



## **Future of Domestic Price Protection**

### **About myenergi**

myenergi is a manufacturer of energy smart technology targeted at the domestic sector. Our mission is to promote energy independence through a range of innovative, eco smart products, all manufactured and designed in the UK. myenergi has more than 100,000 connected devices installed in UK homes, with an estimated total capacity of at least 678W.

### **Evaluating the cap today.**

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

The introduction of the price cap in 2019 presented various successes and challenges, but overall, we mostly agree with Ofgem's evaluation of the current price cap regime. We agree that the price cap was needed for consumer protection and to instil consumer confidence in the energy market, during a unprecedented, turbulent time period.

However, we believe that the reason the price cap was require in the first place was due to Ofgem's mismanagement of the energy market. A report by Citizens Advice in 2021 found that Ofgem failed to act against unfit energy suppliers for nearly a decade, leaving the market vulnerable to the spike in wholesale prices. The report found that Ofgem left the market in a precarious position when gas prices surged in 2021, which contributed to the collapse of numerous suppliers, ultimately costing the average household almost £100.

Similarly, a report by the government's Public Accounts Committee in 2022 said that Ofgem was 'too slow to act' and its inability to act more quickly was costing energy consumers 'billions.' It is arguable that many of these issues are down to Ofgem's scope simply being too broad for a single organisation and that its responsibilities should be better distributed.

Overall, we believe that the price cap has been structured and administered in an inflexible, retrospectively-focused methodology. The price cap resulted in reduced amounts of competition within the energy retail market, and although we are slowly starting to see the emergence of new innovative, competitive energy tariffs available as the market stabilises, these are mostly designed for consumers who have energy smart appliances, and the majority of consumers are still on default tariffs (Ofgem have stated this was 90% of households in January 2024) with energy retailers charging the maximum they can under the price cap.



## Evaluating the current cap for the future.

**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?**

We understand that as the energy market and electricity consumption evolves and becomes more diverse, it will become more challenging to ensure that all types of energy consumers are protected, especially in regards to the price cap. It is important that any changes to the current price cap protect low income and vulnerable consumers. It is also important that any regulatory intervention does not hinder innovation in this evolving market.

Amending the current price cap to reflect dynamic pricing in the energy system would mostly benefit consumers who have energy smart appliances, such as electric vehicle chargers, heat pumps and battery storage systems. There are a large number of consumers who this technology is not yet accessible, either due to affordability, or because they are in private rented or social housing, therefore cannot install these technologies without permission.

Whilst we understand that it may be challenging to retain a flat, universal and stringent price cap, especially once the energy system implements Market-wide Half-Hourly Settlement, we believe the bigger challenge is how to ensure that any changes to the price cap do not disadvantage the most vulnerable and poorest in society. It is important to protect consumers from unnecessary complexity and costs in the energy market, and this will become increasingly difficult to do so.

Even those with energy smart appliances may face consumer detriment if they default to a dynamic price cap once their fixed tariff ends, as other factors that may affect their energy needs would need to be considered, such as energy consumption and what other appliances they have in their home (such as solar PV or battery storage).

Ofgem have highlighted that one of the challenges of retaining a flat, universal and stringent price cap would be increased system costs to all. myenergi disagrees that this would be an automatic consequence of not amending the price cap regime. There are other mitigations in place to prevent this from happening, such as smart regulations for energy smart technologies (for example the Electric Vehicle Smart Charge Point Regulations for domestic electric vehicle chargers and the proposed Smart Mandate for heat pumps), that have been introduced to reduce strain on the grid.

There is also a proposal in the recently published 'Smart and Secure Electricity Systems Programme: Energy Smart Appliances' consultation that states that all electric heating



appliances, on set up, must have Demand Side Response and Time of Use tariffs operations enabled by default, and where possible, schedules should be pre-set to operate outside of peak hours. This is also already in place for domestic electric vehicle chargers.

