

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:

- Ensure that the Market Compliance Reviews are as successful as possible to ensure that suppliers are meeting their obligations towards customers.
- Develop the price cap to make sure that it is fair for consumers, as well as suppliers.
- To ensure that reforms to the retail market do not have an adverse impact on vulnerable energy consumers.

This has been in the context of soaring energy prices. Due to reductions in household incomes, surging energy prices and relatively modest improvements in energy efficiency levels, NEA estimates that the number of households in fuel poverty across the UK has increased to 6.7 million households this winter, and could be as high as 8.4m households in April, if no further support is announced by the UK Government.³

While NEA acknowledges that Ofgem have limited abilities to reduce the impact of increasing energy costs, our response seeks to identify areas that Ofgem do have the agency to help vulnerable energy consumers through the energy crisis.

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. We are pleased to see that Ofgem are considering updating their Consumer Vulnerability Strategy, and that making changes to the price cap remains a priority for Ofgem, as well as Retail Market Reform/Compliance activity and Heat Network Regulation. We have engaged Ofgem with our views on price protections as part of the separate consultation on the price cap programme of work. This is found in Annex 1 of this response. Below are our views on the other sections that are relevant to us.

Vulnerable Consumers

NEA is pleased that Ofgem is considering updating its Consumer Vulnerability Strategy. We believe this is justified in the face of energy prices increasing significantly past the point of expectations when the last update occurred in 2019. The original Strategy⁴ was split into five separate themes:

- 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 worked on all of these commitments to date, but more must be done to update the strategy in line with a new context. Below are our ideas for how this could be done within each of the themes.

Improving identification of vulnerability and smart use of data.

To date, 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. This is becoming ever more important as prices remain high, and the ways in which financial vulnerability affects energy customers becomes inflated. 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. Ofgem has started enforcement action against these rules in several cases.

Aside from these new conditions, we are pleased that Ofgem must be aware of the role that it plays in providing solutions to the current situation regarding high energy prices, including raising awareness of existing schemes. We are also pleased that Ofgem has investigated that it would help the UK Government to investigate a new social tariff to help make energy more affordable for a discrete and well-defined set of energy customers.

There are however several other ways by which Ofgem could help struggling households:

- Developing the price cap as per our suggestions in Annex 1
- 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
- Working with Government to 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.

Ofgem's compliance reviews has shown there are significant deficiencies in customer service across the market. This must be a key plank of any future Vulnerability Strategy, and improvements could include:

- Ensuring call centres are adequately resourced and skilled.
- Enhancing visibility and accessibility of current assistance available to their customers

- Ensuring that ability-to-pay processes are fully embedded across all relevant teams, promote a range of debt repayment options, and help customers reduce problem debt.

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.

We believe there one area for significant development is using the Smart Meter rollout as a way to innovate, particularly through Smart Prepayment, which has shown considerable benefits over legacy prepayment.

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, there is still a lack of information available through robust social obligations reporting. This hinders our ability to effectively advocate for the needs of fuel poor and vulnerable households in the energy market.

Further Addressing Self-Disconnection

While Ofgem has now taken some positive action on the forced installations of prepayment meters, NEA continues to be concerned about the scale of self-disconnection that we have seen in recent years. Evidence from Citizens Advice⁵ has shown that self-disconnections have soared, and NEA would welcome working with Ofgem to develop a strategy to significantly reduce self-disconnections over a short/medium term period.

To reduce the number of legacy prepayment meters being installed⁶:

- BEIS and Ofgem should direct suppliers to prioritise replacing legacy prepayment meters in their smart meter rollouts as a priority.
- Ofgem should work with the UK Government to assess whether the current process for issuing warrants to install prepayment meters fully takes into account the vulnerability of the household.
- Ofgem should work with energy suppliers should agree to a temporary moratorium on new prepayment meter installs **including remote switches of payment mode for smart meters**.
- Ofgem should ensure that medically vulnerable households are moved away from prepayment meters by their supplier.
- Ofgem should more proactively enforce the New and Replacement Obligations to ensure that new traditional prepayment meters are not being installed.

To ensure that support can be targeted on households that self-disconnect:

- Ofgem should work with suppliers to identify households that self-disconnect.
- Ofgem should work with energy suppliers to develop a package of additional support for vulnerable energy consumers for the remainder of this winter, and in advance of next winter.
- Ofgem should work with energy suppliers to introduce a “financial vulnerability flag”.

To address the price structure of energy for prepayment customers:

- Ofgem should work with HM Treasury and BEIS to reduce the levels of standing charges for prepayment customers.
- Ofgem should work with BEIS and HM Treasury to ensure that from April, the targeted Energy Price Guarantee results in no standing charges for prepayment customers.

To address the debt burden for prepayment customers:

- Ofgem continue to proactively enforce the 'ability to pay' licence conditions.

To ensure that struggling households pay an affordable price for energy:

- Ofgem should work with UK Government to investigate the potential for a new social tariff for energy.

