

Consultation: Ofgem's Future Price Protection Discussion Paper
Places for People
May 2024

Places for People

At Places for People, community is who we are and what we do.

As the UK's leading social enterprise, we believe we can improve our customers' lives through the communities we build and look after.

We do this by honouring our long-term commitment to creating and supporting thriving communities where everyone matters – whether that be through the development of homes, schools, shops, community and leisure centres or providing access to job opportunities, training, and specialist support services.

With over 50 years of experience in creating vibrant and diverse communities, we own or manage over 230,000 homes, operate over 120 leisure facilities, and support more than 500,000 customers.

We believe that community matters, and with almost 11,000 employees and 20 specialist companies within the organisation, we have the ability and expertise to create, develop and manage entire places, from supported living to luxury homes.

Combining a commercial mentality with a strong social purpose, Places for People is an organisation that puts what it earns back into creating and maintaining sustainable communities.

Background

- Ofgem assessed that their price cap has helped to drive down supplier costs *and* protect consumers from a volatile market. However, this is debatable given the impact of the last energy crisis (still being seen) and clear failures in the market.
- They are now [reviewing](#) energy price policy in context of an evolving retail market, i.e. flexible technologies and expansion of green energy.
- Through analysis of various approaches, they wish to open a discussion around price protection for consumers in context of standing charges, affordability and debt, and the ban on acquisition tariffs.
- Places for People (PfP) previously responded to an Energy Security and Net Zero (ESNZ) Committee inquiry on the fairness of customer energy bills in February 2024. Our position heavily emphasised how existing policy exacerbated the cost-of-living pressures faced by our customers, particularly the vulnerable. Our responses to this consultation will maintain this position.

Terms of reference

Responses to the following questions are to be provided by 10 May 2024:

1. *Do you have any reflections on our list of the cap's successes and challenges?*

The cap was successful because it achieved what it set out to do in a specific policy context.

- The policy landscape and exogenous economic factors at the time of implementation (wholesale prices lower, many energy suppliers, etc.) supported the **initial** success of the cap, defined as customers not overpaying when they did not have contracts.

However, the policy context changed and affected usage of the cap.

- However, due to crises such as the Ukraine war which exacerbated the post-pandemic demand for energy, prices rose. To prevent too many companies from going under, the cap was then used (i.e. raised) as an effective price “floor”. This created affordability concerns.
- The cap thus became a mechanism balancing the trade-off between customer affordability and maintaining a healthy supplier market. These are on top of its original intent of fostering supplier competition and to prevent customer overcharging.
- This trade-off is made complicated given how the mechanism is bound by the production market. The cap is pegged to supplier costs, with many suppliers at the mercy of energy producers. However, some suppliers are subsidiaries of energy producers themselves, or otherwise have a commercial link, and therefore have more control over costs and prices. A more stringent cap structure may be necessary for these suppliers.
- The current status quo is supplier-centric, with the cap primarily used to prevent suppliers for exiting the market. This intent has merit as market volatility has caused some suppliers to exit, causing an increase in standing charges because remaining suppliers faced higher capital costs. There is still an incentive to increase efficiency to cut costs and prevent further supplier failure (see question 5 as well).
- Supplier protection alone is hard to justify where the benefits of such protection are not being felt by consumers.

Affordability needs to be a key guiding principle of the cap, as opposed to a tangential link.

- Despite some success in protecting customers from overcharges and keeping suppliers afloat, we note that affordability is not under the current remit of the cap (para 1.8).
- We **disagree** with this position, given that affordability concerns arose as an unintended consequence of using the cap to protect suppliers. As affordability concerns will always be a concern, the model needs to be more consumer centric.
- Hence, the specific challenge would be to expand the remit of the price cap to balance the interests of both suppliers and consumers – suppliers need to stay afloat and are equally at the mercy of energy producers, staying afloat results in higher prices being passed on to consumers which impacts their cost of living.
- The current standing charge structure needs to be reassessed in the context of affordability, as this can contribute to significant debt on pre-payment accounts which ‘trap’ customers in a contract with a specific provider.

