to Ofgem's Forward Work Programme 2021/23 Consultation



Action for Warm Homes

About National Energy Action (NEA)

NEA¹ works across England, Wales, and Northern Ireland to ensure that everyone in the UK² 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.

Background to this response

NEA has previously worked with Ofgem to secure some key improvements in the treatment of domestic customers. In particular, we worked collaboratively to:

- Reach an agreement³ with energy suppliers to:
 - Raise awareness of support available to customers, using multiple communication channels, languages and accessible formats as appropriate, and encourage customers in financial difficulty to seek support.
 - Ensure customers in financial difficulty can easily make contact, through a variety of contact methods, and have in place sufficient, adequately trained resource to resolve issues effectively, in a timely manner
 - Ensure bills are as accurate as they can be, including by encouraging customers to provide meter readings ahead of winter, and where appropriate, initiate debt management conversations.
 - Take all reasonable steps to ensure that prepayment meter customers are able to receive smart meters as soon as practicable, particularly those at risk from experiencing off-supply situations.
- Secure a commitment for a new principles-based licence condition for DNOs to treat their customers fairly⁴ (mirroring SLC0 for energy suppliers) from April 2023
- To ensure that reforms to the retail market do not have an adverse impact on vulnerable energy consumers, including the removal of default tariff exit fees as an option for reform.

Since these positive changes were made, energy prices have soared. Alongside similar unprecedented increases in Northern Ireland, the GB price cap will be raised from 1 April, a jump of an additional £700 per year to leave the 'average' domestic energy bills at ~£2000, leaving a further 2 million households in fuel poverty. Due to reductions in household incomes, surging energy prices and relatively modest improvements in energy efficiency levels, [NEA estimate](#) that the number of households in fuel poverty across the UK will increase to 6.5 million households in total in April, an increase of more than 50% in just over six months. This projection is based on the 10% definition of fuel poverty which gives a realistic picture of the scale of fuel poverty in periods of more volatile energy prices. On the 24th of February 2022 Investec Bank Ltd estimated the price cap on energy prices could spike another 50% in October to more than 3,000 pounds per household following huge gains in the wholesale natural gas and electricity markets.

While NEA acknowledges that Ofgem have limited abilities to reduce the impact of increasing energy costs, recent changes to the cap by Ofgem have exacerbated impacts for poorer customers and will result in large increases to standing charges:

- The new allowance in the next cap period to cover volatility of this winter, this includes:
 - £41 for unexpected SVT costs (double the amount set out in their initial consultation)
 - £8 for 'backwardation' costs (these costs were not considered at all in the consultation but have been added)
 - £12 for shaping imbalance (while these were in the range of the consultation estimate, it doesn't seem Ofgem have taken any account of the fact that suppliers should be less exposed to these risks if they had got on with the smart meter programme or embrace half hourly settlement.)
 - Whilst costs are set at neutral, there is now reduction for avoided Contract for Difference (CfD) costs, compared to a £20 saving in the consultation. We are aware that is because some suppliers hedge against CfD cost exposure, but this doesn't seem a reasonable

justification (as they should have known higher wholesale prices would reduce these costs) and now these higher savings aren't going to be passed onto customers.

- SOLR costs

- Additional increases to the costs of the Green Gas Levy of £2.69 per gas meter from April 22. These costs are exceptionally regressive as they are recovered on a fixed or flat basis meaning all customers pay the same irrespective of their income, usage or payment type. The original reason given this regressive approach was there was no way to recover these costs on a usage or 'volume' basis (i.e. to ensure those people who use more energy pay more costs) but now that Supplier of Last Resort Costs for gas will be recovered on a usage basis we would expect the same for the Green Gas Levy and the new allowances for the cap noted above.
- We also note the PPM allowance for smart metering is set at negative as customers have been overpaying in the current period due to an overestimated number of smart PPM installs during covid. Despite this, the cost saving for smart meters are less than consulted upon, despite the fact that many legacy Pre-Payment customers have not yet been offered a smart meter. For PPM, the allowance is set at -£7.47, compared to -£10.46 in the consultation.

While not yet confirmed, Ofgem have also indicated a strong preference for updating the Cap on a quarterly basis from October 2022 onwards. This could mean that prices will rise every 3 months thereafter. We are particularly concerned that if they go ahead with this move, it will mean that customers will see increases in bills at the height of winter (with the first quarterly update expected around Christmas). We believe this should be avoided and have suggested that they could move to having x2 quarterly updates covering the spring and summer and have a 6-month period covering the colder months.

