

## **Levelisation of payment method cost differentials**

Energy Saving Trust welcomes the opportunity to feed into OFGEM's call for evidence on levelisation. Our response covers questions 1-3, 5-7, 9 and 16.

Energy Saving Trust is an independent organisation dedicated to promoting energy efficiency, low carbon transport and sustainable energy use to address the climate emergency.

Our work focuses on reaching net zero targets by taking action to reduce energy consumption, installing new infrastructure and accelerating a move to sustainable, low carbon lifestyles.

A trusted, independent voice, we have over 25 years' sector experience. We provide leadership and expertise to deliver the benefits of achieving carbon reduction targets: warmer homes, cleaner air, healthier populations, a resilient economy and a stable climate.

We empower householders to make better choices, deliver transformative programmes for governments and support businesses and community groups with strategy, research and assurance – enabling everyone to play their part in building a sustainable future.

**Q1. What do you think the objectives of levelisation should be (eg, full levelisation across payment methods, partial levelisation, anything else)?**

Energy Saving Trust agrees with National Energy Action (NEA) that price differentials create unfairness in the market that have a significant impact on vulnerable customers. We therefore consider that the objective of levelisation should be full levelisation across payment methods.

**Q2. Should we only focus on PPM levelisation or should we also consider SC?**

Energy Saving Trust agrees with NEA that there is strong evidence to show that both prepayment customers and those that pay by standard credit are likely to be vulnerable across a number of metrics. For this reason, we consider that the focus should be on achieving fairness across the entire system, looking at both PPM and SC. We note that Consumer Scotland's Energy Affordability Tracker also shows that the proportion of consumers indicating that they have rationed their energy use due to financial concerns is broadly consistent across all three payment types<sup>1</sup>.

**Q3. If SC is included in levelisation, should some degree of price difference remain, whereby SC is higher than DD to maintain an incentive for customers to go on DD?**

Energy Saving Trust does not agree that any degree of price difference should remain. The focus should be on achieving fairness for consumers, regardless of payment method, rather than using standing charge and unit prices to incentivise a particular payment method that does not work for all consumers. The main incentive for consumers to pay by direct debit is convenience.

**Q5. Are there specific actions required to advance delivery of the items contained within the Shared Policy Programme outlined on page 11?**

From our experience delivering the Home Energy Scotland advice service, we have received feedback from our specialist advisors supporting people with vulnerabilities and in fuel poverty, and third sector organisations which support people with vulnerabilities. For those with the most vulnerability, especially where there are multiple issues present, they are less likely to engage proactively with any form of market to

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<sup>1</sup> See <https://consumer.scot/media/rtdjh4vl/consumer-scotland-consumer-spotlight-energy-affordability-tracker-1-november-2022.pdf>

obtain the best deal. They are more likely to lack the resources required, access to reliable internet connection, time, or energy to investigate the best deal for them. Any option should ensure that whatever form of metering a vulnerable person is on, offers them fair value.

**Q6. Can you provide any evidence of levelisation effects that should be avoided that have not been shown within our analysis?**

The analysis does not appear to consider the impacts on dual rate customers in areas with high fuel poverty and limited or no access to the gas network. In Scotland, areas such as Sutherland and island communities already pay a higher standing charge, as well as having environmental factors that make homes harder to heat<sup>2</sup>.

**Q7. What are your views on targeting levelisation to particular groups of customers within payment methods (eg customers under the price cap or in vulnerable situations)? Do you have evidence to support your views?**

Evidence shows that conditional benefits are underclaimed<sup>3</sup>. Any targeting which required people to either, apply to receive the levelisation measure, be on the priority services register, or be in receipt of a conditional benefit, would fail to reach those most in need.

**Q9. Do you agree with our characterisation of the effects on competition? Can you explain why or why not?**

Energy Saving Trust considers that forcing higher PPMs onto customers should not be a feature of the market.

**Q16. Is there anything else Ofgem should consider with regards to levelising costs across payment methods?**

Energy Saving Trust has seen and agrees with the evidence submitted by National Energy Action (NEA). It is well documented that prepayment meter customers are

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<sup>2</sup> See for example: <https://www.shetland.gov.uk/news/article/2380/fuel-poverty-in-shetland-to-hit-96-> and <https://www.changeworks.org.uk/sites/default/files/A%20Perfect%20Storm%20-%20Fuel%20Poverty%20in%20Rural%20Scotland%20%281%29.pdf>

<sup>3</sup> See: <https://policyinpractice.co.uk/wp-content/uploads/Missing-out-19-billion-of-support.pdf>

disproportionately on a low income<sup>4</sup>. Energy Saving Trust believes that consumers on low incomes who are already least able to pay, should not be charged more than other consumers for an essential service such as energy simply because of the way they pay for it. This applies equally to standard credit.

Any additional costs, which should be scrutinised closely, should be socialised across all consumers, even if this results in other tariffs rising slightly. Going forward, when most households have a smart meter, it is hard to see why there would be a significantly different cost to serving a PPM customer compared to a direct debit customer. Therefore, in future we would expect these costs to decline significantly.

Energy Saving Trust notes that levelisation could also help to tackle the amount of customer credit being held by energy companies by enabling consumers to choose to pay for their actual usage without being penalised for doing so through higher standing charges and unit rates. Direct debits are generally a fixed amount each month that may bear little direct relation to the amount of energy used; but paying for actual usage (SC) is currently more expensive, even when standing orders are used.

Finally, Energy Saving Trust considers that OFGEM should also consider whether and how it could use its powers to ensure greater fairness for microbusinesses and SMEs, for whom standing charges and unit rates are unregulated and often unaffordable.

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<sup>4</sup> See <https://assets.publishing.service.gov.uk/media/576bcbf2e5274a0da900007e/appendix-9-6-prepayment-fr.pdf>