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, and also the use of new funding for vulnerability that GDN's can now access. There are some areas that could be considered within the work programme:

For GDNs, ensuring that the money that will now not be spent on the Fuel Poor Network Extension Scheme (FPNES) can now be spent on helping vulnerable energy customers nonetheless, with a particular focus on helping financially vulnerable households. This could be done in the same structure of the VCMA work.

For DNOs, to ensure that the Vulnerability ODI works well, with enough of an incentive for DNOs to go beyond their proposed business plans. This could, for example, include DNOs:

- 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.

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 standing charge. 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, its utility will slowly degrade and the progress that has been made may be lost.

Annex 1 – NEA Response to Ofgem ‘Price Cap – Programme of Work’ Document.

Over the last 18 months, energy prices have increased significantly, with the default tariff price cap being set at £1042 for the winter period of 2020/21, and now being effectively set at £3000, almost tripling in the space of just 24 months. Although the UK Government have made significant interventions in the energy market, prices are extraordinarily high. Households are struggling now, and NEA expects millions of households to struggle to keep warm next winter too.

During the last year, Ofgem has looked to alter the methodology behind the price cap in order to reflect the greater levels of risk that energy suppliers face as a result of significant volatility in wholesale electricity and gas markets. While NEA has been pleased that Ofgem has listened to some of our concerns, for example limiting quarterly changes to wholesale prices only, we have been concerned that many of the changes made to the cap over the last year have created a poorer experience for fuel poor households in the short term regardless of their impact on bills in the longer term (through reducing supplier failures).

We hope that over the next year, and beyond, Ofgem will seek within the price cap programme of work to ensure that the cap not only works for suppliers, but also for their customers, especially those who have a low income, are fuel poor, or are vulnerable to the impacts of fuel poverty.

Some of the activities set out in the proposed programme of work clearly set out to achieve this, and must be undertaken in 2023:

- **The work to considering default tariff customers in vulnerable situations.** It is key that the impacts of each change to the cap on sets of vulnerable customers is considered in depth, made public, and is part of the decision-making process whenever a change is made to the cap. We are especially pleased that Ofgem will work closely with BEIS on the announced consideration of the best approach to consumer protection from April 2024, including options such as social tariffs, as part of wider retail market reforms. It is essential that this work is prioritised by Ofgem. The timescale for delivery is tight and any delay could mean that vulnerable households are not protected in the market in April 2024.
- **Debt related costs** lead to significant differentials within the price cap between payment types, with those who pay by standard credit (who are often more vulnerable) paying, on average, hundreds of pounds per year more than those who pay by standing credit, just because they are more likely to be a bigger credit risk (although they may not necessarily present such a risk individually). **This work should be expanded to consider, in general, what can be done to levelise the price cap for different payment types. It is incredibly unfair that households who pay by standard credit and prepayment pay more for their energy than direct debit users.** They are often the most financially vulnerable in society and are disproportionately more likely to be fuel poor. The current way in which the price cap is calculated exacerbates those issues, and effectively deepens fuel poverty for millions of households. This is one key action that Ofgem can take that would have a material impact on the nation's ability to stay warm and well in the winter of 2023/24.
- **The review of the EBIT allowance** is welcome, and we hope that it can ensure that the calculation of the allowance not only is fair for energy suppliers, but also for energy customers in the extremity of current wholesale gas and electricity prices.
- **Reviewing the August 2022 changes to wholesale methodology** is key to ensuring the price cap works well for vulnerable energy customers. As we have argued in the past, a quarterly cap is not favourable for vulnerable households, and the introduction of new costs into the cap must be reconsidered.

There are, however, two areas that the draft programme does not consider, that we think warrant bespoke packages of work to address:

1. **Standing charges in the price cap** are at an all-time high and have a significant impact on those households that are the most vulnerable to the impacts of fuel poverty – prepayment users that are at risk of self-disconnection. In other words, low income, low use households. We are aware that Ofgem have considered changes in 2022, but this must be kept under review. We maintain our belief that standing charges should be urgently reduced. If they increase again, it would be unacceptable.

2. **The treatment of Economy 7 and Economy 10 tariffs in the price cap and the Energy Price Guarantee.** We understand that the interaction between the price cap and the EPG has led to an unintended consequence of these users facing significant price increases in January 2023, due to the fact that Economy 7 customers get exactly the same level of discount as all other energy customers. This is not in the spirit of either policy and Ofgem must work with BEIS to urgently address this gap in provision.

If these issues can be addressed, alongside an attempt to eliminate the premium that prepayment and standard credit users face with their energy prices, then we believe that the work programme can be successful in creating a fairer energy market for vulnerable energy customers.

References and Notes

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 NEA (2023) [Fuel Poverty Monitor 2021-2022](#)

⁴ [Consumer Vulnerability Strategy 2025, Ofgem, 2025](#)

⁵ [Kept in the Dark, Citizens Advice, 2023](#)

⁶ NEA (2023) [Fuel Poverty Monitor 2021-2022](#)