

National Energy Action (NEA) response to Ofgem's Forward Work Programme 2019/21 Consultation



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

Over the last year, NEA, alongside other consumer groups, worked with Ofgem to secure some key improvements in the treatment of domestic customers. In particular, we worked to ensure that low income and vulnerable customers had adequate protections in gas and electricity markets.

Some key achievements include:

- Ofgem has banned suppliers for back billing customers for energy used more than 12 months prior to back billing;
- An announcement that the next price control for energy monopolies will have a greater focus on vulnerable customers than previously;
- The finalisation of the default tariff price cap, which will provide a fairer deal for 11 million customers from 2019;
- Ofgem issuing a call for evidence on self-disconnection in prepayment customers;
- Ofgem proposing new tests for licensing energy suppliers to ensure that each new licensee can operate in a fit and proper way;

We believe that Ofgem has moved in a positive direction over the last year. Our consultation response below outlined how the proposed plan could work more effectively to support the protection of vulnerable and fuel poor customers.

Our response to this consultation

Ensuring Retail Markets Work for All/Price Protection

NEA has supported Ofgem's work on safeguard tariffs but was very disappointed with its decision to move some customers from the safeguard tariff on to the default tariff cap. However, the PPM cap still captures millions of customers who are consequentially protected from unexpected price rises (the majority are low income and vulnerable). The new safeguard cap is however currently limited to those who receive the Warm Home Discount (not those that are eligible). Ofgem have now implemented the default tariff price cap, which will protect a significant number of customers from unfair price rises, possibly at a higher cap than the safeguard tariff would have. We are encouraged that this new cap will capture so many vulnerable and fuel poor customers, but as it will likely lead to an increase of costs for those customers that were previously protected by the safeguard tariff, NEA would like Ofgem to take several actions:

1. The £140 rebate under Warm Home Discount scheme must continue for existing low-income pensioner recipients and be provided automatically to more low income working families, using powers under the Digital Economy Act to ensure better targeting.

2. Ofgem should investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy.
3. If the Government choose to extend the current smart meter deadline, it must also work with the Competition Markets Authority (CMA) to investigate an extension to the Pre-Payment Meter price cap (regardless of how many SMETs 2 PPM meters are deployed before 2020).

Enforcing the Vulnerability Principle

NEA supported adding a broad vulnerability principle to the domestic Standards of Conduct that clarifies to suppliers that to uphold their obligation to treat all domestic customers fairly they need to make an extra effort to identify and respond to the needs of those in vulnerable situations. However, we maintain our concern about the capacity of Ofgem to adequately monitor these requirements, especially given the increasing number of smaller suppliers.

There are also increasing concerns about the failure of some suppliers to join up their mandated obligations to improve services for their most vulnerable customers. One illustrative concern is that as engineers visit homes as part of the smart meter roll-out they will have to turn off any unsafe gas or electrical appliances. Whilst it is welcome that qualified engineers condemn unsafe appliances one risk to health and safety can be replaced by another if there is no guidance or support available to fix or replace these appliances in low income homes. This is an issue that NEA identified some time ago, and there is still a worrying lack of adequate policy to address this.

Ofgem's role in making the most of the smart meter roll-out

NEA has a long-standing interest in smart meters and their roll-out in Great Britain and Northern Ireland, particularly regarding their impact on vulnerable consumers. Ofgem's role of monitoring and enforcing minimum standards under the Smart Meter Installation Code of Practice (SMICOP) is also fundamental to the success of the roll-out. However, as noted above, concerns are mounting about the capacity Ofgem must monitor these requirements, especially given the increasing number of smaller suppliers.

