

# National Energy Action (NEA) response to the discussion paper on the Future of Price Protection

## About National Energy Action (NEA)

NEA<sup>1</sup> works across England, Wales, and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, safe and healthy home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, work on local projects, and coordinate other related services which can help change lives.



## Summary of our response

National Energy Action has been involved in policy work to maintain and reform the Default Tariff price cap for several years. This has included working with Ofgem to initially create the Safeguard Tariff cap for prepayment and other vulnerable customers. Subsequently, NEA helped to design the Default Tariff price cap to ensure it offers as much protection for low-income and vulnerable customers as possible. This has involved NEA giving oral evidence in the pre-legislative scrutiny of the Default Tariff cap legislation, oral evidence in the Committee on the Bill, responding to over a dozen consultations on the cap's detailed design and operation and significant engagement with Ofgem via consumer or bilateral meetings. This joint work has evolved the price cap into an effective mechanism which enhances transparency and predictability in retail markets for vulnerable consumers, at the same time as providing regulatory certainty for retail participants.

Since 2021, prices for consumers have risen dramatically. Despite the Default Tariff cap and further government intervention to directly reduce energy bills, consumers are now paying 49% more than they were at the beginning of the crisis. However, NEA believes consumers would be facing much higher bills if it had not been for the price cap and we stress that any significant reform to the current arrangements to facilitate the evolution of the retail energy market in offering lower carbon, lower cost bills, should not come at the cost of current consumer protections.

Finally, NEA underlines the importance of introducing deeper price support for the most vulnerable customers. Without alleviation from affordability pressures, more households are likely to fall into debt, and those already in debt are likely to fall into deeper debt. The result will be a greater level of costs that suppliers need to recover across all customers.

DESNZ was due to consult on long-term arrangements for price protection in the energy market, including through the potential reintroduction of a social tariff, last summer. DESNZ should re-commit to consulting on the introduction of a social tariff, or other form of deeper price support for low-income consumers. The introduction of a social tariff could de-risk the process of reform for default tariffs, by ensuring that many of the households who currently rely on the energy price cap receive protection through another mechanism. It would also ensure that the most vulnerable customers are protected in the future, helping to create a fair and affordable transition to net zero.

## Maintaining trust and confidence

The price cap was introduced to reduce loyalty premiums, or to reduce the cross-subsidisation of fixed-term contracts from default tariffs and more broadly to tackle high levels of distrust among consumers that they were not being charged a fair price. Recent research suggests that the public understands and values the price cap, especially the protection it has offered during the energy crisis. Research conducted by Public First explored public attitudes on the impact of the price cap. More than half of surveyed

households believe that the price cap is the only thing stopping energy suppliers from charging more, that it protects vulnerable and low-income households and that the price cap means that consumers are not charged unfair prices.<sup>3</sup>

Prior to the price cap, increases in energy costs were often explained by suppliers to be the result of policy cost increases but these increases were not properly evidenced. Inadequately explained price rises can result in mistrust from the public over policy levies. Mistrust in policy costs can have a material impact on energy bills. Carbon Brief has estimated that cuts to energy policy schemes since 2013 have added over £2.5bn to energy bills, an outcome that is the direct result of efforts to cut policy costs.<sup>4</sup>

Transparency in the make-up of the price cap means that prices are more easily explained to consumers and organisations such as National Energy Action can scrutinise pricing decisions in a more evidence-based way. This is important for ensuring markets work in the interests of consumers. NEA is concerned that there is a considerable risk that public perception is damaged through reforms to default tariff arrangements. Whatever course of action is decided upon for default tariff reform, Ofgem has a major role to play in maintaining transparency and confidence. It is important that consumer groups and the consumers themselves can understand exactly why prices are changing when they change. Reforms should also carefully consider impacts on vulnerable, low-income households.

