

Call for input on the non-domestic gas and electricity market
NCVO submission
March 2023

Introduction

The National Council for Voluntary Organisations (NCVO) is the membership body for the voluntary sector and volunteering in England. We represent all types of organisations, from large 'household name' charities to local voluntary and community groups. Of our more than 17,500 member organisations, the vast majority are micro or small organisations: 67% have annual incomes under £30,000 per year, and 92% have annual incomes under £1m.

Beginning early in 2022, voluntary organisations of all sizes began to contact us with concerns about rising prices, particularly rising energy costs. We have therefore increased our focus on energy over the last eighteen months, taking a particular interest in whether energy markets are fit for purpose in supplying voluntary organisations.

We have worked with others in responding to this call for input. We are particularly grateful to Utility Aid,¹ Age UK,² Women's Aid,³ Homeless Link,⁴ and National Care Forum⁵ for their insights. We have only responded to the questions on which we have a view at this time.

Energy supply and energy markets are of ongoing and urgent concern for charities and voluntary organisations. We look forward to continued engagement with Ofgem on this issue.

Q1. Do you have evidence of suppliers not being proportionate or reasonable regarding charges necessary to secure a contract, including security deposits? If so, please provide us with details.

According to Utility Aid, there are some suppliers who tend to be selective about accepting different types of customers. Voluntary organisations sometimes find they have limited choice of suppliers due to their usage and/or meter profiles. Utility Aid reported that some of their voluntary sector clients have been declined by suppliers due to being non-profits and/or because they were not registered charities.

While some suppliers manage this perceived risk by refusing to contract with voluntary organisations altogether, others do so by requiring security deposits, or are only willing to take on voluntary sector customers by negotiating contracts through brokers such as Utility Aid. Some suppliers, who would otherwise require a credit check, have only been willing to accept voluntary sector customers after Utility Aid has brokered a security deposit arrangement. This is concerning, as many voluntary organisations, particularly small ones, would not be aware that brokers such as Utility Aid exist or that they could benefit from this type of support.

¹ <https://utility-aid.co.uk/>

² <https://www.ageuk.org.uk/>

³ <https://www.womensaid.org.uk/>

⁴ <https://homeless.org.uk/>

⁵ <https://www.nationalcareforum.org.uk/>

Q2. Do you have suggested solutions to the concerns around high costs requested to secure a contract and manage risk?

We are keen to work with Ofgem and suppliers to explore solutions to this issue.

Q3. Do you believe there has been an improvement in terms to contract as market conditions start to show signs of improvement? Please explain your answer.

We are not able to definitively say whether contracting terms and prices are improving. Anecdotally, voluntary organisations who are negotiating new contracts are not seeing wholesale price decreases translate into cheaper tariffs.

A national provider of homelessness and housing services recently told us:

“As a not-for-profit organisation, [we have] seen [our] energy bills go up by thousands of pounds across [our] premises, while the income generated through our services has remained static.

We are a pragmatic organisation, soundly managed and have benefitted from capped energy prices for the past three years across the majority of our premises. However, where our utility bills have been subject to increased costs we have seen bills soar with electricity rates more than doubling and showing a four times cost increase on the previous year.

With a further 20 per cent energy price rise predicted for April 2023, this is a gap which continues to grow. For [us] this will mean an increase from £241,015 in 2022 to an estimated £530,378 for the current year.

Like every charity in the sector, we have to pay our bills and the money needs to come from somewhere. Sound management and good housekeeping can only go so far, ultimately these increased costs will affect what we as an organisation can deliver, as no organisation can work at submarket costs and run contracts continuously at a deficit.”

Q12. Are there any other issues you would like to highlight related to competition in the non-domestic supply market? Please provide detailed explanations.

Please see response to Q1.

Q13. Do you believe there are segments of the non-domestic supply market, other than microbusiness customers, where there is not sufficient market pressure to correct any potential inappropriate supplier behaviours? Please provide detailed descriptions of these customers and evidence to explain your view, including what aspects of harm the regulations would need to help protect against.

Where a voluntary organisation meets Ofgem’s definition of a microbusiness, Utility Aid reports that suppliers apply the relevant protections. However, voluntary organisations that fall outside the definition of a microbusiness do not benefit from these protections. We are keen to work with Ofgem to explore the possibility and implications of creating a new class of customers – voluntary organisations – with accompanying protections.

Lack of specific market protection is particularly concerning for voluntary organisations of all sizes that are:

- Operating out of a building (either owned or leased) and fully responsible for their own energy bills. This vulnerability increases if they are on a commercial energy contract, if they are operating out of more than one building, and if their premises is not energy efficient.
- Required to use energy to deliver their work (for example, care homes, hospices, leisure centres) and/or cannot reduce energy usage without jeopardising the wellbeing of the people they support (for example, services supporting people with low body weight, elderly people, pregnant people, children, etc.).
- Providing cost of living support, including delivering food and operating warm/cold community spaces.