NEA has previously highlighted our concern that the smart meter rollout is now significantly back-loaded, meaning that most households have less opportunity to enjoy the benefits of smart (and any resulting financial savings) in the years up to 2020. This remains a concern that Ofgem should monitor, potentially through providing more frequent roll out information using e-serve. There is currently little information about how or when individual suppliers are rolling this technology or the approaches they are taking to engage vulnerable consumers to ensure they too capture the benefits of more accurate billing and greater control of their energy use. NEA continues to believe that this information is not commercially sensitive and would offer third parties the ability to offer bespoke advice to customers about when they can expect to benefit from smart from their respective suppliers. NEA also stresses that data protection should also not be held up as a key reason why more geographic specific information cannot be put into the public domain regarding the deployment of smart meters. By developing a GIS based map of where smart meters have been installed this would support external organisations to follow up installations to amplify the benefits by providing

more extensive behaviour change advice and support. As stated above, NEA also remains concerned that the duration of PPM price cap is perhaps too closely linked to the smart meter roll-out.

As has been highlighted in the recent BEIS Committee inquiry on the rolling out of smart meters³, it is concerning that there have been issues with suppliers not meeting their obligations regarding providing energy efficiency advice when installing smart meters. It is important that Ofgem takes steps to ensure that suppliers meet this important obligation that is in place so that the most vulnerable of customers can see more benefit from the decision to move towards a smarter energy world. Ofgem must, where appropriate, take enforcement action against suppliers that do not meet this obligation to show the seriousness of inaction in this area. This is in line with the National Audit Office recommendation that Ofgem should “ensure, by March 2019, that no energy suppliers are falling materially short of their obligation to provide advice on energy efficiency.”⁴

Maximising network companies’ role in tackling fuel poverty

The efficiency and cost effectiveness of both gas and electricity distribution networks play a key role in either mitigating or exacerbating fuel poverty levels. Typically, distribution charges accounts for about 15% of the overall electricity and gas bill, costing a fuel poor household c. £400 per year. NEA is reliant on Ofgem to assess value for money; our focus is supporting the current outputs of RIIO so they lead to tangible outcomes for low income and vulnerable households. NEA will be responding to the RIIO-GD2 sector specific consultation separately, but the response will be focussed around two main asks:

- GDNs must be required to continue to deliver direct assistance to fuel poor households via a FPNES mechanism that will be extended and expanded. Instead of solely providing new gas connections, GDNs could be given some flexibility to deliver alternative actions which lead to equivalent heat cost savings. They should also be incentivised to ensure that connected households are at a minimum energy efficiency standard and are equipped with a means of heating their homes using the connection (e.g. a gas boiler)
- Ofgem should enhance and refocus the incentives already in place to raise awareness of the risks of Carbon Monoxide (CO) poisoning to tackle the direct links between the equally life-threatening risk of being in fuel poverty. This option would aim to help deliver assistance to existing gas customers that face the prospect of prolonged loss of space heating and hot water because of having their current heating appliance condemned as part of the smart meter roll-out.

In addition to this, there are several things that Ofgem could do in the shorter term to ensure that GDNs can maximise their role in combating fuel poverty:

1. Improving FPNES targeting by allowing GDNs to access information directly from central government using powers under the Digital Economy Act to illicit what in home energy efficiency measures households can access via assistance schemes such as the Energy Company Obligation (ECO)
2. Providing an incentive to improve targeting by allowing the full recovery of DUOS where the household who is assisted is living in fuel poverty and potential deflate the ability to recover DUOS from other customers who may just be eligible for FPNES but not living in fuel poverty. This would approach would need to ensure that there was an incentive to help provide assistance to fuel poor households in other GB nations, not

just England (NB Wales or Scotland use alternative definitions of fuel poverty) and some assistance under FPNES can still be accessed by those who may not be in fuel poverty but are at acute risk of living on a low income and have a health conditions which is badly effected by living in a cold home.

3. Standardising the provision of in-home advice so households who benefit from First Time Central Heating are able to operate the new system, any new controls, receive basic advice about which energy tariffs will be most appropriate to maximise the affordability outcomes of new system (dual fuel tariffs etc) and information about wider assistance programmes such as the Warm Home Discount (WHD).