Finally, NEA continues to highlight the clear and damaging consequences of Ofgem moving away from providing deeper price protection for PPM customers. Previously Ofgem ran a price cap from 2017 to the end of 2020 for customers using prepayment meters (the Prepayment Meter Price Cap). Ofgem then combined these programmes into a single Default Tariff Cap from 1 January 2021. As a result, the recently announced mammoth rises are now most stark for PPM customers, despite many of these households already being indebted and more likely to be living on the lowest incomes. We estimate that PPM customers are going to face over £3bn per annum in additional energy costs, **more than £200m per year from April** (compared to DD or SC customers). This outcome could have been avoided had the decision not taken to roll the bespoke PPM cap into the wider cap. If these households had stayed on the more beneficial PPM cap, we estimate they would have been between £60-100 better off per customer or in aggregate £270m better off per year from April (i.e. **a £400m per year swing in the wrong direction from April**).

In response, NEA highlights significantly more must be done to accelerate the modest progress that has recently been made to support vulnerable consumers in the energy market. Our consultation response below outlines how the proposed plan for the next two years should strengthen support and protection of vulnerable and fuel poor customers.

Our response to this consultation

The proposed forward work plan has a wide-ranging set of priorities for Ofgem to form a work programme in the years ahead, and NEA understands the significant challenge that Ofgem faces in helping the country to achieve its energy objectives. However, one aspect that the plan once again does not adequately address is consumer vulnerability, an area where Ofgem last made good progress in 2019 with the publication of a new consumer vulnerability strategy. NEA believes that progress should be significantly accelerated.

The need for deeper price protection for financially vulnerable households

In the draft Forward Work Plan, Ofgem states that they will "consider how best to support vulnerable consumers, those consumers experiencing affordability issues and those suppliers experiencing continued financial difficulties". NEA believes that this should be done through a mechanism that provides deeper price protection for the most financially vulnerable energy consumers.

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. This could be offered unilaterally by Ofgem, using existing powers, and should therefore be investigated as a priority. We believe that any such additional protections would need to have the following characteristics:

Such a tariff should have the following minimum requirements:

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).

Accelerating Progress Against the Consumer Vulnerability Strategy 2025

In 2019, Ofgem published its new Consumer Vulnerability Strategy 2025⁵, focussing on 5 key themes: Improving identification of vulnerability and smart use of data; supporting those struggling with bills; driving significant improvements in customer service for vulnerable groups; and encouraging positive and inclusive innovation; working with others to solve issues that cut across multiple sectors. Ofgem also made 5 commitments for the first year of the strategy:

- Create an analytical framework to consistently assess the impact of policies on particular groups of consumers in vulnerable situations.
- Introduce a new licence condition for gas distribution networks so that they must adhere to a vulnerability principle.
- Strengthen rules to protect customers who self-disconnect.
- Update the Ability to Pay principles and include them in the licence conditions to provide targeted support to consumers facing payment difficulty.
- Consult on proposals for the future energy retail market review.

NEA is pleased that Ofgem has followed through on all of these commitments in 2020, even through the difficult conditions created by COVID-19. We reiterate that the Consumer Vulnerability Strategy runs up to

2025, and actions should be taken in each and every year of the strategy to ensure progress continues. In this Forward Work Programme, Ofgem should set out its priorities and commitments for the second year of the strategy. Below are the areas that NEA believes Ofgem should focus on during the next year.

Improving identification of vulnerability and smart use of data.

Ofgem has made some progress in improving the identification of vulnerability and using data in a smart way. The priority services register is a key element of this, providing a way by which households with physical vulnerabilities that are relevant to the energy market can be identified, so that energy suppliers can provide adequate and tailored support.

However, Ofgem has stopped short of requiring energy suppliers to identify where households have a financial vulnerability, for example where they are unlikely to be able to afford to pay their bills because of an individual circumstance. NEA has investigated whether such a requirement would be viable and has found that some suppliers have been doing so independently in a temporary way during the pandemic. We have also found that, in general, energy suppliers would support bringing financial vulnerability into the priority services register.