There are also flexibility services being offered by Demand Side Response Service Providers and aggregators that will reward consumers for shifting their energy consumption to balance the grid. We have seen the success of National Grid ESO's Demand Flexibility Winter Service and know that consumers were engaged and motivated to shift their demand out of peak hours in return for an incentive, or simply to reduce their carbon emissions. DSRSPs and technology manufacturers are also arguably better informed and more likely to engage with consumers regarding flexibility services, than energy suppliers simply placing consumers onto a default tariff that is set at the price cap.

We believe that energy suppliers have a responsibility to encourage consumers to sign up to energy tariffs that will most benefit them and their bespoke energy usage. We understand that the current high number of energy consumers on a default tariff is a result of the ongoing energy crisis and lack of competition in the current market, but as the market becomes more settled, it is important that energy suppliers advise and engage with consumers.

Ofgem have expressed concerns that customers who have a high consumption pattern may have an incentive to stay on, or move, to the flat cap. They gave the extreme example of an EV owner who does not wish to smart charge their vehicle, and prefers charging during peak times, therefore, a Time of Use tariff would not benefit them. This would impose significant costs on their energy supplier. We believe that this example does not reflect the majority of EV owners, who do tend to be more engaged in their energy usage, but also that this should be a point of market competition. Energy suppliers should be able to engage their consumers, and advise what the best energy tariffs are available to them based on their energy smart appliances and consumption. At the moment, the communication of tariff options is left to the energy suppliers; few of which do this well and most of which arguably do not, which leads to either consumer confusion or inaction, or both.

Overall, we believe that any regulation in the energy market needs to recognise innovation. A blanket price cap does not make any sense in a world where more consumers are looking at dynamic tariffs with variable unit costs per half an hour. However, it is imperative that we protect consumers who are vulnerable.

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

myenergi is not an energy retailer, however, we believe that more suppliers will launch ToU tariffs into the market as an increasing number of consumers purchase electric vehicles,



heat pumps, solar PV systems and battery storage systems for their homes. We believe that it is likely that MHHS will impact the tariffs that retailers offer in the market. Using Scandinavia as an example, there has been a strong adoption of dynamic tariffs coupled with the deployment of low-carbon technology (primarily Electric Vehicles.) Given the volume of connected, flexible load that is being deployed, myenergi expects to see growth in 'type-of-use' tariffs, or tariffs structured around the optimised use of specific smart devices in the home.

We have already seen an increase in the number of tariffs being offered by various suppliers over the last couple of years, especially for those consumers who do have energy smart appliances in their homes. We expect this to increase with the recent proposals made by government in the 'Smart and Secure Electricity System' consultation, as mentioned earlier.

We believe that a majority of consumers who have already switched to a ToU tariff are early adopters, and the challenge for suppliers and other market players will be how to engage the inert consumers in the energy market. myenergi believes that domestic consumers will continue to default onto single-rate standard variable tariffs in future, as there is no incentive for energy suppliers to get consumers onto the 'best deal' and there is also a lack of awareness and education around static and dynamic energy tariffs.

Switching, or competitive retail tariffs are designed by retailers as acquisition tools, therefore, we do not believe that suppliers will consider using time-of-use tariffs as default. There is no previous evidence to suggest that retailers have actively encouraged consumers to switch to better deals to save money on their energy bill, as there is no financial incentive for retailers to do so.

However, we are seeing more Demand Side Response Service Providers enter the market who are also able to incentivise consumers to shift their energy usage.

**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?**

Naturally, consumers with more time, interest, understanding and ability to be more flexible with demand (e.g low carbon technology and smart technology adopters) will benefit the most from ToU tariffs and have possibly already taken up a ToU tariff. However, leading on from this, myenergi does not believe that there will be a huge difference in how quick and at what scale customers, including those with flexible loads, will take up ToU tariffs once MHHS has been implemented, unless there is a huge change in how energy retailers engage with consumers.



Historically, we have evidence of energy consumers not regularly switching energy tariffs, despite being able to save hundreds of pounds a year in doing so, and cannot see how this behaviour will change without drastic change from the energy retail sector. There has been proprietary research that shows that more than one third of UK EV drivers have considered switching their electricity supply since getting an EV, but have not done so. Furthermore, energy suppliers can realistically only switch customers to ToU tariffs if they have a functioning smart meter installed, which millions of households still lack, therefore this will be a barrier for the uptake of ToU tariffs when MHHS is implemented.