In addition to these GDN actions, NEA believes that RIIO 2 presents a significant opportunity to expand the role of DNOs in tackling fuel poverty. In the RIIO 2 framework consultation, we outlined three possible features that RIIO ED2 should have:

- Reforming the current share factors and weighting DSR or demand reduction projects dependent on whether they have a direct social and environmental outcome;
- Reforming the current losses incentive so that DNO/DSOs are incentivised to deliver energy savings within domestic properties by replacing energy inefficient appliances or electric heating;
- Any future innovation funding (Network Innovation Allowances or Network Innovation Competitions) should directly support consumers in the transition to a low-carbon future, particularly those in or extreme risk of fuel poverty.

Responding to the opportunities and risks of Brexit

It is welcome that the work plan set out that Ofgem will be investigating the impact Brexit may have on energy consumers. Whilst the most compelling drivers for action on cold homes are based on domestic legislation (Warm Homes and Energy Conservation Act 2000⁵, Climate Change Act⁶, Housing Act⁷, Fuel Poverty Targets⁸ and minimum energy performance standards in the private rented sector⁹) and related UN Sustainable Development Goals¹⁰ Brexit could have a profound impact on domestic consumers. Whilst there are some clear opportunities created¹¹, NEA believes that unless certain forthcoming EU targets are met, some limited legislation continues to be transposed domestically or additional domestic actions are taken, the UK leaving the EU could have a negative impact on the UK economy, strain the UK's trade balance and badly impact the people who struggle to keep their homes adequately warm. NEA believes the greatest opportunity to enhance national competitiveness in the energy sector is to reduce energy demand. In responding to these opportunities and risks, the Department for Business, Energy and Industrial Strategy and the regulators Ofgem and Northern Ireland Authority for Energy Regulation (NIAER) should run their own call for evidence to clarify the impact and opportunities of Brexit in the energy sector¹² once any withdrawal agreement has been ratified.

Supporting BEIS to deliver fuel poverty commitments

It was disappointing that the work plan did not detail how Ofgem can support the Government to meet its fuel poverty commitments. These commitments are present in both the clean growth strategy and the most recent Conservative party manifesto. The Clean Growth Strategy recommits the UK Government to meeting energy efficiency-based fuel poverty targets.

The UK Energy Research Centre (UKERC) and Centre on Innovation and Energy Demand (CIED) have recently underlined the scale of the cost-effective potential. The recent report "Unlocking Britain's First Fuel: The potential for energy savings in UK housing"¹³ noted that one half of the energy currently used in UK housing could be saved by investing in a mix of current energy saving technologies. In addition, cost-effective investments to 2035 could save around one quarter of the energy currently used, an average saving of £270 per household per year at current energy prices. This saving is approximately equivalent to the output of six nuclear power stations the size of Hinkley Point C. Using Treasury guidance for policy appraisal, this investment has an estimated net present value of £7.5 billion. NEA therefore urges Government to respond to the NIC recommendations on domestic energy efficiency, and to allocate £1bn in funding for efficiency measures to meet fuel poverty commitments as has been proposed by the committee on fuel poverty¹⁴. NEA hopes Ofgem will make these points with the same vigour as its current outspoken support for the deployment of smart energy solutions.

Inclusive Future Markets and System Arrangements

It is right that Ofgem continue to assess market and system arrangements such as their review of network charges in the Targeted Charging Review SCR. NEA does, however, have some concerns about the proposals and minded to decisions that Ofgem have presented so far.

Within the TCR, Ofgem proposed 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). This is a practical, sensible route to cost recovery for the majority of domestic consumers, and indeed Ofgem's own analysis points towards an annual reduction of residual charge of £8 for the median user. However, 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. This is because higher standing charges will mean that debt is accrued more quickly when customers have self-disconnected. This can make it harder for households to get out of debt and be able to heat their homes. Ofgem need to align such reviews with its vulnerability strategy so that decisions are not taken that adversely affect the most vulnerable and fuel poor customers.