Such identification would serve two purposes – firstly, it would help energy suppliers to find their customers who need the most financial help, so that they could either provide that help themselves, or signpost them to a third party. Secondly, it would mean that those households that are financially vulnerable would not need to continually relay their situation to their energy supplier, an experience that can be exasperating and upsetting.

Supporting those struggling with their bills

Since the launch of the Consumer Vulnerability Strategy 2025, Ofgem has implemented significant new rules relating to energy debt. These new licence conditions meant that suppliers must take account of their indebted customers' ability to pay, both in terms of payment mechanism and payment amount, when setting repayment plans. This means that no household should have an unaffordable debt repayment plan with their supplier.

While this has been a positive development, these new rules are seldom enforced, and Ofgem must do more to report on performance against the obligation so that consumers and advocates are aware of if and when suppliers are not taking account of their customers' circumstances. NEA was, however, pleased to see that Ofgem have made their first enforcement regarding this new licence condition, after a supplier "did not consistently offer to put domestic customers struggling to pay their energy bills on debt repayment plans, to allow payments to be taken direct from customers' benefits or to take into account customers' ability to pay when calculating regular instalments as required". Such enforcement activity will give suppliers confidence that they must adhere to the licence or face the consequences.

Aside from these new conditions, Ofgem must be aware of the role that it plays in providing solutions to the current situation regarding high energy prices. There are two main ways in which Ofgem could, and should, play a role in the solution:

- 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.
- Investigating a new social tariff to help make energy more affordable for a discrete and well-defined set of energy customers.
- Working to ensure that when a supplier exits the market:
 - 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.
 - Customers' debts to that supplier are transferred to the SOLR so that this debt is regulated through the standard gas and electricity supplier licence conditions.
 - The pass through of SOLR costs are spread over a longer period.
 - Ensure any modifications to how the energy cap is calculated does not lead to more frequent adjustments to increase the pass through of policy costs.

- Reducing the wider burden of energy debt on customers by ensuring suppliers promote a range of debt repayment options and ensure they are taking more active steps to identify and reduce problem debt for their customers.
- Working with Government to maximise opportunities to accelerate the deployment of smart meters for legacy pre-payment customers and correct the negative distributional impact of how policy and regulated costs are currently recovered by energy suppliers and energy networks.
- Realising the full role of energy networks to support vulnerable customers and investigate how to repurpose help for fuel poor households in creative ways.

Driving significant improvements in customer service for vulnerable groups.

In the Consumer Vulnerability Strategy 2025 Ofgem set out that it wanted energy companies to have a corporate culture that focuses their efforts to identify and support consumers in vulnerable situations; industry to have systems to better target and to tailor their customer service to consumers with specific needs; new companies entering the market to provide the level of customer service needed by consumers in vulnerable situations; consumers to be effectively identified as eligible for priority services; and for them to receive consistent and high quality priority services in a timely way; and consumers to have easy access to relevant information on how well energy suppliers support consumer needs. This will allow them to take this into account when switching.

While there have been some improvements in energy networks regarding these issues, they have yet to penetrate the supplier market, with no requirement for either a consumer champion at board level or to have a vulnerability strategy as noted above.

Encouraging positive and inclusive innovation

Ofgem has made significant steps with energy networks in encouraging inclusive innovation, The network innovation allowance is now specifically aimed at innovating for consumers in vulnerable situations, for example. However, the same cannot be said for energy suppliers, with no requirement to innovate in the interests of the most vulnerable.

This asymmetry is borne out within the smart meter rollout, where whilst there has been great effort to create an accessible in-home display to complement a smart meter, suppliers are not consistently offering such innovations to their customers who would benefit the most. Ofgem's role of monitoring and enforcing minimum standards under the Smart Meter Installation Code of Practice (SMICOP) is also fundamental to the success of the roll-out. However, as noted above, concerns are mounting about the capacity Ofgem must monitor these requirements, especially given the increasing number of smaller suppliers.

NEA has previously highlighted our concern that the smart meter rollout is now significantly backloaded, meaning that most households have less opportunity to enjoy the benefits of smart (and any resulting financial savings). We are pleased that Ofgem are asking suppliers to detail their rollout plans on their websites⁶, giving the third sector an opportunity to help engage households in order to accelerate the rollout.

