

**FUEL
POVERTY
ACTION**



**ENERGY
FOR ALL**

Fuel Poverty Action Response - Ofgem Future of Price Protection

May 2024

Fuel Poverty Action is a grassroots organisation taking action against inflated energy bills and working towards an affordable, sustainable and democratic energy system. We have campaigned for many years against the UK's unfair, unaffordable and environmentally damaging energy pricing system.

We are deeply concerned that this discussion paper ignores many failings of the existing system and the growing energy inequality caused by newer tariffs. We will highlight some of these below but would strongly recommend Ofgem conducts deep analysis of these areas before progressing further with this review.

Q1. Do you have any reflections on our list of the cap's successes and challenges?

We believe the successes are overstated and the failures understated.

You claim that the price cap ensures that households pay a fair price for their energy, but we would strongly challenge that. You include a very high standing charge in the price cap which is not only unfair to low consumption, low income households (which you have admitted), but is also wrong economically and damaging environmentally. Economically, the unit costs of energy rise with consumption as more expensive sources are needed - so pricing should actually be a rising block tariff, the opposite of a standing charge. Environmentally, charging higher rates for lower consumption weakens energy efficiency incentives and subsidises waste. It's especially unfair and environmentally damaging to load extra costs onto electricity - hurting those already with only electric heating and efforts to get others to transition away from fossil fuels. It's also unfair to load costs like marketing and PR onto standing charges. Operating costs remain massively inflated by the bloated and inefficient energy retailers who continue to fail in their core role to provide accurate bills. Ofgem needs to seriously consider what value they add within the energy system versus the huge costs and consumer harm they cause with their flawed and aggressive approach to billing.

We would also challenge the fairness of the unit costs. For example, even during the last two years, those engaged households who switched to alternative tariffs such as Octopus Tracker enjoyed huge savings of around 50%. This clearly demonstrates that the claim that the Price Cap has prevented a "loyalty penalty" is untrue. The reality is the price cap is an

inflated price and there are big savings to be made by those with the right knowledge about cheaper tariffs, and who are lucky enough to have the right kit - a working smart meter for Tracker and an EV to qualify for those cheap tariffs. These new innovative tariffs are making energy inequality even greater and the price cap is failing to protect those who need it most.

Another glaring example of the unfairness of the Ofgem Price Cap is Economy 7. Ofgem sets the price level to wipe out the savings that these often low income and vulnerable customers should be getting from time shifting their consumption. Even worse, affluent consumers with EVs are enjoying hugely cheaper prices. For example E.ON charge 14p night and 31p day for Economy 7 based on the Ofgem price cap but only 6.9p for the same 7 hours at night, and 24p day. Similar huge price premiums for Economy 7 versus EV tariffs are seen with the other suppliers. Again Ofgem is failing to protect those who need it most, whilst the privileged “energy elite” get much lower prices.

Another weakness of the Price Cap is that it doesn't cap pricing at all, as was very painfully demonstrated in the last couple of years. It simply rises to cover whatever costs are loaded onto it.

Our unfair energy pricing system is causing huge harm and as Ofgem considers options to reform it, it needs to reflect on the issues detailed above and ensure that future changes make it our energy pricing system fairer, greener and cheaper. Ofgem must spend less time worrying about the needs of energy firms and refocus instead on its core duty to protect consumers, especially those who need it most.

Q2. Do you believe that the growing diversity of electricity consumption patterns will make it challenging to retain a flat, universal and stringent price cap? How quickly do you think this will materialise and with what impacts? What evidence can you provide to support your view?

Changes in electricity consumption patterns will be driven by the adoption of new technology, the price incentives and subsidies to change. But this will continue to be dominated by the energy elite. Their gadgets will automatically adjust to benefit from cheaper pricing - EVs, batteries, solar, heat pumps and smart devices. We are already seeing affluent households consuming large amounts of energy at very low prices, for free or even at a net profit in spring and summer. A painful contrast to the millions suffering from the expensive Ofgem price cap, energy starvation and debt

We do not expect to see a major or rapid shift in consumption patterns for most households. A lucky few may get energy elite gadgets for free via schemes like Eco4, but even then they may be stuck with badly installed devices on the wrong tariff. A different kind of pricing system is needed to protect people from the risk of increasing energy inequalities. The foundation needs to be a guarantee of affordable essential energy for all. The new system needs to ensure that the benefits of cheap renewable energy are shared equally rather than monopolised by affluent households with high consumption and the best tech. We have developed a powerful solution that delivers a fairer, greener and more affordable energy system called Energy For All which we will detail later.

