

National Energy Action (NEA) response to Ofgem's Targeted Charging Review: Minded to decision and draft impact assessment



Action for Warm Homes

About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

Our Response

Living in cold, damp and unhealthy homes continues to cause shocking levels of unnecessary hardship and premature mortality. Across the UK, at least 10,000 people die each year due to a cold home, the same as the number of people who die from breast or prostate cancer³. As well as the devastating impacts cold homes have on their occupant's lives, this problem extends to all of us; needless health & social care costs⁴, queues at GPs and A&E as well as delaying the discharge of the most vulnerable patients from hospital⁵.

Within the target charging review, there are four things that we find especially concerning:

1. The lack of analysis on the distributional impacts within the domestic segment.
2. The proposed difference in fixed charge for domestic customers with Economy 7 meters.
3. The lack of analysis on the effect of the changes on customers who self-disconnect
4. No information on how the impacts above might be mitigated by Ofgem or the UK Government

To mitigate these concerns, we propose that Ofgem takes 3 main actions:

- Ofgem should delay the decision for domestic users to conduct a thorough distributional analysis on the impacts of such a charge across the domestic user group.
- If Ofgem elects to go to a fixed charge, they should reverse their minded-to decision on the higher Economy 7 charge so that these customers do not pay any more towards the residual than other domestic consumers.
- Ofgem must not let the new, fixed domestic costs laid out in this minded to decision transpose onto the 'nil-consumption' element of the Safeguard Tariff, to ensure that suppliers cannot recover the residual from standing charges on prepayment meters.

The Distributional Impacts Within the Domestic Segment

Although it is stated that domestic customers will pay on average £7 less than currently, there is no information on how this is distributed around different user types. Grid Edge Policy have done some analysis⁶ on these impacts, the results of which can be seen in Figure 1, using NEED data compiled by BEIS and Experian data on income.

Household income	Number in sample	Percentage of sample	Change in Annual Energy Bill (£)								
			Mean	Standard Deviation	5th percentile	10th percentile	Lower quartile	Median	Upper quartile	90th percentile	95th percentile
All dwellings	4,111,300	100	0	16	48	43	31	11	-15	-54	-92
Less than £15,000	614,200	15	13	21	51	46	38	25	2	-34	-67
£15,000 to £19,999	331,310	8	8	20	51	46	36	21	-3	-41	-77
£20,000 to £29,999	846,550	21	7	20	49	44	33	16	-7	-43	-79
£30,000 to £39,999	728,120	18	2	18	48	41	30	13	-11	-49	-84
£40,000 to £49,999	560,290	14	-3	18	46	38	26	8	-18	-54	-89
£50,000 to £59,999	332,530	8	-7	16	44	36	23	5	-21	-59	-95
£60,000 to £69,999	207,990	5	-8	15	43	36	21	3	-25	-64	-103
£70,000 to £99,999	291,850	7	-15	11	41	34	20	-2	-31	-75	-115
£100,000 to £149,999	138,000	3	-26	3	38	30	11	-11	-48	-100	-148
£150,000 and over	50,880	1	-43	-8	36	26	7	-23	-71	-139	-195

Figure 1 – Table of theoretical changes in energy bill by income group for England and Wales assuming a £64 standing charge. This highlights the significance the change could have.

Figure 1 shows that whilst the fixed charge proposal represents a reduction in cost for the customer base as a whole, it is higher income households that see the biggest savings, and lower income households will often see an increase in cost. This shows that there would be a fairness of equity issue with the fixed charge proposal, as it seems to create a disbenefit for the most disadvantaged households. The lack of transparency on this potential impact is therefore very concerning.

Furthermore, Figure 2, also from Grid Edge Policy's paper on the TCR, shows how an energy bill would change for the Centre for Sustainability's customer archetypes. The percentage change is based on the default tariff price cap electricity bill for the relevant usage level. This shows that the two archetypes that see the biggest increase in price as both a proportion of their bill, and in pounds, are both low income archetypes. The biggest winners are electrically heated homes who are not low-income and wealthy working families in larger detached houses in less urban areas. This is an unacceptable and unfair outcome for a change in charging arrangements.

Archetype Group	%	Estimated Annual Price Change - £	% Annual Price Change
Low-income electrically-heated	4%	-37 (2)*	-3.4% (0.2%)*
All other electrically-heated	7%	-82 (-43)*	-5.3% (-2.8%)*
Low-income non-metered fuel-heated	2%	8	1.3%
All other non-metered fuel-heated	4%	-15	-1.7%
Low income, out-of-work single adults in small 1-bed social rented flats (London)	4%	29	6.5%
Young working adults in rented flats (London)	4%	17	3.1%
Low-income single adults (lone parents or elderly) in social rented houses	5%	21	4.0%
Younger working families in medium-sized rented houses	11%	7	1.0%
Average' mains gas-heated households	33%	5	0.8%
Wealthy working families in 3-4 bed semi's owned with mortgage	9%	-11	-1.3%
Asset-rich, 'empty-nesters' in detached houses in less urban areas	10%	-3	-0.4%
Wealthy working families in larger detached houses in less urban areas	6%	-23	-2.4%

*Values in brackets are estimated values for a higher standing charge of £103 for Economy 7 customers

Figure 2 – Table showing the change in energy bill in £ and percentage for the mean customer in different archetype groups as defined by the Centre for Sustainable Energy.