**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?**

Fundamentally, we understand that electricity prices are subject to change, so there should be no assumption of ongoing prices at a certain level. However, to make the situation as fair as possible to consumers, government should be focused on ensuring that the true cheapness of renewables can be enjoyed by all consumers by making levies on energy more equitable and by working harder to remove the archaic and arcane link between gas and electricity prices.

#### **Options for evolving price protection for the future**

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

myenergi believes that despite industry efforts, there will still be a large number of disengage consumers who will need a form of price protection. We agree with Ofgem's assessment that if price protection was removed completely, there would be a likely return of price exploitation for inactive consumers, therefore it is important to retain some form of price protection in the retail market.

As mentioned previously, we do not believe that energy suppliers are incentivised to provide consumers with the best energy tariff, and rather are incentivised by inertia and customers being on their 'worst deal.'

**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?**

Out of all three parameters highlighted, myenergi believes that there will be less requirement for the price cap to be flat, as the energy system introduces more dynamic pricing. There is a potential that static and dynamic pricing may guide consumer behaviour,



and encourage more consumers to use energy during off-peak hours. However, there would be a level of education and engagement required to ensure that this is successful and reduce the amount of consumer detriment that may result from consumers not fully understanding how the future energy system will work. We believe that a future price cap based on static pricing is more sensible than a price cap based on dynamic pricing, as if a consumer ends up on a default tariff that is set at the price cap, it is probably safe to assume that this is because they are not as engaged with their energy usage and energy tariff as others. Static pricing has less risk and offers more consumer protection than dynamic pricing, as there is an element of consistency.

We believe that although relaxing the requirement for the future price cap to be universal may make sense, this would be extremely hard to monitor. It is naïve to assume that in this nascent market, there is a clear view of what different types of consumers require to suit their energy needs, and we need to ensure that certain types of consumer groups are not disadvantaged over others.

Consumers will have a range of different needs and motivators, and some consumers will engage with their energy usage, energy tariffs and flexibility services, whilst others will choose not to. We believe that choosing to place consumers on specific default tariffs based on the technologies they have in their homes is risky, as there are so many other factors that can affect whether a specific tariff is suitable for them, such as overall energy consumption, generating and export equipment and lifestyle.

We also believe moving away from a universal price cap would be increasingly difficult to monitor. It is difficult to identify consumers who have energy smart appliances, such as an electric vehicles or heat pumps, despite Ofgem suggesting that suppliers would be capable of doing this through demand profiles, or previous tariffs that the consumer has signed up to. We know that there are a large number of heat pump and domestic electric vehicle charger installations that do not follow the correct process of notifying the DNO when installed, therefore, it is possibly safe to assume that energy suppliers would experience the same issue when trying to identify consumers who have these technologies.

We appreciate the discussions that have been had around introducing a social tariff and think that this is a sensible solution, but it will be difficult to define who is in need of extra support, especially during the current cost-of-living crisis which is having an impact on a lot of society, not just those who are on low income.

myenergi believes that it is most important for the future price cap to remain stringent to ensure consumers benefit from low, fair prices and consumer protection. Suppliers need to meet the required service standards that are set by Ofgem, and we do not believe that regulation should be relaxed if they are unable to do so.



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

myenergi believes that if Ofgem decide to move away from a flat cap, the future price cap should be based on static ToU. This provides consumers with incentive to shift their demand away from peak usage times, and is a lot simpler to understand, compared to dynamic pricing. Whilst dynamic pricing has been successful and provided many financial benefits for consumers by providing low and sometimes even negative electricity rates, there are often clauses with dynamic tariffs that warn that electricity prices can increase to sometimes £1/kWh as they are based on wholesale prices. This is over three times the current price cap rate as set by Ofgem.

Although this is rare, we believe it is important that a consumer is fully aware of the risks, and sometimes uncertainty, of choosing to move onto a dynamic tariff. Therefore, we do not believe that this is a suitable option for a default tariff. Most consumers who have not actively chosen an energy deal are probably not as engaged with their energy usage and tariff rates as others, therefore, will possibly not be aware if their energy prices suddenly raise a great deal due to wholesale prices.

