



# FUTURE PRICE PROTECTION

Changeworks' Response to Ofgem's Call for Input Discussion Paper  
May 2024

**CHANGEWORKS.**

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# About Changeworks

Changeworks is a leading consultancy, research, and programme delivery organisation, with over 35 years of experience of decarbonising Scotland's homes. We continue to invest in services that will enable householders to reduce both their energy bills and their carbon footprint.

Our Affordable Warmth Services team provides energy efficiency, fuel poverty and energy debt advice to people across all of Scotland. Over the previous financial year (2023-2024), Changeworks has supported 67,020 households with savings through energy efficiency advice, tariff switching, debt and billing support, access to grants, and more. Our advisors work extensively with clients and energy providers. We understand the impacts of price protection and the current price cap system, especially for vulnerable customers and those living in fuel poverty.

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

### Affordability

- The cap attempts to ensure that households on a default tariff pay a fair price for their energy per unit, but **does not prevent additional costs**, such as rising standing charges, which have had significant impacts on the affordability of energy bills. The National Energy Agency estimated the record rise in October 2021 to the Default Tariff price cap resulted in over 500,000 more households pushed into fuel poverty **Error! Bookmark not defined.**
- **The price cap does not tackle the problem of energy affordability for low-income or vulnerable consumers.** Vulnerable consumers are still experiencing huge increases in their energy costs. Without targeting customers that need the most help, the price cap is a weak mechanism. We urge that a mandatory social tariff, subsidised by an increased windfall tax on excess profits made by oil, gas, coal and refinery companies should be adopted.
- **The “price cap” is not a useful term, which is misleading and confusing** for householders. Prices are not truly capped, and consumers can pay much more or much less depending on usage. The cap is an average, based on an increasing unit price. The unit price is what affects people's bills, but this is not something that is well understood or widely discussed.
- Perceptions of the price cap as a fixed maximum payment has had unintended consequences. This misconception has resulted in fewer energy saving behaviours for some, which has had unjust consequences on the affordability of rising energy bills.

### Disengaged consumers

- The current approach to the cap aimed to address the 'loyalty penalty' price discrimination, whereby customers that do not actively choose a tariff pay high default tariff prices.
- As Ofgem has pointed out, the number of customers on default tariffs has grown substantially to represent roughly 90% of households in January 2024, up from around half of households at the time of the cap's introduction.
- **Changeworks has not seen the competitive rates and increased choice of tariffs** that were expected to emerge. Therefore, the focus of a price protection mechanism should not be on protecting 'disengaged' customers. Even customers that may have been previously engaged, or who have become engaged due to the energy crisis, have been unable to sign up to new tariffs if competitive rates have not emerged. The lack of choice of tariffs is a considerable challenge due to the shift to electric (clean) heating. Electricity is currently significantly more costly than gas, both in terms of unit (kWh) rates and standing charges<sup>1</sup>. Because of a lack of truly competitive rates and a shift to electric heating, wider affordability challenges should be the focus of future price protection.

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<sup>1</sup> [Energy price cap | Ofgem](#)

- In Changeworks' experience, advice services that would previously advise clients to explore supplier switching and to help them to navigate tariff options have advised clients to generally stay on their current energy tariff, potentially reducing awareness of consumer choice amongst the public in comparison to the period before the energy crisis.