Ofgem should delay the decision for domestic users in order to conduct a thorough distributional analysis on the impacts of such a charge across the domestic user group. They should not make a decision that will adversely impact the most disadvantaged people in society whilst higher income households take a benefit.

Increased Fixed Charge for Economy 7 Users

The TCR minded-to decision document proposes that domestic customers should pay a fixed charge of around £64 per annum, or £103 per annum for Economy 7 users. NEA cannot understand the rationale for charging Economy 7 customers a higher fixed charge. As we understand it, networks do not discriminate between Economy 7 and other meters when deciding on the required capacity of the network. This means that customers with Economy 7 meters have not imposed an additional cost on the system when compared to standard meter users.

In addition, whether Economy 7 users have had a higher impact on the residual charge or not, picking them out to face a higher charge does not represent a fair decision in terms of equality or equity. This user group has been chosen because it is convenient to identify them. There are other users that cause a higher network cost, for example those that draw higher power from the network, but this is more difficult to identify than meter type. This means that all users are not treated equal. We do not believe it passes an equity test either as the Economy 7 group contains a disproportionate number of vulnerable and fuel poor customers.

If Ofgem elects to go to a fixed route, Ofgem should reverse their minded to decision on the Economy 7 charge so that these customers do not pay any more towards the residual than other domestic consumers.

The Effect on Customers who Self-Disconnect

Ofgem recently issued a call for evidence on self-disconnection, which we warmly received. We noted that. Research from Citizens Advice earlier this year revealed 140,000 households (around 400,000 people) in Great Britain have regularly gone without gas or electricity due to not having enough money to top up their prepayment meter (PPM) in the last year alone. This was also a concern that Ofgem highlighted earlier this year in their Vulnerability report.

Within our response to the call for evidence, we identified that the accrual of standing charges throughout a period of self-disconnection can have a devastating effect on vulnerable customers, as when they do eventually go to top their meter up, they can find that they are merely clearing debt instead of gaining the credit that they need. This is a particularly stark issue in the winter months, where this can lead to the most vulnerable customers struggling to keep their homes warm

Within this Targeted Charging review, Ofgem proposes two options for recovering standing residual network charges, both of which meaning recovering them from domestic customers on a fixed basis. This will likely mean that the residual is recovered from the standing charge (as this is where fixed costs are recovered and price cap methodologies will currently allocate these costs to the nil-consumption element). Whilst this may be a sensible route to cost recovery for most domestic consumers, - leading to an annual reduction of residual charge of £8 for the median user - NEA believes that this will have a detrimental impact for fuel poor customers with prepayment meters, especially those who rely on electric heating to keep their homes warm.

NEA therefore believes that Ofgem must not let the new, fixed domestic costs laid out in this minded to decision transpose onto the 'nil-consumption' element of the Safeguard Tariff, to ensure that suppliers cannot recover the residual from standing charges on prepayment meters.

Furthermore, NEA believes that Ofgem should:

- 1. Investigate the recovery of network costs within standing charges, especially for vulnerable customers with prepayment meters.**
- 2. Focus on reforming how Fuel Direct repayments apply as soon as credit is applied to a meter. This would allow a proportion of units to be drawn before repayments are made.**
- 3. Ofgem must address an unacceptably large variance in efforts to reduce the risk of self-disconnection and self-rationing across different energy suppliers depending on their size and capacity. They should stress its willingness to regulate all licensees if voluntary attempts to encourage greater participation of industry-led protocols fail to reduce this variance. Ofgem should also shadow compliance with the requirements of the Energy UK Safety Net to ensure that pledges to enhance protections for vulnerable customers are also compliant with the domestic Standards of Conduct.**

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ NEA's recent joint briefing with E3G highlighted the UK has the sixth-worst long-term rate of excess winter mortality out of 30 European countries. Over the last five years there has been an average of 32,000 excess winter deaths in the UK every year. Of these, 9,700 die due to a cold home– the same as the number of people who die from breast or prostate cancer each year. The new analysis was released on Fuel Poverty Awareness Day the national day highlighting the problems faced by those struggling to keep warm in their homes. To read the press release and the full copy of the report visit: <http://www.nea.org.uk/media/news/230218/>

⁴ ⁶ In 2016 BRE released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on EHS and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating HHSRS Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4billion, and the total costs to society as £18.6 billion.⁶ Research by the BRE in 2013 suggested that if all of the English housing stock with a SAP below the historic average of 41 was to be brought up to at least the current average of 51 through heating and insulation improvements, the health cost-benefit to the NHS would be some £750 million per annum.⁶ Other estimates put the costs to the NHS of energy inefficient housing at £192 million (£35 million of which was in the private rented sector). Use of the BRE category 1 calculator put the estimated private rented sector costs to the NHS at between £37 and £674 million depending on SAP rating and occupancy level.

⁵ Elliot AJ, Cross KW, Fleming DM. Acute respiratory infections and winter pressures on hospital admissions in England and Wales 1990-2005. J Public Health (Oxf). 2008 30(1):91-8.

⁶ Grid Edge Policy's paper "Understanding the Impacts of Ofgem's Targeted Charging Review" can be found at https://docs.wixstatic.com/ugd/140d4b_d97aba68981041978c5367c405c1eca1.pdf