NEA would however stress that the price cap is not a perfect arrangement for default tariffs. Most notably, for households with storage heating, and those with a multi-rate meter, the price cap does not adequately pass through the benefits of off-peak consumption. There are around 1.4 million households that use storage heating in Great Britain<sup>5</sup>. For households with a multi-rate meter, NEA shares concerns with other organisations about how they are treated in the price cap. Existing default tariff arrangements do not work particularly well for these households, especially because of the absence of advice and tools available for these households to load shift. Around 3 million households are on these multi-rate arrangements, and they are not seeing the full benefit of lower wholesale electricity costs at night and face a lottery in terms of what they pay with significant variations in Economy 7 tariffs depending on supplier, region, and payment method. There is an opportunity in default tariff reform to lower costs for these households without adding costs to bills of others.

Around 86% of consumers are currently on default tariffs. Though the price cap was not intended to provide deep price support for consumers, it is clear that consumers rely on the price cap as a form of price support. This discussion paper does not adequately explore how deeper price support could work for low-income consumers in the future, which is important for maintaining consumer trust and confidence. Government should re-commit to consulting on the introduction of a social tariff, or other form of deeper price support for low-income consumers. The introduction of a social tariff could de-risk the process of reform for default tariffs, by ensuring that many of the households who currently rely on the energy price cap receive protection through another mechanism.

### **The risk of bad practice re-emerging**

The case for reform focuses on harnessing the benefits of low carbon energy. Changes introduced through the Mandatory Half-Hourly Settlement (MHHS) programme will impact how the wholesale component of energy bills are passed through to consumers. Energy bills consist of many more components. Excluding the price caps delivered in the height of the energy crisis, the wholesale component of the typical household's energy bill amounts to less than 50% on average. The remaining 50% of energy bills are compiled of several components, including network costs, policy costs, operation costs, VAT and several additional allowances<sup>6</sup>.

Since the introduction of the price cap, Ofgem has played an important role in determining how these costs are recovered by suppliers. Much focus of recent policy work has been around a fairer recovery of costs across different payment methods. For instance, prepayment standing charges have been permanently levelised with direct debit standing charges, mitigating the impact of standing charges on prepayment households.<sup>7</sup> Ofgem is considering further measures to reduce unfairness across payment types, such as levelising debt-related costs between standard credit and direct debit households.

Assuming there could be multiple forms of default tariffs in the future (such as having one dynamically priced and one statically priced default tariff), there is a risk that energy suppliers could apportion a higher level of fixed costs to households without smart technology. Households who cannot afford smart technology may be more likely to face affordability pressures and debt. If energy suppliers take a cost-reflective approach to recovering the costs of servicing debt that they face, the households who are more likely to be in debt will face higher levels of fixed costs compared to households with smart technology. Not only would households be paying higher costs on account of having less ability to respond to price signals, but this could create significant disparity between the affordability of energy for households with or without smart technology. The result could be unequal access to affordable energy.

Ofgem should continue to determine how costs are recovered by energy suppliers. Changes to cost recovery have significant impacts on low-income consumers, potentially reducing affordability pressures to the benefit of all consumers. This is consistent with public opinion. Only 7% of the public believe that the government should not be involved in setting energy prices at all, while 49% believe the government should only be involved in the setting of energy prices to prevent them from being set too high.<sup>8</sup> Future price protection arrangements should pass through the benefits of a renewables-based system, but there must also be price protection for costs not related to the wholesale price of energy. This can be achieved while allowing the market to reward households for using energy smarter.

Additionally, the introduction of MHHS could impact households differently based on whether or not they have a smart meter, and whether or not it is fully operational. The smart meter rollout is not a factor that is fully in the control of households, it is therefore important that Ofgem and DESNZ continue to drive the replacement of traditional meters with smart meters so that households can access the benefits that smart meters offer, including through half-hourly settlement. It is important that once installed, meters are working as they should. DESNZ should work with Ofgem to ensure that this is reflected both in the policy underpinning the rollout, and the way in which suppliers are obligated to deliver it.

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

The price cap was introduced to reduce loyalty premiums, or to reduce the cross-subsidisation of fixed-term contracts from default tariffs. Its introduction has helped to tackle distrust among consumers that they are being charged a fair price. The public understands and values the price cap, especially the protection it has offered during the energy crisis. The cap has also provided regulatory certainty for participants of the retail energy market.