## Improved Efficiency

- Whilst the cap has resulted in the incentivisation of efficiency (with an 11% fall in operating costs between 2019 and 2021), Changeworks has seen less flexibility from suppliers. **Changeworks is concerned that improved efficiency has resulted in less flexibility of payment methods and timelines, which low-income and vulnerable customers often find more challenging to comply with.**
  - Customers can best be positioned to avoid getting into debt if suppliers are more flexible in payment approaches – especially where payment is made via direct debit. Changeworks has experienced an increase over the last few years of energy debt building up for customers that have a positive history of paying their bills on time, and found themselves forced into debt during times of hardship, such as temporary unemployment, which they have been unable to pay off in the mandated way. Changeworks has seen that flexible repayment options have been reduced, and that suppliers are responding to increased levels of debt by restricting repayment methods and plans. This is counterproductive. Customers are best positioned to repay debts if plans suit their needs, such as paying weekly fortnightly as soon as benefit payments are received. Customers relying on benefits or that have insecure income experience a cashflow problem when forced to pay via direct.
  - Restricting payment methods – such as moving away from physical pay as you go cards – is a barrier to payment for vulnerable customers who rely on routine and wish to continue paying their supplier through a method that is familiar to them. For many, this reduced flexibility from suppliers in recent years is in itself an unnecessary barrier to affordability.
- **Reductions in operating costs may have led to an over standardisation of how suppliers engage with customers.**
  - Enhanced training and support is needed when it comes to vulnerable customers. Changeworks has experienced a number of instances where customers have found themselves facing unmanageable costs and debt levels due to a lack of support.
  - In many cases, suppliers continue to send threatening letters and other forms of communication to customers, even when a debt repayment plan has been negotiated and the customer is complying with the terms agreed, or where a customer is paying as much as they can. This results in intimidation and the customer is less likely to communicate with the supplier at all. When customers feel humiliated and desperate, there is an increased risk that they will stop payments altogether.
  - A non-standardised approach to escalation for vulnerable customers that are struggling to pay or are in energy debt would reduce the chances that customers will avoid all communication with the supplier due to being frightened and panicked.

- **We have seen a reduction in writing off debts, especially in relation to increased standing charges, and an increase in the proportion of customers in energy debt.**
  - High standing charges impact upon those who are least able to pay disproportionately as customers that have accrued energy debt over previous months or years are often put on pre-payment meters by their suppliers. However, rising standing charges mean that customers attempting to manage high levels of debt have the least control over the bills and pay disproportionately high bills going forward. This restricts peoples' ability to pay off their debt and can trap them into a debt cycle. This has significant impacts on the wellbeing of customers and reduces the likeliness that debts will ever be paid back, resulting in losses for suppliers.

## ***2. 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?***

Changeworks agrees that as electricity prices become more dynamic, price protection will need to play a big part in ensuring the transition to a flexible, net zero energy system that works for all consumers.

**However, the price cap in its current form cannot deliver this. We urge the UK Government to instead introduce a (non-voluntary) social tariff to better shield vulnerable and low-income customers in fuel poverty.**

**Changeworks is wary of relying on an increase in TOU tariffs and does not agree that a continued price cap should be designed around diversity of electricity consumption patterns.**

Whilst Changeworks supports the Market-wide Half-Hourly Settlement (MHHS) from 2025, we urge Ofgem to consider that this will not be enough to reduce householder bills or to manage energy demand as the UK transitions towards electric heating.

Improving the energy efficiency of the UK's buildings, as well as expanding the electric grid, will be necessary to ensure that the transition to electric heating is affordable and feasible.

Already, in the UK, the most vulnerable are seeing rising costs at a disproportionate rate due to the energy efficiency gap<sup>2</sup>. Recent analysis by the Energy and Climate Change Intelligence Unit (ECIU) found that, under Ofgem's price cap from January 2024, homes with poor insulation (EPC band F) will be an average of £730 worse off per year than homes with an EPC band C)<sup>3</sup>.

Proactive policymaking is needed to ensure that network upgrade costs are not transferred to consumers, especially vulnerable and low-income customers that are already at risk of severe energy rationing and accumulating energy debt.

### **Time of Use Tariffs – Opportunities**

- **Changeworks supports domestic flexibility so that consumers can take advantage of different rates throughout the day.**
- With the rollout of smart meters and smart technologies, time of use tariffs will play an important role in helping to save consumers money, whilst balancing the grid and taking full advantage of low carbon sources of electricity generation.

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<sup>2</sup> [The most vulnerable shoulder rising energy costs because their homes aren't efficient enough – here's why that's so hard to tackle | Blog | Centres and institutes | University of Leeds](#)

<sup>3</sup> [Energy & Climate Intelligence Unit | Energy bill price cap: poorly insulated homes to cost over £400 more to heat next year \(eciu.net\)](#)

- Energy Saving Trust estimated that time off use tariffs save households an average of £70 per year<sup>4</sup>.