The organisations that are in one or more of the above categories become particularly vulnerable when they also experience one or more of the following factors:

- Low reserves. In particular, organisations led by marginalised groups are less likely to be financially resilient and are often underfunded (including BME-led organisations and Deaf and Disabled person led organisations).
- Cannot pass on costs to their beneficiaries. For example, if they are delivering services that need to be free at point of delivery; if they are serving low- or no-income groups; and/or if they are serving people who are most impacted by rising costs (for example, disabled and older people).
- Cannot adjust income to meet rising costs, especially where they are delivering public service contracts. NCVO members report that most public service contracts are not being uplifted to cover rising costs of energy, and even before this crisis they rarely covered the true cost of delivery.
- High workforce costs, where services require specialist expertise and cannot and should not be delivered by volunteers.

Commercial suppliers do not appear to distinguish between the different types of businesses they supply, despite some being not-for-profit, looking after people needing support who are often on tight budgets, and relying on charitable income.

For businesses, including voluntary organisations, government energy support has meant that only the wholesale cost was capped. Commercial suppliers have continued to increase standing and other charges. For domestic customers, both wholesale and non-commodity costs were collectively capped. Where organisations are providing housing and supplying their users with energy, this is an immediate and inequitable disadvantage. These organisations have done their best to absorb higher costs rather than passing them on to service users – in some cases because it is the right thing to do or because their service users would not be able to access their services if there was a (higher) charge, but also because some types of services have a number of protections in place and/or are being delivered under contract.

Energy costs have severely impacted the financial stability of the voluntary sector and the services that organisations can afford to deliver, which in turn impacts people who need support. For non-domestic energy suppliers, there is no distinction in support between a business that exists to make a profit, and a non-profit voluntary organisation that is focused on supporting people.

Q14. If you responded yes to question 13, please suggest how these customers could be defined in the supply licence and identified by suppliers and customers.

We are keen to work with Ofgem and suppliers to explore solutions to this issue.

Q15. If we expanded the definition of microbusiness customers or created a new class of customers, what are the possible implications and costs of doing this?

We are keen to work with Ofgem and suppliers to explore the implications and costs of creating a new class of customers to better support voluntary organisations and their service users.

Q16. What additional protections do you think might need to be put in place to protect domestic customers who are supplied via a non-domestic contract? Please provide an explanation or evidence of the areas of harm any new regulation would protect against.

Domestic customers who are supplied by non-domestic contracts, or whose bills are either collective or included in their rent, fall into what Age UK has termed⁶ the ‘commercial supply trap.’ DESNZ has estimated that around 900,000 households across the UK fall into this category. As noted in this call for input, these households are more likely to include customers who would be classed as ‘vulnerable’ if they were on domestic contracts, but no such protection exists for customers who are supplied by non-domestic contracts.

Domestic customers falling into the ‘commercial supply trap’ can include people who are living in, for example, park homes and social housing – but we are particularly concerned by the impact of this on people who are living in dwellings provided by the voluntary sector, for example, care homes, homeless shelters, and domestic violence refuges.

Characteristics of the ‘commercial supply trap’ include:

- No price cap
- Fewer customer safeguards
- No direct contractual relationship with their supplier
- Typically not included in policy solutions and/or government support for domestic customers
- Ineligibility for energy efficiency grants to improve one’s dwelling
- Complex interaction between energy costs and benefits

For example, according to Women’s Aid, survivors of domestic abuse who are living in refuges may not be able to use housing benefit to cover their energy costs. Many refuges – for which women pay rent and service charges – are provided in communal buildings, but they can also be provided in other types of accommodation, such as dispersed properties, or self-contained flats (which may include some shared facilities). Any service charge for communal facilities, including energy, can be paid for through housing benefit, but service charges for personal heating and lighting cannot.

⁶ <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/age-uk-energy-public-policy-report-march-2023.pdf>

The problems with the 'commercial supply trap' can be compounded when a service provider is renting their premises. For example, many refuges are located in buildings owned by another housing provider, such as a housing association or a local authority. In these cases, the organisation may be reliant on the housing provider (an intermediary) to 'pass-through' recent government-supported discounts. Many Women's Aid members have struggled to obtain information from their housing providers to understand whether they are receiving the appropriate discount.

This also related to Q13, and whether voluntary organisations in the non-domestic market should be additionally protected so that the people they support can benefit from affordable and sustainable services. For example, Homeless Link reports that most of the approximately 32,000 people housed by homeless shelters would, if living in their own accommodation, be eligible for the full range of means-tested benefits to support with their energy bills. However, homeless shelters do not receive this same support, even though they cannot reasonably pass costs on to their service users.

We hope you have found this submission useful. Please contact Sam Mercadante, Policy and Insight Manager, at sam.mercadante@ncvo.org.uk to discuss further any of the issues raised.