Research conducted by Public First explored public attitudes on the impact of the price cap. More than half of surveyed households believe that the price cap is the only thing stopping energy suppliers from charging more, that it protects vulnerable and low-income households and that the price cap means that consumers are not charged unfair prices.<sup>9</sup>

Transparency in the make-up of the price cap means that prices are more easily explained to consumers and organisations such as National Energy Action can scrutinise pricing decisions in a more evidence-based way. This is important for ensuring markets work in the interests of consumers. Prior to the price cap, increases in energy costs were often explained by suppliers to be the result of policy cost increases but these increases were not properly evidenced. Inadequately explained price rises can result in mistrust from the public over policy levies. Mistrust in policy costs can have a material impact on energy bills. Carbon Brief has estimated that cuts to energy policy schemes since 2013 have added over £2.5bn to energy bills, an outcome that is the direct result of efforts to cut policy costs.<sup>10</sup>

There is considerable risk that public perception is damaged through reforms to default tariff arrangements. Replacing the cap could also create considerable uncertainty for retail market participants. Whatever course of action is decided upon for the future of price protection, Ofgem has a role to play in maintaining transparency and confidence. It is important that consumer groups and the consumers themselves can understand exactly why prices are changing when they change. Reforms should also carefully consider impacts on vulnerable, low-income households.

## **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?**

Diversification in energy consumption, particularly for home heating has already begun and problems have emerged. There are around 1.4 million households that use storage heating in Great Britain. The cap in its current form does not work perfectly for these households with multi-rate meters. Research by Sustainability First and Glen Dimplex has shown that households on multi-rate arrangements are systematically overpaying through the price cap. The structure also allows scope for suppliers to game the system because of the freedom they have to set relative night and day rates within the cap. These are issues in the design of the cap, but not ones which indicate that the cap is unable to support increasing diversity of electricity consumption patterns.

One problem is that many Time-of-Use tariffs designed for electric vehicle owners exclude those with storage heating, despite the cost savings and security of supply benefits that better access to these tariffs could provide. Households with storage heating are therefore likely to continue to rely on default tariff arrangements. Suppliers may have a role to play in offering better information, advice and tariff recommendations to households with storage heating. But Ofgem should conduct a review of the Economy 7 arrangements as a priority in its price cap work. This should include ensuring that the lower cost of wholesale energy at night is properly taken into account in setting the level of the cap, and to ensure that these customers are not disadvantaged by suppliers' setting of relative day-night rates.

Though it's unclear what impact the inefficient use of technologies such as storage heating has on system costs overall, it's clear that a static ToU tariff for these households can offer lower overall costs for the storage heating cohort in addition to wider savings for consumers for lower system costs. As diversification in consumption patterns increase, it may be important to alter the flat nature of the default tariffs.

If the issues with how multi-rate energy tariffs are offered under the current cap are addressed, the assessment of options for future default tariff arrangements will be fundamentally different. Without consideration of such issues, options proposed in the discussion paper, such as a Static ToU tariff or a bottom-up cap excluding certain customer cohorts, will produce many of the same barriers that the current cap produces.

**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?**

External factors influencing debt and affordability in the energy market will continue to impact the perceived role of the current default tariff cap. The cap is viewed by many who use it as a protective measure for low-income households. Since the cap has been developed using a cost-reflective approach to recovering costs faced by the notionally efficient supplier, costs are not recovered in the most progressive way. Ofgem has played an important role in determining how costs are recovered through the price cap by suppliers.

Much focus of recent policy work has been around a fairer recovery of costs across different payment methods. This has resulted in prepayment standing charges being permanently levelised with direct debit standing charges, mitigating the impact of standing charges on prepayment households.<sup>11</sup> The result is a net benefit for low-income households of more than £100m. Beyond the planned changes to levelise debt-related costs in the cap, which could create an additional ~£100m of benefit to low-income consumers, not much more can be done through alterations to the cap to address the quantum that low-income homes pay.

