

Ofgem Future Price Protection Discussion Paper

Advice Direct Scotland Response

Evaluating the cap today

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

The initial advent of the cap was designed to protect disengaged customers who had ended up paying higher rates as they had not taken advantage of offers available for new customers. As such served its purpose. Due to the energy crisis, it became more of a default price with no suppliers offering pricing below the cap due to the high wholesale cost of energy.

It could be argued that due to fast escalation of the energy crisis, it was imperative that the cap was in place to protect consumers from price hikes, however, in reality the costs of energy would have risen anyway, and the cap may have given suppliers the option to use it as a lowest available price, minimising competition. The energy costs associated with the peak of the energy crisis were so high, that with or without the cap, regulatory and government intervention would have been needed.

The paper suggests that diversification of the market now means that the cap needs to change. We would agree that changes to the market have impacted the cap, as stated the original design of the cap was to protect disengaged customers. However, with the current challenges of the energy crisis, price protection needs to be more carefully considered and designed with the challenges of energy affordability and customer vulnerability at the forefront of any change.

New technologies entering the market and a rise in time of use tariffs also necessitate change. However, a cohort of customers with older time of use/ complex tariffs or metering have already found themselves ill protected by the cap. We regularly receive calls from customers with Economy 7 or other multi rate metering who struggle to understand whether they are being billed correctly in line with the cap. There is scope within the current cap for suppliers to game the system because of the freedom they have to set relative night and day rates.

These tariffs are not new, many of these tariffs have been available for decades, but they have not been considered in current cap design.

Evaluating the current cap for the future

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?

Changing consumption patterns will certainly impact the ability to use a flat, universal, and stringent price cap. As mentioned previously, current cap design already has limited ability to protect customers on older time of use tariffs. However, any change needs to consider the variation of customers in the market. A flexible cap would need to be carefully applied to ensure that it did not leave groups without support.

We believe the cap should be targeted, but larger consideration would need to be given on how it would be targeted. For instance, those who have high energy use due to a medical issue may be targeted by matching DWP data on which benefits they claim, however there may be those who are not claiming benefit but are still struggling with the cost of high energy use.

Through our administration of the Scottish Governments Home Heating Support Fund in the previous financial year we awarded £503,405.59 to customers who need to use electrically powered medical equipment and were struggling with their bills as a result. These customers were being severely impacted by the energy crisis and were having to limit energy use in other areas to ensure they could run essential medical equipment.

Another consideration is that change in the energy market is likely to reward reduced energy use. Consideration should be made as to how price protection can encourage customers to use energy efficiently without rewarding customers for reducing use across the board. We already have a huge amount of customer drastically limiting their usage in order to afford energy costs, for those who are financially vulnerable, encouragement to use more energy, more efficiently, rather than less will help to lessen instances of physical and mental harms caused by fuel poverty.

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?

Evidence from our customers would suggest that those who uptake EV vehicles and solar/batteries are more engaged in the market. Most have considered the financial and environmental benefits to adopting low carbon technology and considered the best option available to them when selecting a tariff.

These customers are likely to stay engaged and interact with the market as MHHS bring more tariff options. Other customer cohorts, such as those who currently use time of use tariffs due to older technologies such as electric storage heaters are not used to having varied tariff options and are therefore less likely to be engaged. These customers will likely take longer to understand and switch their usage. They may also be held back from engagement by delays in smart meter rollout in rural areas.

Options for evolving price protection for the future

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

We agree that price protection in the domestic retail market is essential.

In the last year we have dealt with record numbers of customers who are self-disconnected from their energy supply or are facing high energy debt. Prepayment customers are generally less engaged and less likely to switch as tariffs are largely similar across suppliers. These customers who are already facing high detriment would be impacted by further harm without price protection.

We constantly support customers who are struggling to understand their bills and feel they are being charged incorrectly or unfairly. Without price protection we would predict higher instances of unfair billing.

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

We believe that relaxing the universality principle and operating multiple targeted cap levels will be the best option to ensure the largest proportion of customers are protected. This targeting would present further challenges in ensuring no customer groups were left without protection. The discussion paper has used the example of a target group of customers who receive Warm Home Discount. In Scotland Warm Home Discount works differently and is only automatically applied to those claiming the guaranteed element of pension credit, so other factors would need to be considered. Even in England and Wales there were customers who would need particular price cap considerations (for instance due to medical costs) but who did not qualify for Warm Home Discount.

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

Due to the changing nature of vulnerability, there is no one size fits all option to best protect all vulnerable customers. For instance, if we consider disabled customers; they

are likely to see more harm from a cap which is less universal and flat as they are generally high energy users with less ability to switch usage.

However, if we consider financial vulnerability, a flexible cap would be of benefit. Capping standing charges for low energy users or prepayment customers would prevent this group from paying a higher proportional cost for their energy.

As mentioned previously, a flexible cap would benefit customers on time of use tariffs. Those without access to the gas grid face higher bills either due to expensive all electric heating systems or due to a reliance on alternative fuels. These customers would be helped by a cap which more carefully limited their costs and rewarded them for off peak use. Capping charges for heat rates or off-peak rates for these customers to a level closer to gas prices would make a considerable difference to energy affordability. The majority of customers with older time of use tariffs are in rural Scotland, where there are higher instances of fuel poverty, and average energy debt is higher. Further support from a cap for these customers would help to balance out the increased costs for those in rural areas.

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

Customers with large flexible loads should be rewarded for shifting usage, as this will support the market as a whole. However, it's important to consider that those with large flexible loads in many cases will be those more able to meet their energy costs. The average customer who has been able to install solar or batteries, or purchase an electric vehicle is less likely to be facing financial detriment. Any changes to the cap which reward for shifting usage, cannot award one group to the detriment of another. Customers in fuel poverty are likely to be those that stay on a standard variable tariff. As Ofgem need to balance any costs across the market, they would need to ensure that a reward of cheaper energy for customers shifting usage is not picked up as part of a cap for standard variable tariff customers.

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

Other options/challenges to price protection

As Ofgem considers changes to price protection, Advice Direct Scotland would like to see all customer types be considered and supported. The energy crisis has shown us the lasting impact of financial detriment, and some customers are already falling through the cracks of current price protection.

Advice Direct Scotland has liaised with park home residents and found that they are in a difficult position when paying for energy as they have no direct relationship with their supplier. As non-domestic energy is not subject to the cap, park home residents

become domestic customers without a domestic supply and pay higher costs for their energy.

These customers have less visibility of what their charges should be, and although landlords or site owners should not charge residents more than the initial price for energy, the reality is that customers whose housing is controlled by the person they are complaining about or challenging, are less likely to seek solutions and likely to fear repercussions.

Further thinking is needed on how to support these customers, tighter regulation for business customers who are using their supply to serve domestic customers and more options for these customers to seek support and redress if they are being incorrectly charged should be considered.