

The Stance of ADS

As an advice charity that covers topics including energy and debt, we have seen first-hand the severity of the rise of energy prices in Scotland. We have seen many of our customers fall into energy arrears, fuel poverty and frequent self-disconnections. These issues are particularly dangerous to the financial and physical wellbeing of energy customers with an estimated 8,000 deaths occurred last year due to people living in cold homes (up by 20% from last year).

Our objective is to ensure that energy customers have as few barriers as possible to affordable energy and safeguards are in place to prevent people from falling into fuel poverty. We are opposed to an energy system making short term decisions which could damage the affordability of energy for our customers in the long term. Therefore, our interest is that these proposals mitigate the soaring cost of energy as much as possible and that it lays the groundwork for better energy affordability in the long term. We have seen from the energy price cap increase in April that bills increased massively, disrupting budgets, and pushing people into problem debt. We do not wish for events like that to happen again.

Quarterly Updates to the energy price cap

We understand that the proposed change to a quarterly price cap update is hoped to reduce price changes in the long run, but we are concerned that this has no guarantee of price reduction due to larger factors. Firstly, more frequent changes and more situational energy pricing will not always benefit the consumer. While the proposal insists more frequent price changes will equate to lower wholesale prices can be passed on more quickly, it also means the reverse is true. Sudden changes to the price cap can cause damaging bill increases. Any price cap changes this year will result in a massive increase in bills (with an over £800 increase in average bills expected this October), making quarterly updates cause more income shocks. Even in a more stable energy market, quarterly changes could cause significant shifts at inopportune times. Most notably an increase in energy prices during the winter when consumption is higher. Ultimately, this change is only beneficial if there are sudden decreases to energy costs, which in this time of energy crisis is very unlikely. Prices will remain high and therefore the cap will simply increase multiple times.

Energy customers already have to make many sudden and difficult decisions to keep their supply on and deal with other bills ballooned by inflation. This change reduces precious time for households to plan their affairs accordingly and prepare budgets. More price cap changes will force more points of crisis and income shocks for the most vulnerable in our society, including the elderly and disabled who often rely on energy even more than the wider population. This will add further stress to many living across the UK especially during the cost-of-living crisis where bills are higher.

In addition, the accompanying market stabilisation charge is concerning because of the effect it has on competition. It disincentivises cheap deals for tariffs and will ultimately make the choice of switching supplier less effective in getting a better price for energy. This is particularly concerning in a time of shrinking energy suppliers as choices for a good energy deal are minimised.

Reduced notice period of 25 working days

Our core concern for a reduced notice period is that customers are unlikely to be prepared for additional costs in such a short period of time. We are concerned for the most vulnerable people who are inflexible to income shocks imposed by an increase in energy bills. This period makes it very difficult to get assistance (e.g., benefit claims) or to balance their budget to meet additional costs.

It also provides less time for energy suppliers to meet their obligations and ensure that vulnerable customers are prepared for increases in bills. Not only do these customers have to be identified using a broad definition (causing many people, such as those with invisible disabilities, to fall through the cracks) but also provided the necessary assistance and guidance to prevent hardship. Although suppliers may be able to anticipate changes in advance of the cap intervals, customers will not always know what to do and there could be delays in identifying them.

Inclusion of backwardation costs in the wholesale methodology

We believe that including backwardation costs is a necessary precaution, considering the exceptionally high cost of energy in 2022. Accounting for additional costs after the price of energy stabilises is important to ensure that energy suppliers' costs are stabilised, and the energy market is not adversely affected.

Conclusion

With an energy market completely in crisis, we should not expect consumers to face the consequences of something which was out of their control. We need to develop a sustainable price cap model that does achieve the balance between appreciating the operational side and costs suppliers face, but also ensuring that consumers are not being taken advantage of and experiencing further detriment. We have seen many customers contacting us regarding the inability to keep up with their energy costs and unfortunately this results in debts accumulating.

Practically, we believe that the efforts made to overhauling the system and amending the operational side of the price cap would potentially create a ripple effect and impact other areas. For example, if suppliers are required to implement the changes meaning developing new payment systems and customer service applications, we expect technical issues to be apparent and this is problematic should customers be unable to make successful payments online and therefore they fall into debt.

The above points raised are important in the context of Ofgem's own research in which concerns about energy costs for most customers is, unsurprisingly, increasing. Overall, we wish to see consumers pay a fair price for something considered an essential service that helps with other day-to-day activities.