

Friday 9 February 2024 (extension to Friday 16 Feb)

Forward Work Programme – 2024/25

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Utility Warehouse was one of the first ‘challenger’ brands when it entered the retail energy market over 20 years ago, and we have a unique perspective in that we operate across numerous regulated markets: energy, telecoms and insurance. Today we serve over 950,000 households.

UW overarching view

We welcome the publication of Ofgem’s 2024/25 Forward Work Programme and the opportunity to provide feedback. We agree with Ofgem’s areas of focus and have provided feedback below on the policy areas most relevant to our organisation, which we hope will be useful.

UW feedback on specific policy areas

Price Protection and fair prices: *Ofgem will continue to support government policy on any potential interventions to support consumers struggling to afford their energy.*

- We believe it is right for Ofgem to work with the government in the creation of a new intervention that will better support consumers struggling to afford their energy. We strongly advocate for the introduction of a progressive, treasury-funded social tariff to sit alongside the price cap.
- The UK is expected to remain in a period of prolonged high energy prices alongside an enduring cost of living crisis and an escalating energy debt crisis. The current bill levy funding model is regressive. Significant sums are added to the energy costs paid by some bill payers to fund financial support for others. There is no means-testing of those that are absorbing these costs onto their bill, meaning that - unlike with general taxation - their contribution to the cost of the policy is unaffected by their income. This disproportionately affects those less able to pay¹. This system needs revision so that sufficient financial support can be delivered to those most in need without overloading other bill payers.
- Importantly, we must acknowledge the different functions of a price cap and a social tariff; one prevents exploitation, and one addresses acute affordability. We firmly believe the price cap should sit alongside a social tariff, not just because it delivers a separate function for consumers, but because it creates a transparent price benchmark against which any new social tariff can be referenced.

Dynamic price protection: *The price cap is currently designed for relatively simple tariffs and may need to be adapted to work effectively under market-wide half-hourly settlement. Ofgem will review whether this is possible within the current arrangements, or whether more fundamental changes to price protection arrangements are needed.*

- The price cap was introduced in 2019 to protect customers from overcharging. Today, it serves this essential purpose and it does so effectively; the cap ensures fair, cost-reflective

¹ [Social Markets Foundation Report](#): Fairer, warmer, cheaper

prices for those customers who are unable or chose not to engage in switching, which includes some of the UKs most vulnerable consumers

- We support the current trajectory to DSR and other innovations based on MHHS, but it must be recognised that this area of policy naturally serves to benefit those most engaged and the early adopters of new low carbon technologies (usually associated with more affluent customer groups). Ofgem's ambition is for no-one to be left behind, which is why we strongly support the retention of the basic protections for those less able to engage in the dynamic market that MHHS brings. We should also consider whether retaining these protections may incentivise those customers less likely to engage in DSR by helping them feel protected and supported should they choose to engage.

Balancing price regulation and competition: *Ofgem recognises that the current approach to the price cap could dampen incentives for new market entrants that could improve competition and product offerings to consumers. Ofgem will consider whether price cap allowances and adjustment thresholds continue to strike the right balance between consumer protection and investability for resilient and well-run firms.*

- In our view, the cap does not dampen incentives for new entrants. The cap has contributed to the removal of exploitative business models and along with other interventions means that the market now more effectively balances consumer protection, fairness, market stability and competition than it did before. We believe Ofgem's policies must continue to ensure this balance is protected, and the cap is essential to that. Further, as Ofgem will note, innovation and switching levels are on the rise again following the crisis.
- We do agree, however, that certain cap adjustments would better incentivise new entrants, if that is Ofgem's goal. Firstly, through improved cost-reflectivity - which must ensure increasing smart costs are reflected. Ofgem is currently reviewing its approach to operating costs. We believe the most appropriate and accurate way to benchmark operating costs is through a weighted average, which is a practical mechanism that best achieves a fair, cost-reflective, and achievable benchmark in the best interests of consumers. We caution against using a lower quartile or frontier approach as this carries the risk of misrepresenting costs, driving under-investment, and creating an impossible and unachievable benchmark for suppliers to target, with potentially negative unintended consequences.
- Secondly, we believe that even with the recent changes to EBIT margin, the cap does not enable suppliers to make the risk-adjusted returns necessary to invest sufficiently in innovation and pricing, or to undertake innovative tariff trials whilst insulating customers from the price volatility inherent in more complex TOU tariff offerings.

Smart metering: *Ofgem will continue to promote progress in the rollout of smart meters, overseeing supplier licence obligations, and where necessary, taking action to ensure that they meet installation targets.*

- Utility Warehouse has excellent smart coverage - one of the highest in the sector - but beyond 70% coverage, it is increasingly difficult, and costly, to encourage customers to say yes.
- It is important now for Ofgem and DESNZ to seize new opportunities in policy-making that will increase customer uptake in this latter part of the smart rollout. This is the enabler for so much of a net zero retail market e.g. allowing pricing flexibility which will enable suppliers to create tariffs that meet their customers needs.