

Association for the
Conservation of
Energy

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Developing Ofgem's Vulnerable Consumers' Strategy

Introduction

The Association for the Conservation of Energy was formed in 1981 by major companies active within the energy conservation industry, in order to encourage a positive national awareness of the needs for and benefits of energy conservation, to help establish a sensible and consistent national policy and programmes, and to increase investment in all appropriate energy-saving measures. We welcome this opportunity to submit our views on the development of Ofgem's new Vulnerable Consumers' Strategy.

For further information please contact Pedro Guertler, Head of Research, using the details above.

Response to questions

What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?

We believe the four themes have continued relevance for structuring Ofgem's strategy. The four themes place a lot of emphasis on price and pricing controls, price support, smart metering and social obligations. As laid out in the consultation document, however, we think little to no emphasis has been placed on coverage of environmental obligations by the four themes.

At least £540 million of the Energy Company Obligation's notional annual budget will be spent supporting vulnerable households with energy efficiency measures. 'Monitoring and enforcement', 'encouraging best practice and research', 'knowledge and influence' and 'information for consumers' based on all the activities under the ECO must form a central plank of Ofgem's new strategy – especially in the absence of (in England) any continued public expenditure on energy efficiency for vulnerable households after March 2013.

What can Ofgem do differently to help address affordability concerns?

We agree that environmental obligations should be set on a kWh basis, and equally acknowledge the greater focus that needs to be placed on 'high use / low income' groups as a result. As such, this is an important area for the new strategy to focus on.

We also believe that standardising standing charges for evergreen tariffs is a step in the right direction. However, given the inherently regressive nature of standing charges and tier 1 tariffs for vulnerable households (because most are low use / low income), the standardised standing charge should be set at a comparatively low level for evergreen tariffs. It is important to ensure that the benefits of reduced complexity to encourage switching are not offset by vulnerable households paying disproportionately more for their energy. Nor would anyone want to see low income households lured into a new-style evergreen tariff by a low unit price to be hit by a high standing charge and a resultant higher bill than before because they are low energy consumers. Figure 1, taken from a soon-to-be-published report by ACE and CSE for Consumer Focus¹, shows that a smaller standing charge relative to the unit price (represented by the green 'Narrow' variant line) could be making a substantial difference to lower income households' average total fuel bills (who are already spending a larger share of their income on bills).

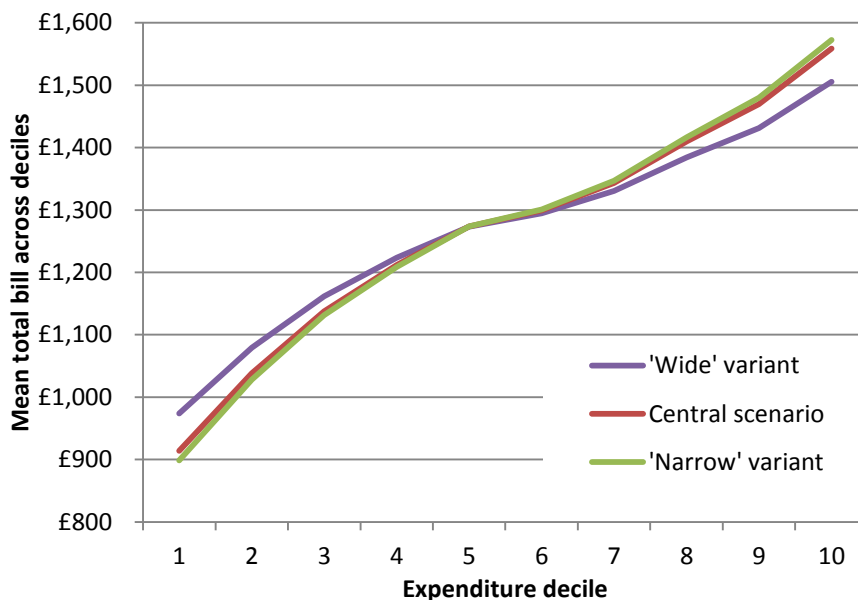


Figure 1: Total average bill in 2020 by expenditure decile group, showing different levels of standing charge

As with the setting of environmental obligations based on kWhs and the 'polluter pays' principle, non-variable costs should be more strongly tied to energy consumption and (for most households) ability to pay.

We welcome views on how Ofgem can help stakeholders with their contribution.

To date, the information provided by Ofgem on environmental obligations (most recently CERT and CESP) has left a lot to be desired, owing to its shallowness and infrequency. We understand that there are not insignificant pressures owing to obligated energy suppliers' commercial sensitivities. At the same time however, we do not believe that Ofgem has come even close to the boundaries of its remit and powers in producing informative monitoring and evaluation of environmental obligations for

¹ ACE & CSE (2012) *Impact of energy policy on consumer bills* [working title]; Consumer Focus: London, not yet published

stakeholders. There is a much larger contribution from Ofgem – with respect to informing continual refinements to existing policy and the design of future programmes – waiting to happen. This in turn would help all stakeholders maximise their contributions. The paucity of on-going insights into the development of CESP schemes and partnerships, and the lack of detail on the market transformation effects of CERT and its interactions with Warm Front and other schemes are mind-boggling given the information at Ofgem's disposal.

Better reporting could have considerably reduced the myriad of teething problems and delays with the Energy Act 2011, the Green Deal and the ECO, and provided stakeholders with a clearer sense of the (limits of the) role the new framework can play in supporting vulnerable and fuel poor households. In the context of future capped levy-funded expenditure and an ever better understanding² of and concern about the distributional impacts of levy-funded programmes (be they environmental, social or a 'panacea'-programme like the ECO), Ofgem's current monitoring and reporting standards are even more woefully inadequate. The regulator should be leading the field in terms of understanding the consequences (intended and unintended) of levy-funded programmes for vulnerable households, not playing catch-up with the stakeholders it intends to support.

² No thanks to Ofgem.