This highlights the importance of introducing deeper price support through new or existing schemes. Without deeper price support, a wider deviation from the cost-reflective approach to cost recovery is needed for the cap to continue alleviating affordability pressures. Without alleviation from affordability pressures, more households are likely to fall into debt, and those already in debt are likely to fall into deeper debt. The result will be a greater level of costs that suppliers need to recover across all customers.

It is also worth considering what changes between now and the introduction of MHHS will impact consideration for how default tariffs may need to evolve. The performance of suppliers with regard to the smart meter rollout programme will continue to have big implications for the appropriateness of the cap in its current form when compared to alternatives. The introduction of MHHS could impact households differently based on whether or not they have a smart meter, and whether or not it is fully operational.

The smart meter rollout is not a factor that is fully in the control of households. It is therefore important that Ofgem and DESNZ continue to drive the replacement of traditional meters with smart meters so that households can access the benefits that smart meters offer, including through half-hourly settlement. It is important that once installed, meters are working as they should. DESNZ should work with Ofgem to ensure that this is reflected both in the policy underpinning the rollout, and the way in which suppliers are obligated to deliver it.

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

Around 86% of consumers are currently on default tariffs. Though the price cap was not intended to provide deep price support for consumers, it is clear that consumers rely on the price cap as a form of price support. This discussion paper does not explore how deeper price support could work for low-income consumers in the future in a way which is separate from default tariff reform. DESNZ was due to consult on long-term arrangements for price protection in the energy market, including through the potential reintroduction of a social tariff, last summer. DESNZ should re-commit to consulting on the introduction of a social tariff, or other form of deeper price support for low-income consumers. The introduction of a social tariff could de-risk the process of reform for default tariffs, by ensuring that many of the households who currently rely on the energy price cap receive protection through another mechanism.

Properly funded price protection for financially vulnerable consumers would make Ofgem's proposals for reforming price protection much more feasible. Without such action from DESNZ, Ofgem must take extra care in its approach to reform.

Ofgem has played an important role in determining how costs are recovered through the price cap by suppliers. Much focus of recent policy work has been around a fairer recovery of costs across different payment methods. For instance, prepayment standing charges have been permanently levelised with direct debit standing charges, mitigating the impact of standing charges on prepayment households.<sup>12</sup> Consideration of further measures to reduce unfairness across payment types, such as levelising debt-related costs between standard credit and direct debit households, will also help to achieve a fairer recovery of costs. While measures such as these offer a degree of protection for some consumers, tweaks to the price cap are unlikely to offer support wide enough or substantive enough to support consumers with their affordability pressures.

**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?**

Of the three key parameters identified, a flat cap is marginally less necessary than a universal or stringent cap. A flat cap exists for simplicity and ease of understanding from a consumer perspective but is not reflective of the costs for consuming energy at different times of day. As MHHS comes into effect, it may be sensible to alter the cap structure to incentivise off-peak consumption and reduce overall system costs, but this must be done without punishing vulnerable households. To avoid overcomplication, Ofgem should pre-define off-peak periods covered under the cap and necessitate that suppliers communicate this information clearly and accurately on bills and customer accounts.

With regard to a universal cap, reducing the number of households who can be covered by a capped default tariff could carry considerable risk. The transient nature of vulnerability means that they will not always require protection through default tariffs, but that they should have access to that protection as circumstances change. Additionally, restricting eligibility to the cap may damage public trust.

It is also important for transparency and trust that the cap remains stringent. Consumers believe that the cap is the only thing preventing them from receiving higher prices from their energy supplier. While NEA acknowledges that some suppliers benefit from cap allowances which exceed their costs, and other suppliers struggle to meet cap limits, NEA believes it is important for ongoing trust and transparency that all suppliers are expected to meet the same standards with regard to default tariffs.

