

christians
against
poverty

CAP

Default tariff cap

CAP's official response to Ofgem's statutory consultation

September 2018

always hope.

Christians Against Poverty (CAP) has welcomed the series of safeguard tariffs brought forward by Ofgem to protect consumers in the domestic retail energy market. These have been important steps forward to deliver protections for those who are penalised for being unable to engage and switch tariffs, or are least able to afford to pay higher prices. This latest safeguard tariff as introduced by the Domestic Gas and Electricity (Tariff Cap) Act will tackle the dynamics of the two-tier energy market and benefit many disengaged consumers, yet it will only have a limited impact for those in the greatest need.

CAP broadly supports the design and methodology proposed for the default tariff cap. This document provides comment on specific areas, which in CAP's view need further consideration, as well as discussing more broadly the intended aim of the cap and the gaps in protections that remain.

This default tariff cap is driven by concerns about 'expensive energy' and seeks to reduce the cost for consumers who have not engaged. While it has strengths in bringing universal price protection to all and not just the most engaged vulnerable consumers, many will not see a material benefit. For many people, energy is not just expensive but unaffordable.

42% of the people CAP helps in financial crisis say they could not afford to sufficiently heat their home before seeking help. It is common for people in financial difficulty to self-ration or disconnect. This price cap provides very high level protection but is very much a blunt instrument. It will benefit many people who can afford to pay a higher tariff and while it may be deemed to establish a more equitable energy market in one sense, it does not target protections to those that need them the most.

Consumers using little energy because they cannot afford to do so will see little or no reduction in their bills compared to the estimated average savings under the price cap. A price cap does little to give confidence that a struggling consumer will be able to afford to pay for the energy they use when the bill arrives. As an essential good, there are wider wellbeing concerns that necessitate not only levelling the playing field, but ensuring that all can afford to consume the energy they need. At CAP we are confronted by the daily reality for those who have resorted to living without it – at the extreme: living in the cold, in the dark, unable to have a warm shower or cook food.

A price cap is not the right vehicle to address this deeper affordability problem. There are two courses of action needed: a price cap to correct short-term market factors and remove financial penalties for those in vulnerable situations, and a deeper intervention for a smaller group that faces enduring issues. For this latter group, consideration of what is affordable needs to be made (for instance, a form of social tariff or rebate) that is comprehensive and market-wide.

Finally, CAP would encourage Ofgem to continue to pursue broader scale data matching with the DWP. Many people remain unaware of the support on offer from their energy suppliers, and data matching has broader potential than just for the vulnerable safeguard tariff.

Benchmark methodology, headroom and costs incl. updating the cap

The choice of methodology and its impact for consumers is complex, which makes it difficult for CAP to provide comment. However, CAP supports the principles used to select a bottom-up cost assessment for the benchmark methodology. The level of the price cap should allow for suppliers to cover their operating and policy costs, to ensure businesses continue to be

viable and that funding for additional support for vulnerable consumers is not eradicated. Similarly, CAP supports the methodology for updating the cap level and continuing the six-month timetable for this.

While CAP does not dispute the principle of distributing profit more equitably between gas and electricity, the impact on low income consumers in electric-only domestic properties is a concern. Approximately 20% of CAP's client base are electric-only consumers and this is often already a more expensive method of heating a property. A rise in energy prices will hit these consumers hardest, especially as they will not benefit from the corresponding reduction in gas prices.

Smart metering costs

As a business cost to suppliers and considering the wide scope of this price cap, in CAP's view, it is appropriate for smart metering costs to be included in the operating costs calculations. However, the cost of the smart meter roll-out is hidden, and most consumers do not realise they are inadvertently paying for this through their tariff. Greater transparency of this would be welcomed.

Payment method uplifts

CAP strongly disagrees with the proposed use of payment method uplifts, which are a clear poverty premium. If taken in comparison to the Warm Home Discount, the estimated payment uplift for an average consumer of £80 would eradicate more than half of the total benefit to a consumer on standard credit compared to a low-income consumer paying by Direct Debit. While CAP accepts that there are more fuel households on Direct Debit, using this as a rationale for keeping payment differentials is not supported. If these additional costs were spread across all consumers, fuel poor households affected would each incur a smaller burden of additional cost than if left concentrated to one payment method. It is not right for a greater burden to fall on a minority of consumers who are disproportionately less likely to be able to contend with additional costs.

Exemptions from the cap

CAP appreciates the rationale behind the decision to place consumers previously under the vulnerable safeguard tariff onto the Direct Debit level of the default price cap, but wishes to raise concerns about the triple penalty this will create for consumers in some of the most vulnerable situations. Consumers who have been unable to engage to proactively apply for Warm Home Discount, and therefore have missed out on the vulnerable safeguard protections, will also lose out on this third additional level of protection.

Requests for further information

This response has been written by Rachel Gregory, Social Policy and Relationship Manager for Christians Against Poverty (CAP), with contributions from:

Dawn Stobart, Director of External Affairs
Paul Walmsley, Utilities Coordinator
Jonathan Shaw, Creditor Relations Manager
Kiri Saunders, External Communications Manager

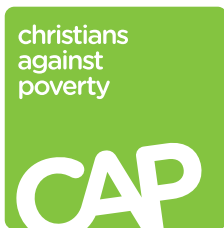
To discuss any queries and to request further information, please contact:

Rachel Gregory
Social Policy and Relationship Manager
externalaffairs@capuk.org
01274 761985

Christians Against Poverty (CAP) is a nationally recognised charity that works in partnership with over 500 churches to help people in the grip of debt and poverty across the UK. The services provided offer both practical and emotional support, are completely free and are available to all, regardless of age, gender, faith or background.

Through a network of 303 CAP Debt Centres, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In addition to this, CAP provides face-to-face adult financial education across the UK in partnership with 658 churches who run the CAP Money Course. This is a three-week money management course, which equips over 6,500 people each year to budget, save and spend wisely.

CAP has also expanded to tackle more causes of poverty. To this end, CAP now operates 149 CAP Job Clubs, 75 Fresh Start groups to tackle life-controlling dependencies, and 118 CAP Life Skills groups to empower members with the essential skills and support they need to live on a low income.



capuk.org



[facebook.com/CAPuk](https://www.facebook.com/CAPuk)



[@CAPuk](https://twitter.com/CAPuk)

Disclaimer: This information is not intended to be legal advice and is for educational purposes only. Although care is taken to ensure that this information is accurate and correct at the time of writing, Christians Against Poverty cannot accept any responsibility for mistakes or omissions. Christians Against Poverty excludes to the extent lawfully permitted all liability for loss or damage arising from reliance upon this information.

Copyright © 2018 Christians Against Poverty. All rights reserved. This material may not be reproduced for any purpose without first obtaining written permission from Christians Against Poverty.

Lifting people out of debt and poverty