

National Energy Action (NEA) response to Ofgem 'Price Cap – Programme of Work' Document.



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.

Our Response

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.

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.