**Q8. What are your views on options discussed? Do you have any preferred options or combination of options? And Q9. In particular, which options or combination of options do you think would best protect vulnerable customers?**

Based on views of the current cap's successes and challenges outlined in response to Q1, NEA has considered the potential options for reform based on their ability to maintain levels of transparency and trust in default tariffs that have been produced under 5 years of the price cap. A table summarising our thoughts on each option's ability to do this can be found below.

| Option  | Transparency   | Trust  |
|---|--|--|
| <b>Static ToU</b>                               | <p>Static ToU arrangements exist for households with multi-rate meters. Price transparency could conceivably continue at current levels under this option. However, there are existing issues with Static ToU tariffs. These issues include difficulty in understanding off-peak times and pricing. This is because there are significant variations depending on supplier, region and payment method. There is also an absence of advice and tools for households with multi-rate metering arrangements.</p> <p>It would be important that the timeframe for off-peak periods are set by Ofgem for default tariffs. Without that, Static ToU default tariffs could lack transparency from a consumer's perspective.</p> | <p>Trust would likely depend on similarity to how cap is currently set. Consumers trust that the current cap process prevents excessive charging by suppliers. However, as discussed above, the treatment of multi-rate meter households by the cap is currently seen as unfair. Those issues should be addressed under the current cap as a priority.</p> <p>Ofgem would need to adopt a proactive role in setting the periods for peak and off-peak consumption. These should be aligned across all suppliers. Suppliers would also need to improve communication around when energy is cheaper, by how much, and how overall cost may be impacted relative to a single-rate tariff.</p> |
| <b>Dynamic ToU</b>                              | <p>Dynamically priced default tariffs are unlikely to allow for similar levels of transparency around energy prices that the price cap allows for now. There are two main reasons for this:</p> <ul style="list-style-type: none"> <li>- Suppliers will take different approaches to how they manage the pass-through of wholesale costs to consumers, meaning that there could be significant variations in default tariff pricing between suppliers.</li> <li>- The fast-changing nature of pricing would make it difficult to scrutinise, for consumers to compare tariffs and for consumers to understand estimated costs of these tariffs.</li> </ul>   | <p>Difficulty in understanding prices may translate into low levels of trust that default tariffs are fair. This could be partially mitigated by clear communication from suppliers. That communication could cover, for example, how a dynamic ToU tariff will compare in terms of cost to alternative tariffs.</p> <p>Generally, it should be expected that consumer trust will be lower if default tariffs become dynamic ToU tariffs due to the complex nature of the tariffs.</p>   |
| <b>Targeted Cap</b>                             | <p>This option would result in the continued output for an overall 'fair price' for customers to compare to. However, since the option proposes to cover fewer households with a price cap mechanism, there is a risk of lost transparency over prices for households that would no longer be covered by the cap.</p>  | <p>For households that continue to be covered by a cap, trust would remain high.</p> <p>Since this option proposes to cover fewer households with a price cap mechanism, there is a risk that trust would decrease amongst households that no longer have their default tariffs covered by a cap.</p>  |
| <b>Bottom-up Cap (exc. Households with ToU-</b> | <p>The continuation of a flat-rate price cap would be good for maintaining transparency. However, excluding some cohorts of consumers may have some detriment in this regard. Generally, detriment should be minimal since the cohort of</p>   | <p>There is a risk that some consumers may be excluded from a flat-rate cap despite the fact that the arrangements may be more appropriate for them. For instance, a household may be</p>  |