### Time of Use Tariffs - Challenges

- Changeworks is concerned that **suppliers are the main beneficiaries of such tariffs**, not consumers, and benefits are not equally distributed between customers<sup>5</sup>. Proactive policymaking actions should be taken to ensure electric heating is affordable remains necessary as not every household can benefit from TOU tariffs.
- Many people will always need to use electricity at certain times, or cannot have a smart meter installed<sup>6</sup>. Changeworks is concerned that TOU tariffs may lead to an increase in peak rates by the same amount that off-peak rates decrease. If this is the case, such tariffs may not address affordability challenges. As a mechanism for price protection, this risk is significant as **householders without flexibility may face cost increases** and higher energy bills.
- For those that benefit from TOU tariffs, average reduction in peak demand electricity is 5-10%, which is not enough to cope with increased and diverse electricity consumption patterns<sup>3</sup>.
- Changeworks research has shown that **consumers are only likely to switch to this type of tariff if it saves them money**. As current financial savings are minimal, encouraging uptake will be challenging<sup>5</sup>.
- Research commissioned by Ofgem demonstrated that **while many consumers may experience (marginal) reductions in energy bills, vulnerable or fuel poor customers are more likely to experience bill increases**<sup>7</sup>.
- The **smart meter roll out should be accelerated** in order to incentivise householders to install clean, electric heating systems. With the transition to net zero, a great proportion of customers will rely upon air source heat pumps and other electric heating technologies that run most efficiently when constantly running. Such customers will only benefit from TOU tariffs if they have smart meters installed and energy efficient properties<sup>8</sup>. With sophisticated controls, demand side management can be applied to heat pumps so they can operate on TOU tariffs and save on energy costs without a significant impact on efficiency.
- **Additional support for vulnerable households would need to be provided** through a price guarantee that ensures costs will be no more than their existing tariff. With the current level of energy prices, this will be crucial for the adoption of Time-of Use Tariffs, and protecting consumers, especially those with vulnerabilities.

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<sup>4</sup> [Time of use tariffs: all you need to know - Energy Saving Trust](#)

<sup>5</sup> [Changeworks \(2022\) Supporting Vulnerable Consumers to Access Dynamic Time of Use Tariffs – Full Research Report.](#)

<sup>6</sup> [Time of use tariffs - Energy Saving Trust](#)

<sup>7</sup> [Ofgem \(2017\) Distributional impact of time of use tariffs](#) (prepared by Cambridge Economic Policy Associates)

<sup>8</sup> [Living with your heat pump · Home Energy Scotland](#)

- In Changeworks' experience, there are **very few TOU tariffs available** despite expectations that these would have emerged by last year, and awareness of existing tariffs is very low amongst clients. TOU tariffs work best when combined with smart technology, electric vehicles and/or batteries<sup>5</sup>. The adoption of TOU tariffs is being led by customers with electric vehicles, who are typically more affluent consumers and are able to take advantage of lower overnight charging costs. Changeworks research<sup>5</sup> found that people felt these tariffs would only become more attractive to the general population if funding for batteries and smart technology was also provided.
- With the RTS switch off<sup>9</sup> in summer 2025, these tariff options may become more limited if the UK Government does not accelerate the smart meter roll out, as many of those relying on RTS have Economy 7 meters. As of 1 March 2024 there are still 904,570 RTS meters in GB homes and small businesses. of which 245,643 (27.2%) are in Scotland<sup>10</sup>. At the current rate of disconnections from RTS meters (and smart meter installations), it will take 29 years to end their use in Scotland, while limiting the reliability of RTS meters and their access to favourable tariffs.
- Suppliers must provide competitive tariff options that are specific to those that are reliant on electric heating systems, and, as a result, are at greater risk of fuel poverty<sup>11</sup>. This would also encourage householder investment in electric vehicles and energy storage.

