

March 2023

To: Ofgem Retail Price Regulation Team – Retailpriceregulation@ofgem.gov.uk

Call for Input on Additional Wholesale Allowances Review

Glen Dimplex is an international, family-owned manufacturing group; our largest division – Heating & Ventilation, is headquartered in the UK, and we have a significant presence (covering R&D, manufacturing and operations) in multiple other European markets including Ireland, France, Germany, Nordics, Austria and Poland. We specialise in the design and development of innovative electric heating & ventilation solutions including heat pumps and smart electric thermal storage heating and are committed to helping our customers navigate the transition to a more sustainable world.

Over the past several months we have been engaging with Ofgem and other stakeholders regarding treatment of Economy 7 tariffs, particularly in relation to the Price Cap and in the context of the current energy price crisis.

Earlier this year we commissioned independent consultant and energy thought leader Maxine Frerk of Grid Edge Policy to prepare a report on this topic. The report 'It's a Lottery: how Ofgem's price cap fails Economy 7 customers' is available [here](#) and outlines the following concerns:

- Off-peak rates do not suitably reflect the lower costs of wholesale electricity at night;
- Suppliers have flexibility to set relative day and night rates is creating a lottery across suppliers and more widely (with inadequate advice to customers on ensuring that Economy 7 or other multi-rate tariffs are suitable for their needs);
- Multi-rate tariffs (primarily Economy 7) are not adequately considered in the wider policy decisions around the price cap and are therefore not fairly protected;
- Information on availability (and rates) of multi-rate tariffs) is not easily available as many suppliers do not publish prices and price comparison tools do not provide adequate information for consumers in this part of the market.

To expand on the first two points, it appears that under the Price Cap the Ofgem model does not suitably account for the fact that Economy 7 (and other multi-rate tariff) customers typically use more energy at night-time than during the day. The calculation for network costs appears to reflect this, but similar allowances are not made in relation to wholesale costs which are typically much lower at night and make up the most significant proportion of overall costs. The 'It's a Lottery' report states that Economy 7 customers could be being overcharged by approximately £100 per annum, which is a significant enough amount, particularly for vulnerable and lower income households, to warrant Ofgem prioritising a comprehensive review of Economy 7 tariffs.

This issue is of particular importance as today approximately 10% (3 million) of households use Economy 7 or similar multi-rate tariffs. A disproportionate number of these customers are on low or very low incomes and are suffering from fuel poverty and / or typically may be more vulnerable due to their age, health, or personal circumstances. Therefore, it is critical that this group of customers is given the attention it deserves to ensure that it is protected from the crippling impact of the energy

crisis. Resolving this issue also has the potential to offer a more sustainable solution and alternative to continued high levels of ad hoc support on energy bills.

Furthermore, multi-rate tariffs today, predominantly in the form of Economy 7, are suitable (and likely to be preferable to single rate tariffs) for consumers with electric technologies with in-built storage which can provide flexibility such as electric vehicles, heat pumps, storage heaters etc. Additionally, incentivisation of regular use of off-peak electricity has much more potential to deliver benefits to the grid and to consumers than one off Demand Flexibility events (which are indeed also needed for effective management of the electricity system). Therefore, proper regulation and transparency around Economy 7 and other multi-rate tariffs is critical to preserve, and grow, the base of installed assets which can provide flexibility. The recent Net Zero Review report mentions the role of 'overnight' tariffs in reducing running costs for consumers and delivering Net Zero; such tariffs are an enabler for the energy transition and if protected, will pave the way for the development of new, dynamic tariffs which will be central to a secure, flexible, and decarbonised electricity grid.

The above concerns were echoed by a wide range of stakeholders including consumer groups who attended a roundtable event hosted by Sustainability First in January 2023 (see [slides](#) and [notes](#)). We welcomed Ofgem's participation in this event and openness to considering our concerns.

Based on previous engagement, we are encouraged to see that Economy 7 is specifically mentioned in this Call for Input. However, we are concerned that it is limited to 'additional wholesale allowances' as these costs only account for 6% of overall wholesale electricity costs. For the reasons outlined above and particularly due to the c. £100 per annum potential overpayment by Economy 7 customers, we are calling for Ofgem to examine total wholesale energy costs comprehensively in relation to single rate and multi-rate tariffs. This is clearly a more substantial task, but it is important that it is prioritised given the scale of impact on consumer bills and the vulnerable demographic which is most impacted by this. For this reason, we believe that the proposed timeframe of Summer 2024 is also too slow and call for Ofgem to prioritise and accelerate this work so that these customers are protected.

We hope that the above response and supporting documents referenced are convincing in making the case for a review of **total** wholesale costs in relation to Economy 7 and inclusion of a review of Economy 7 as a priority item in the Ofgem Programme for Work for the Price Cap.

We are happy to engage with you further on this topic and remain at your disposal to discuss the contents of this response.

Regards,

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