However, there would need to be a proper consideration of the metering in place should Ofgem decide to proceed with this option. As stated above, realistically energy suppliers can only switch consumers to ToU tariffs if they have a functioning smart meter installed, which millions of households still lack.

Regarding the universality of the future price cap; the inherent diversity offered by different energy smart appliances will make it difficult for a 'one size fits all' approach, excluding consumers with certain technologies from accessing the price cap. Therefore, it seems unrealistic that an energy supplier can provide a default time/type-of-use tariff based on what low carbon technologies a consumer has in their home, ensuring that the default tariff will offer protections for all consumers and ensure unreasonable and unrealistic demands are not made. Again, it should be a point of competition to engage consumers and ensure they are on the best tariff/ service available for them, based on their home ecosystem and energy usage.

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

It needs to be ensured that any changes to the price cap do not discriminate against the most vulnerable in society. Those who are vulnerable may have different energy needs to other consumers (such as high energy using medical equipment), which may affect how they benefit from the price cap.

Transparent terms should be imperative for all consumers, but a specialised focus should be given to those identified as vulnerable. Time/ type-of-use tariffs can be complex to understand for most, but those identified as vulnerable may not fully understand the different energy costs at different times of day, therefore, there is a greater risk of poor outcomes. Although consumers should not be discriminated against simply for being identified as vulnerable, extra protections and more communication should be provided to ensure that they fully understand the price cap, especially if this evolves to reflect the future of the energy market.

As stated above, a social tariff may be a suitable option to help protect vulnerable customers, but there will be challenges in identifying who would need this support, and ongoing monitoring of the social tariff system to ensure that it is not being abused.

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

Consumers with large flexible loads should be afforded the same level of price protection as consumers without flexible energy assets. Whilst we understand the motivation for wanting to place consumers with flexible loads on smart time/ type-of-use tariffs (i.e to prevent other households being exposed to excessive costs from the inefficient use of high-consuming technologies), there are mitigations in place to address these concerns such as Electric Vehicle Smart Charging Regulations, and the proposed Smart Mandate for other energy smart appliances such as heat pumps.

It would be naïve to use a ‘one size fits all approach’ for consumers, including those with large flexible loads, as there are many other factors that could influence the level of price protection a particular group of consumers requires. Encouraging consumers to charge their electric vehicles during off-peak times should be a point of market competition, and should not be mandated, or result in a customer being penalised if they choose not to charge their vehicle, or use their energy smart appliances during off peak times. If the energy supplier cannot encourage consumers to make economically rational decisions, then this should be viewed as a market failure.

Mandating that consumers with certain technologies, such as an electric vehicle, are excluded from the price cap could result in consumer detriment. It is not always the case that ToU tariffs are the best option. Whilst some ToU tariffs may have a strong off-peak rate, the peak rate is often not the best available, therefore, it is often not the cheapest or the best tariff for a ‘whole home’ for a significant proportion of consumers.





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

Whilst we believe that a consumer should not be unfairly penalised if they have not actively chosen an energy deal, we believe that consumer engagement and specialised tariffs/ services should be a point of market competition, and not as a result of regulatory intervention. As the home ecosystem becomes more complex, we cannot see how default time/ type-of-use tariffs, on either static or dynamic pricing, will suit all customer needs, without causing poor outcomes for at least some consumer groups, and it is naïve for both the regulator, and energy suppliers to assume what approach is best for consumers in such a nascent, emerging market.

A recurring theme throughout this discussion paper is how the energy system can prevent risk and excessive costs to the consumer, that may be caused by the vast uptake of flexible energy assets. Although not fully relevant to this discussion paper, myenergi have previously and repeatedly stated that distributed flexibility will have a huge role to play in the energy system as the number of connected assets grow in the UK, reducing the risks that have been explored throughout this paper. We believe that there should be no barriers in place hindering smaller DSRSPs and aggregators from entering the flexibility market, and that there should be a level playing field for all participants.