In addition to reporting, NEA believes that Ofgem should have an interest in ensuring that the rollout is being performed in the best interest of vulnerable energy consumers. In our view, an important element of this is ensuring that households with legacy prepayment meters receive a smart meter as a priority, in order to ensure that once the price cap has ended, they do not move back into a market that the CMA identified creates a significant detriment for them. As part of the forward work programme, Ofgem should commit to investigating what they could do to achieve this aim. This would dovetail with the suggested work to build on the self-disconnection protections outlined above.

Working with partners to tackle issues that cut across multiple sectors

In the Consumer Vulnerability Strategy 2025 Ofgem set out that it wanted: achieve greater understanding and consistency across essential services markets for more joined up action to improve the experience of consumers in vulnerable situations; to further improve our information sharing approach with the third sector, which will help target our policy, compliance and enforcement actions and support organisations who provide advice to energy consumers; continue to improve the operation and effectiveness of the

government social programmes; and work with government on common consumer challenges to complement its social policy measures.

While there has been some progress in sharing information across sectors, for example more regular engagement with the third sector, Ofgem has for two years failed to obtain information from energy suppliers regarding their social obligation supporting. This has meant that other actors have no visibility over, for example, the level of debt in the market. This hinders our ability to effectively advocate for the needs of fuel poor and vulnerable households in the energy market.

It is crucial that Ofgem can work with Government and play its role in implementing whatever the preferred policy solution to the energy price crisis.

Maximising network companies' role in tackling fuel poverty

NEA has supported Ofgem's intention to introduce new licence conditions for how GDNs and DNOs treat their customers in vulnerable circumstances. In addition, NEA is pleased that the final determinations for RIIO GD2 includes an increase in the Vulnerability and Carbon Monoxide Allowance (VCMA) alongside a change in the guidelines for this allowance to permit funding to repair or replace condemned boilers. We are also pleased that Ofgem intend to create a new vulnerability licence condition for DNOs in ED2, alongside a new Vulnerability ODI and a new licence obligation to promote the uptake of energy efficiency measures where the network requires reinforcement. Alongside following through with these commitments, in this forward work plan Ofgem must commit to building on them by:

- For GDNs:
 - Using the reputational ODI for FPNES connections to fully hold GDNs to account on progress towards their targets. The CEGs may have a role to play in successfully achieving this.
 - Ensuring that GDN's plans for the VCMA is focussed on helping the most vulnerable customers.
 - Ensuring that carbon monoxide projects within the VCMA are limited to those that address the acute risks of faulty and inefficient heating appliances.
- For DNOs:
 - Further action to enhance procedures for power outages.
 - Helping low-income customers upgrade their connection in the context of moving to low carbon electrical heating, akin to the funding provided by FPNES.
 - Allowing networks to prioritise flexibility projects with direct positive social and environmental outcomes when they assess bids into their flexibility markets to address reinforcement needs.
 - Allowing investment in new, energy efficient appliances in the households of vulnerable customers in order to reduce total system electrical losses.
 - Ensuring that innovation funds are deliberately targeted at supporting low income and vulnerable customers transition to net zero.

NEA continues to have a desire to work collaboratively with Ofgem and DNOs to influence this strategic outlook and expand existing collaborative projects. Some further suggested priority areas are also noted below.

New innovation and insights:

- Trialling new ways to decarbonise heat whilst delivering network and customer benefits.
- Aggregating and controlling electric storage in tower blocks to offer reductions in residents' charges, offsetting costs using income earned from grid services including fast frequency response.
- Demonstrating the qualitative and quantitative network and customer benefits of innovative combinations of hybrid heat pumps, domestic solar PV, heat, and electricity storage technologies.
- Trialling new ways to guide behaviour change in vulnerable households by promoting the efficient use of energy and water and encouraging efficiency improvements in the home.

Collaborative research:

- Exploring how the DSO transition can reduce the cost of, and provide a cornerstone for, a fair transition to a net zero carbon society and economy.
- Helping to consolidate lessons learnt and what has been done so far via innovation funds which has a domestic social dimension.
- Developing new options for DNOs assisting low-income customers to upgrade their connection in the context of moving to low carbon electrical heating.
- Developing options to provide more flexibility within the losses incentive and enhancing share factors to encourage domestic flexibility and demand reduction.
- Developing links with other utilities and the local community.
- Develop new cross-utility approaches to identifying vulnerable customers and more efficient ways of supporting them.