NEA also has some concerns about the scale of self-disconnection that we have seen in recent years. Ofgem's call for evidence on self-disconnection¹⁵, which concluded last year was a good first step in trying to solve issues surrounding self-disconnection, and we feel that there are some actions that Ofgem can swiftly take in the near term which would reduce the risk of vulnerable customers self-disconnecting:

- Major anomalies with the current eligibility criteria for the Priority Services Register (PSR) must be addressed urgently. Ofgem should also aim to enhance monitoring and reporting of PSR. Auditing arrangements must also require licensees to monitor and report on efforts to identify vulnerable customers and promote services to them.
- 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.

- Ofgem should investigate the setting of and recovery of costs within Fuel Direct repayments and standing charges to ensure low income consumers that may only top up their pre-payment meters rarely, don't lose credit before they can access any energy. Ofgem's work in the targeted charging review must not lead to an increase in standing charges for electricity prepayment customers.
- If the Government choose to extend the current smart meter deadline, Ofgem must work with the Competition Markets Authority (CMA) to extend the Pre-Payment Meter price cap.
- Ofgem must enhance tenants' knowledge of their rights to switch, choose their payment type and benefit from smart meters and protect tenants from the on-selling of sub-metred electricity and non-regulated fuels via their landlords.

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 <https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/rolling-out-smart-meters-17-19/>

⁴ <https://www.nao.org.uk/wp-content/uploads/2018/11/Rolling-out-smart-meters.pdf>

⁵ Warm Homes and Energy Conservation Act 2000: <http://www.legislation.gov.uk/ukpga/2000/31/section/1>

⁶ The Climate Change Act 2008: <http://www.legislation.gov.uk/ukpga/2008/27/contents>

⁷ Housing Act 2004: <http://www.legislation.gov.uk/ukpga/2004/34/contents>.

⁸ In England, the statutory target is to ensure that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of Band C, by 2030.

This is supported by interim milestones. For more information see Cutting the cost of keeping warm: A fuel poverty strategy for England, UK Government, March 2015.

⁹ From April 2018, landlords will not be able to rent out properties with energy efficiency ratings below EPC Band E (exemptions apply).

¹⁰ UN Sustainability Goals (SDGs) apply to all nations. The most relevant from a fuel poverty perspective are Goal 1: No poverty: Goal to end poverty in all forms and dimensions by 2030. This involves targeting the most vulnerable and increasing access to basic resources and services; Goal 7: Affordable and clean energy: Note this is mainly focused on affordable and universal access to electricity by 2030. Focus on investing more in clean energy sources e.g. solar, wind etc. So relevant to FP debate re extent to which policies are funded through levies on consumer bills and how governments tease out tensions between affordable and clean components of goal; Goal 7 does have sub goal to double the global rate of improvement in energy efficiency by 2030 so nice links between 1 and 7 re targeting most vulnerable if apply to energy efficiency policy and Goal 10: Reduce inequality within and among countries including sub goal by 2030 progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average. Report here: https://sustainabledevelopment.un.org/content/documents/1684SF_-_SDG_Universality_Report_-_May_2015.pdf.

¹¹ Brexit presents several opportunities for domestic energy consumers: The ability of the UK to set its own VAT levels and reflect the fact energy is an essential item of household expenditure, HMT can work with HMRC, Ofgem and the Department for Business, Energy and Industrial Strategy (BEIS) so that suppliers do not recover VAT that is currently applied on top of network and/or environmental charges and the ability of the UK to remain part of the EU ETS but create a domestic Modernisation Fund to finance actions which improve the UK's national competitiveness and future-proofing our economy.

¹² NEA recently provided evidence to the EU Energy and Environment Sub-Committee's Brexit: energy security inquiry. For more information visit:

<http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu-energy-environmentsubcommittee/inquiries/parliament-2017/brexit-energy-security/>

¹³ Unlocking Britain's First Fuel: The potential for energy savings in UK housing, Sep 2017.

¹⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/754361/Committee_on_Fuel_Poverty_Annual_Report_2018.pdf

¹⁵ <https://www.ofgem.gov.uk/publications-and-updates/prepayment-self-disconnection-and-self-rationing-call-evidence>