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|--------------------------------|---|--|
| <b>appropriate technology)</b> | consumers that would be excluded under this option are likely to already be benefiting from tariffs which better suit their energy needs.   | mis-identified as having technology which excludes them from accessing a flat-rate default tariff. Trust could be affected for all consumers who would be excluded but want to have access to a flat-rate cap.   |
| <b>Market Basket Cap</b>       | <p>This option would likely result in significantly lower levels of transparency with regard to default tariff prices. Consumers and relevant stakeholders will not have the necessary information to understand whether default tariff prices are fair.</p> <p>The risk that suppliers could game this arrangement to create a higher reference price for the cap would also damage transparency.</p>  | <p>Different suppliers may approach setting prices under these arrangements differently. Some may seek to set their default tariffs to the maximum amount allowed for under the cap, whilst others may look to set theirs to the lowest amount. Competition in terms of tariff pricing is likely to be more evident with fixed tariffs or ToU tariffs. There could therefore be substantial differences in default tariff rates between suppliers, leading to low levels of trust among consumers.</p> |
| <b>Relative Cap</b>            | <p>Transparency will be lost during price changes. Suppliers do not explain why they're able to offer a new cheapest tariff, or why the previously cheapest tariff is no longer available. Consumers on a default tariff governed by a relative cap will therefore have no awareness of why their prices are changing.</p> <p>There is also a question as to how frequently a supplier would have to update prices, for instance during periods when wholesale prices are declining or rising in a volatile way. This could have significant implications for transparency for default tariffs.</p> | <p>This option may better capture incentives for competition compared to the market basket cap. A permitted variance between default tariffs and cheapest tariffs is also easier to understand and communicate than a permitted variance to a market average.</p> <p>However, the absence of transparency around how suppliers recover costs, why prices change and how long new tariff rates might last before another change could seriously undermine consumer trust.</p>                           |
| <b>BAT</b>                     | While acquisition tariffs are not generally transparent, a ban on acquisition tariffs as a substitute for a price cap would significantly reduce transparency. NEA is generally supportive of a Ban on Acquisition Tariffs, but believe it is stronger as a mechanism when accompanied by other forms of price protection.  | The absence of transparency over how default tariff prices are set will have a negative impact on consumer trust. Consumers would have no means of understanding whether default tariff prices are fair.   |
| <b>Margins Cap</b>             | A margins cap would provide low levels of transparency. While it is important to ensure that suppliers do not collect unreasonable profits, this option would provide no assurance that costs are being distributed equally among consumers. Suppliers could, for instance, collect higher portions of debt-related costs from one cohort of consumers than another without breaching a margins cap. The outcome would be a cross-subsidised market.  | Many consumers feel that the price cap is the only thing stopping their energy supplier from charging them more. A margins cap may offer some reassurance to consumers that suppliers are limited in what they can charge. However, due to the inevitable lack of transparency over how costs would be recovered, consumers may find it difficult to believe they are being charged fairly on default tariffs.   |

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

Often forgotten in the discussion of flexible loads are households with storage heating. If it were deemed appropriate for households with an electric vehicle to have separate arrangements with regards to price protection, it is probable that those arrangements would also favour households with storage heating. There are around 1.4 million households that use storage heating in Great Britain. Many Time-of-Use tariffs designed for electric vehicle owners exclude those with storage heating, despite the cost savings and security of supply benefits that better access to these tariffs could provide. Households with storage heating are more likely to continue to rely on default tariff arrangements.

NEA shares concerns with other organisations about how households with a multi-rate meter for electricity are treated. Existing default tariff arrangements do not work particularly well for these households, especially because of the absence of advice and tools available for households with a multi-rate meter. Around 3 million households are on these multi-rate arrangements, such as Economy 7 or Economy 10, where they pay a cheaper rate for their night usage and more for usage during the day. NEA is concerned that these households are not seeing the full benefit of lower wholesale electricity costs at night and face a lottery in terms of what they pay with significant variations in Economy 7 tariffs depending on supplier, region and payment method. There is an opportunity in this discussion of the future of price protection to improve how these households are treated with regards to price protection.

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## **References and Notes**

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

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

<sup>3</sup> Public First (2024) [Fuelling Fairness: Five years of the energy price cap](#)

<sup>4</sup> Carbon Brief (2022) [Cutting the 'green crap' has added £2.5bn to UK energy bills](#)

<sup>5</sup> Maxine Frerk (2020) [Electric storage heating – a Cinderella solution](#)

<sup>6</sup> Ofgem (2024) see 'costs included in the price cap level' for different payment types on the [Retail Market Indicators](#) page

<sup>7</sup> Ofgem (2024) [Decision on adjusting standing charges for prepayment customers](#)

<sup>8</sup> Public First (2024) [Fuelling Fairness: Five years of the energy price cap](#)

<sup>9</sup> Public First (2024) [Fuelling Fairness: Five years of the energy price cap](#)

<sup>10</sup> Carbon Brief (2022) [Cutting the 'green crap' has added £2.5bn to UK energy bills](#)

<sup>11</sup> Ofgem (2024) [Decision on adjusting standing charges for prepayment customers](#)

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