More granularity is needed for the mechanism.

- A key challenge for the cap is to cater to those who are vulnerable.

- This need for granularity extends to regulating suppliers, specifically energy suppliers who are part of an integrated supply chain. We previously noted that some suppliers have seen the annual profit they make from the average customer on a variable tariff rise from £27 in 2017 to £130 in 2023. We maintain our position of the need to overhaul the existing regime, which does not allow Ofgem to directly regulate energy producers.
- At the same time, complementary levers must be exercised. This includes retrofitting housing stock to improve energy efficiency of homes which lowers bills for customers. This would require significant capital investment which is preferable over the recurring cost of a subsidy.
- The lack of the above omits solutions which ease pressure on using the price cap as a potential mechanism for affordability.
- The cap should also be extended to those who are currently unprotected including domestic consumers being treated under rules for commercial contracts due to being on communal heat networks or for other reasons.

To conclude, even though the cap operated in a specific policy environment, this has now changed, and we desire an expansion in remit to incorporate affordability concerns, especially for vulnerable customers. There is also a need to more carefully study retailers and their business models, especially those with links to energy producers.

2. Do you believe that the growing diversity of electricity consumption patterns will make it challenging to retain a flat, universal and stringent price cap? How quickly do you think this will materialise and with what impacts? What evidence can you provide to support your view?

We agree with the assumption that a shift towards renewable energy sources and adoption of low-carbon technologies will further diversify the energy consumption patterns and make a flat, universal, stringent price cap less feasible to implement. However, there are variations in adoption rates of these technologies (such as EVs and solar panels) based on socioeconomic background. Subsidies for adopting low-carbon tech disproportionately benefit more affluent households. Conversely, lower-income households are later adopters of EVs ([Lee and Brown 2021](#)). [EVA England](#) found that 21% of UK EV drivers had a gross annual salary of over £83,000. Such disparities need to be accounted for as more vulnerable customers may not be able to benefit fully from proposals such as ToU tariffs.

To elaborate, the [British Chamber of Commerce](#) finds that firms in the manufacturing and consumer-facing sectors (retail and hospitality) are disproportionately less likely to offer flexible working than firms in business-to-business service sector (marketing, finance, legal, media, etc.). As of April 2023, the [ONS](#) estimates that the lowest-earning employees tend to be elementary occupations or in the hospitality industry. Therefore, the lowest-earning roles have significant overlap with those with relatively inflexible work environments. This means that low-income households are less likely to be able to flex their energy demand and will not be able to benefit from a ToU tariff system.

To summarise, in addition to the growing diversity of electricity consumption patterns, the differentiated consumer market (we wish to highlight vulnerable customers specifically) also adds to the challenge of retaining a flat, universal and stringent price cap.

3. What plans do suppliers have to launch ToU tariffs and to incentivise customers to shift their electricity consumption once MHHS is implemented?

No comment.

4. How quickly and at what scale do you expect customers, especially those with large flexible loads such as EV and solar/battery users, to take up ToU tariffs once MHHS is implemented?

In line with our response to question 2, those with largely flexible loads tend to be economically better off. Research by the [Resolution Foundation](#) in 2023 finds that higher-income families were more likely to buy new electric cars (see caveat in the last paragraph). In addition, [past research](#) also suggests a positive correlation between socioeconomic variables and PV installations.

These indicate that users in-question are likely to take up ToU tariffs quickly for several reasons. First, these individuals are likely to have more flexibility and control over their routine. Second, their inclination towards reducing their carbon footprint may also be reinforced by ToU tariffs, e.g. lower prices when there is a greater supply of renewable energy.

However, concerns remain on whether more vulnerable customers will be able to benefit from ToU tariffs. This also applies to customers on the Motability scheme which provide EVs suited to the needs of those with disabilities. Reforms to the current tariff structure should consider these customers who have EVs but are unable to flex their demand.

5. In addition to the factors set out in this chapter, are there any other important changes that might affect the ability of the current default tariff cap to achieve its objectives??