Enforcing the Vulnerability Principle (SLC0) and Ability to Pay Principles

NEA supported adding a broad vulnerability principle to the domestic Standards of Conduct that clarifies to suppliers that to uphold their obligation to treat all domestic customers fairly, and new ones regarding ensuring that repayment plans are suitable for households. Suppliers now need to make an extra effort to identify and respond to the needs of those in vulnerable situations. However, we maintain our concern about the capacity of Ofgem to adequately monitor these requirements, especially given the increasing number of smaller suppliers. There are also concerns about the failure of some suppliers to join up their mandated obligations to improve services for their most vulnerable customers.

Further Addressing Self-Disconnection

NEA continues to be concerned about the scale of self-disconnection that we have seen in recent years. Ofgem's call for evidence on self-disconnection⁷, subsequent proposals⁸ and decision⁹ are a welcome first step in trying to solve issues surrounding self-disconnection. However, Ofgem should continue to make progress on this issue in order to significantly reduce the number of self-disconnections that occur. NEA proposes that Ofgem should:

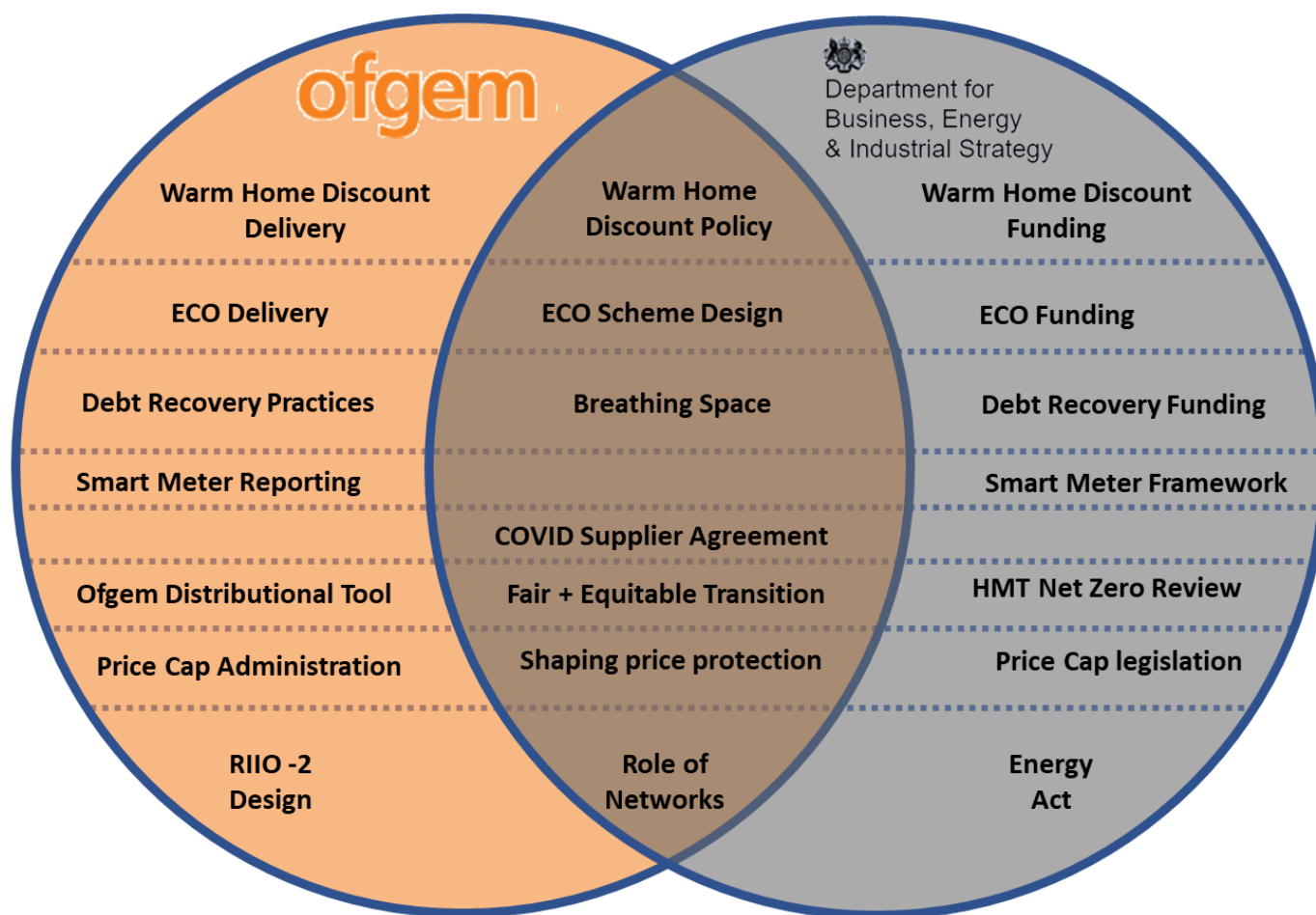
- Investigate how half-hourly data from smart meters can help suppliers to identify their customers who ration energy, with a view to integrating this into the licence conditions as initially proposed as part of the self-disconnection work.¹⁰
- Urgently address major anomalies with the current eligibility criteria for the Priority Services Register (PSR), especially surrounding a lack of needs code surrounding financial vulnerability. Ofgem should also aim to enhance monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- Address an unacceptably large variance in efforts to reduce the risk of self-disconnection and self-rationing across different energy suppliers depending on their size and capacity. They should stress its willingness to regulate all licensees if voluntary attempts to encourage greater participation of industry-led protocols like Energy UK's upcoming Vulnerability Charter fail to enhance protections in this area for vulnerable customers.
- Investigate the setting of and recovery of costs within Fuel Direct repayments and 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. Ofgem's work in the targeted charging review must not lead to an increase in standing charges for electricity prepayment customers.
- Make the most of the smart meter rollout for prepayment households (more detail below).