Q3. What plans do suppliers have to launch ToU tariffs and to incentivise customers to shift their electricity consumption once MHHS is implemented?

As highlighted above, we have already seen very attractive ToU tariffs aimed at cherry picking the most desirable households so this trend will inevitably intensify after We've also already seen numerous events to offer free energy or to offer rewards for consumption reductions at specific times. Again the rewards have been much higher for those affluent households with the highest consumption levels and storage capacity.

Q4. How quickly and at what scale do you expect customers, especially those with large flexible loads such as EV and solar / battery users, to take up ToU tariffs once MHHS is implemented?

As noted before, those with the right technology will continue to take up the best offers available. The real challenge is to enable everyone else to benefit from cheap renewables too. It is immoral and uneconomic to have such large benefits concentrated on a small % of the population whilst millions others suffer. For example when cheap or free energy is available it should be offered to all, not just a small group who then engage in wasteful usage.

Q5. In addition to the factors set out in this chapter, are there any other important changes that might affect the ability of the current default tariff cap to achieve its objectives?

You need to consider how new emerging models like heat-as-a-service fit within the overall future price protection strategy.

Q6. Do you agree that we need to retain some form of price protection in the retail market?

Yes. As detailed above, much stronger consumer protection is needed. The risks of even greater energy inequality are increasing. Increasingly complex tariffs will require strong knowledge and technology to benefit from, leaving most people stuck with expensive prices.

Q7. Do you have views on which of the three key parameters – the cap being flat, universal and stringent - should be relaxed when considering future price protection options?

We don't think this is the right way to frame the options. The protection needs to be comprehensive and everyone should be given the best available price for their consumption. If there is cheap or free electricity available then this should be offered to everyone

regardless of their supplier. It should not require specific knowledge or technology to be offered the best price at any moment in time.

Q8. What are your views on options discussed? Do you have any preferred options or combination of options?

We are surprised that in discussing options for a static ToU price cap you ignore the current one - once again the millions on Economy 7 are ignored by Ofgem. This group needs to be better served and protected. If you want to introduce a more agile offer then this group should be given the smart technology for free to match their heating and hot water to more time slots.

Given that automation of heating, hot water, etc will be necessary for mass adoption of and full benefit from ToU tariffs, then linking this to dynamic pricing would generate greater overall benefits. The effort and complexity could be minimised by smart controllers fitted for free with smart meters, and the pricing simplified to a guaranteed best price to deliver the required level of heat and hot water, using models such as heat-as-a-service.

Q9. In particular, which options or combination of options do you think would best protect vulnerable customers?

The idea of focussing protections on those deemed “vulnerable” sounds initially appealing but is flawed and dangerous. The system should be fair for all, and the idea that you know who is vulnerable at any moment in time is unrealistic. We’ve not even got a system to identify those in fuel poverty and energy starvation. Current systems like PSR and WHD miss many of the people in most need. Instead we need to design a system that is fair and affordable for all. This is one of the drivers of the Energy For All proposal.

Q10. How should consumers with large flexible loads, mainly EV and solar / battery users, be treated with regards to future price protection?

They are the current energy elite and enjoy much lower prices and higher consumption. In a fairer system they would lose some of these advantages but still benefit from load shifting.

Q11. Are there any additional options that we haven’t, but should be considering?

As highlighted above our [Energy For All](#) proposal delivers universal price protection with a guarantee of essential energy to keep everyone safe. A universal guarantee is increasingly needed in a future with increasingly variable supply. This has gained widespread support from over 100 other organisations and over [660,000 petition signatures](#). The New Economics Foundation also modelled a rising block tariff to deliver a [National Energy Guarantee](#). This would also fit well with emerging models such as heat-as-a-service.

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