A general factor affecting the success of the current cap is the lack of resilience to exogenous economic shocks. The cap was successful in part due to the relative stability of that time. Therefore, flexibility is needed not only to account for diversification of the energy market but to mitigate the effects to both consumers and suppliers in times of economic instability. We welcome measures stated in paragraph 4.4 to strengthen supplier financial resilience.

The current state of the market is also cause for concern. Places for People previously mentioned in our response to the ESNZ Committee inquiry that our customers have made requests for energy support. This occurs in context of significant debt on their pre-payment and credit accounts, arising from not being able to afford standing charges. At times, debt goes up to a few thousand pounds. We are not able to help our customers with their debts to get their systems checked and/or maintained, which presents a safety issue. Ofgem's guidance states that customers are not allowed to switch suppliers if there is debt for more than 28 days. While it makes sense that debts must be repaid before the switch, the current situation means that customers are effectively "locked in", which defeats the cap's purpose of incentivising customers to optimise their supplier choice.

6. Do you agree that we need to retain some form of price protection in the retail market?

Yes. However, the intent of the price protection mechanism must be clear. On one hand, we agree with the assumption that without price protection, consumers would be subject to exploitation in the free market. On the other, it should not be overly used as a crutch for energy suppliers. Stronger

links to affordability are needed, per our response in question 1. This would benefit both consumers *and* suppliers, as stability risk for the latter would be lowered (per para 4.4).

7. *Do you have views on which of the three key parameters – the cap being flat, universal and stringent - should be relaxed when considering future price protection options?*

It is key to find the right permutation based on customer type and for there to be a strong means-testing mechanism. In principle, we agree with the approach of customer and supplier segmentation. This would inform which specific parameter is relaxed. For example, vulnerable customers may not benefit from ToU tariffs as much, which means that being less “flat” is less helpful for them. Conversely, relaxing the stringency would allow more flexibility in regulating suppliers, e.g. suppliers who have disproportionate profits should have a lower cap, vice-versa (para 4.17).

8. *What are your views on options discussed? Do you have any preferred options or combination of options?*

Our guiding principles would include a) only the most efficient suppliers remaining in the competitive market as efficiency/innovation would depress prices and benefit customers; b) customers being protecting from overpaying; and c) customers being able to pay their bills, i.e. affordability.

In substance, this means that there could be a mix of flat default tariffs (means-tested for vulnerable populations, e.g. household income, tenure type, etc.), ToU tariffs, and relative supplier caps (specifically the margins cap in para 4.59).

It is likely there is a high overlap between vulnerable households and disengaged customers, meaning that this must be implemented in a way that does not create additional barriers. Regardless of option pursued, there needs to be stronger affordability mechanisms, e.g. a social tariff which we previously advocated for.

9. *In particular, which options or combination of options do you think would best protect vulnerable customers?*

As above.

10. *How should consumers with large flexible loads, mainly EV and solar/ battery users, be treated with regards to future price protection?*

Incentives to adopt and maintain usage of low-carbon technologies must remain strong. At present, cheaper generation of renewable energy is subsumed by wholesale prices which are based on marginal cost pricing.

11. *Are there any additional options that we haven't, but should be considering?*

Beyond the pricing regime set by Ofgem, we must ensure that customers live in well-equipped homes. This necessitates upfront capital investment, e.g. through retrofitting. As mentioned, this

approach reduces long-term energy consumption through improved efficiency. This reduces cost to customers and burden on the energy grid. Investments in smart technologies may also benefit vulnerable and disengaged customers by automatically flexing demand to minimise costs (e.g. smart meters).

Polluters should pay for the costs of their pollution and this principle should be applied in the energy market too with the appropriate costs of decarbonisation and climate mitigation apportioned to those who have driven it.

We also note that Ofgem has committed to reviewing its policy in the non-domestic market, particularly for the physical activity sector. High costs for leisure operators are ultimately passed down to customers, there is scope to apply some of the lessons learnt in the current regime to the non-domestic space.