

National Energy Action (NEA) response to Ofgem Working Paper Reviewing the potential impact of COVID-19 on the default tariff cap: cap period seven



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.

Background to this response

Cold, damp and unsafe homes continue to cause shocking levels of unnecessary hardship and premature mortality. Across the UK, NEA estimates that on average more than 10,000 people die each year due to living in a cold home³. In England Wales, excess winter deaths have risen by nearly 20% last winter⁴. The Office for National Statistics (ONS) estimate that the biggest cause of death was respiratory disease, followed by circulatory health conditions. Both these conditions are badly exacerbated by living in cold homes which are hard to heat and around 30% of these deaths could have been prevented⁵.

The alarming increase in Excess Winter Deaths last year was before the impact of Covid-19 struck. Covid-19 is likely to have left many households more exposed to the risks of living in a cold home than ever before⁶. The number of needless deaths is the 'tip of the iceberg' and 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 costs⁷, queues at GPs and A&E as well as delaying the discharge of the most vulnerable patients from hospital⁸. The resulting impact on health services costs the NHS between £1.4bn and £2bn every year, in England alone.

On the 20th October the UK Government also announced the extension to the Default Tariff Price Cap until the end of next year which will provide some price protection for customers on default gas and electricity tariffs, shielding them from being charged excessive prices. Since its introduction in January 2019, the Government estimates that the cap has saved customers around £1 billion a year, equivalent to around £75-100 a year for typical households on default energy tariffs.

Despite these positive developments NEA believes the following areas should be enhanced urgently:

Households in need of support should be better identified through:

- Better use of available data, already within reach of energy suppliers, to identify those most in need
- The UK Government consulting publicly on how accessing the shielded patients list could help utility companies to provide more targeted support to their customers who are most vulnerable
- Section 36(3) of the Digital Economy Act should be further expanded to allow local authorities, public sector health bodies and energy network companies to undertake direct data matching access with the Department for Work and Pensions (DWP), independent of licensed gas and electricity suppliers.

More should be done to raise awareness of support through:

- Ofgem and BEIS should have regard to how companies have used different communication channels to support non-digital consumers who may have missed out on support/advice during COVID-19. Ofgem should ensure utilities have plans in place to provide information on emergency support in different languages and formats, including Braille, BSL, and languages such as Polish, Punjabi and Urdu.

On the 4th November, NEA published a paper warning UK debt owed to government and utility providers are set to soar due to the impacts of Covid⁹. NEA called for further improvements by utility companies, regulators and the UK Government to make it easier for customers to manage their household debt. Without urgent action, we believe millions will be stuck in a 'wilderness of debt' and could suffer from severe mental illness, a range of physical illnesses and even premature death.

In response, Ofgem made adjustments for debt-related costs within the Default Tariff Cap. NEA believes that whilst this move was necessary, it increased prices for those least able to afford it. We continue to believe that growing utility debt should be addressed by:

- Government should bring forward Breathing Space and extend the respite period offered and providing funding for payment matching schemes to accelerate the repayment of utility debts. The UK Government should also make contributions for payment matching schemes.
- Consistent 'Ability to Pay' and debt collection principles should be implemented across all essential household bills
- Maintaining enhancements to Universal Credit and improving the application process. Delays in accessing universal credit payments have a material impact on utility debt build up. This relationship should be investigated by BEIS in conjunction with DWP.
- The UK Government, working with Ofgem, should encourage better UK wide working and engage with the Northern Ireland Executive and Utility Regulator (UR) to ensure vulnerable energy consumers in Northern Ireland benefit from a comprehensive and consistent response from the energy industry to COVID-19.

Actions to take in Period 7 of the Cap

In this paper, Ofgem considers the approach for period 7 of the cap. We continue to understand the ongoing need to ensure that suppliers activities are financeable, but the above provisions for consumers must take precedent and require more urgent action. Additionally, we are concerned at the potential direction of travel outlined in the paper:

- To revisit the need for an adjustment for the prepayment meter (PPM) additional costs due to COVID-19. The prepayment cap methodology has been set by the CMA in previous periods as a result of the findings of the energy market investigation that there was a set of serious market deficiency that resulted in higher prices for prepayment customers. Ofgem should not be providing a float in period 7 and beyond to cover the costs of previous periods that were under the control of another body, and in place for a separate reason to the default tariff price cap. **We urge Ofgem not to take a decision to place additional burdens on already struggling prepayment households.**
- As for the discussion of a cap vs a float, NEA believes that Ofgem should come down on the side of consumers. If overestimated, a float would potentially take money from customers now, for them to be paid back at a later date with a lower price cap. NEA believes that Ofgem should not take this approach, and should instead look towards more conservative ex-post approaches.

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 Over the last 5 years, there has been an average of 35,562 excess winter deaths each year across the UK. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the world health organisation - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf

⁴ 4 EWDs in the winter of 2019/20 were 19.6% higher than 2018-19 but lower than the 49,410 recorded in the winter of 2017-18. For more information visit:

⁵ Excess winter mortality statistics record the 'additional' deaths that occur in December to March compared to the preceding August to November and Following April to July. Of these the World Health Organisation estimates that 30% are due to cold housing (WHO 2011)

⁶ The health implications of cold temperatures on respiratory conditions and on frail and elderly households are well known. These impacts are also intergenerational, with children twice as likely to suffer from asthma or bronchitis if they inhabit cold and damp housing. These issues have been badly exacerbated the Covid-19 crisis. During the colder months many people will continue to stay at home for longer periods. Alongside the psychological stress and social isolation caused by the virus, too many will have to choose between heating their home adequately and falling into debt or rationing their energy use and living in cold damp homes that are dangerous to their health and can shorten their lives. This can lead to a vicious cycle of hospital admission, discharge and readmission. Poor housing leads to sharp rises in energy use. A recent independent analysis suggests that, if a second lockdown was re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month.

⁷ 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.

⁸ 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.

⁹ See: <https://www.nea.org.uk/news/charity-warns-debts-owed-to-government-and-utility-providers-set-tosoar/?parent=about-us/media-centre/media/>.