Set out how the new distributional analysis tool will be used to ensure fair decision making

Last year, Ofgem followed through with the commitment to create a tool to perform distributional analyses on its own policy decisions. This was extremely welcome, and it was good to see it in action with regards to the work on Self Disconnection. NEA asks that in the final forward work programme Ofgem sets out how it will continue to use this tool and how it will ensure that it remains up to date. Without proper funding to use and update it, it is utility will slowly degrade and the progress that has been made may be lost.

The need for clearer join up and links with UK Gov role

As increasingly more work is done to achieve net zero carbon emissions, the line that separates Ofgem as the energy regulator from the UK Government is becoming increasingly more blurred. There are many areas where responsibilities are split between the two organisations, and where there are some shared responsibilities. The Venn diagram below represents our view of this.



Because of the increasing importance of the interaction between Ofgem and Government, NEA expects that the forward work programme should look to address this head on, with specific projects and associated funding to make the links with Government and smooth out decision making in order to avoid “ping pong” between Governments and Ofgem when change is required. Knowing which organisation takes which role, and who leads on what, will be crucial for stakeholders to engage with change processes in a meaningful way.

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 Published on the 19th March 2020, the supplier agreement was put in place to protect the domestic energy supply of those most in need during the disruption caused by COVID-19. For the agreement please visit https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873960/Supplier_Agreement_19.3.2020.pdf

⁴ The new licence obligation, SSC21, puts an obligation on GDNs to treat their customers fairly, having due regard for their customers in vulnerable situations.

⁵ Consumer Vulnerability Strategy, Ofgem, October 2019 https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf

⁶ Decision: Smart meter rollout supplier reporting requirements from 1 July 2021 onwards, Ofgem, December 2020 https://www.ofgem.gov.uk/system/files/docs/2020/12/smart_meter_rollout_supplier_reporting_requirements_from_1_july_2021_onwards_modification_of_the_standard_licence_conditions_of_the_gas_and_electricity_supply_lic.pdf

⁷ <https://www.ofgem.gov.uk/publications-and-updates/prepayment-self-disconnection-and-self-rationing-call-evidence>

⁸ <https://www.ofgem.gov.uk/publications-and-updates/proposals-improve-outcomes-consumers-who-experience-self-disconnection-and-self-rationing>

⁹ https://www.ofgem.gov.uk/system/files/docs/2020/10/self-disconnection_and_self-rationing_decision.pdf

¹⁰ In the initial proposals to improve self-disconnection and self-rationing, Ofgem proposed requiring suppliers to take all reasonable steps to identify customers who are in vulnerable situations and are self-rationing, applying to both customers on prepayment and credit meters, given self-rationing affects customers paying via all methods.