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<sup>9</sup> [RTS Shutdown \(Radio Teleswitch Service\) | What to do \(changeworks.org.uk\)](#)

<sup>10</sup> [Metering data from the Trading Operations Report - Elexon BSC](#)

<sup>11</sup> [Scottish House Condition Survey: 2022 Key Findings - gov.scot \(www.gov.scot\)](#)

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

- Changeworks **strongly supports** some form of price protection in the retail market. We urge Ofgem to explore how price protection can be applied to an increasingly diverse energy sector. For example, households connected to heat networks have not previously been offered price protection. The design of any price protection strategies have implications for the success of the UK's transition to net zero. Ofgem should work to ensure that people are not disincentivised from transitioning away from fossil fuelled heating systems to electric heating (such as district heating).
- Whilst the cap has fulfilled its function, it was designed to be a temporary measure to reduce the 'loyalty penalty'. Due to reduced market choice as a result of supplier failure,
- **A different type of intervention is now urgently needed, with the primary objective of addressing affordability for those least able to pay.** Homes in the UK (and Scotland in particular) are some of the least energy efficient in Europe and current levels of fuel poverty should be considered a crisis. Around 35% of Scottish households are in fuel poverty<sup>12</sup>, and over 50% of homes have an Energy Performance Rating of D or below<sup>13</sup>. Recent analysis by the Energy and Climate Change Unit (ECIU) found that, under Ofgem's price cap from January 2024, homes with poor insulation (EPC band F) will be an average of £730 worse off per year than homes with an EPC band C)<sup>14</sup>. Across the UK, the most vulnerable – and most in need of protection from price shocks - are seeing rising costs at a disproportionate rate due to the widening energy efficiency gap<sup>15</sup>.
- **We support the overhauling of the current price cap design in favour of a non-voluntary social tariff.**
- This should form part of a new approach to provide financial support for energy bills for low income, vulnerable and disadvantaged households to ensure that they are able to sufficiently heat their homes and access required energy services. To substantially reduce levels of fuel poverty we recommend a flexible social tariff that reduces the energy costs of eligible households.
- There are many different versions of social tariffs. Changeworks' supports the introduction of a new social tariff that is in line with the options presented by the National Energy Agency (NEA) and the key principles set out in the report 'Supporting Vulnerable Energy Customers' to enhance protections for the most vulnerable consumers **Error! Bookmark not defined.**

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<sup>12</sup> The Scottish Parliament: Written answer to Question S6W-14736: To ask the Scottish Government how many households in each local authority areas have been estimated to be in fuel poverty in each year since 1999.

<sup>13</sup> [Energy efficiency in homes - Energy efficiency - gov.scot \(www.gov.scot\)](https://www.gov.scot)

<sup>14</sup> [Energy & Climate Intelligence Unit | Energy bill price cap: poorly insulated homes to cost over £400 more to heat next year \(eciu.net\)](https://www.eciu.net)

<sup>15</sup> [The most vulnerable shoulder rising energy costs because their homes aren't efficient enough | University of Leeds](https://www.leeds.ac.uk)

## **7. 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 support the **overhauling of the current price cap design in favour of a social tariff.**
- **The universality of the price cap does not adequately support vulnerable people**, who are in need of the most support and are at greater risk of fuel poverty and of accumulating energy debt<sup>16</sup>.
- **The stringency of the current cap has not been affective.** Energy companies have, overall, seen record profits over the previous years. Despite this, competitive prices have not emerged for consumers and tariff options remain limited.
- **It is inequitable that consumers pay the same unit rate for energy regardless of household circumstances or consumption patterns.** A flat cap is not the best way forward. Climbing unit rates dependent on energy consumption would be more appropriate, with an exemption process for those relying on essential medical equipment and other mitigating circumstances. However, the best course of action is the introduction of a social tariff. This would protect the most vulnerable customers from price shocks, who have in recent years experienced disproportionate cost increases due to the widening energy efficiency gap<sup>16</sup>.
- **Energy usage and carbon emissions are intrinsically linked** for those using polluting heating systems. Changeworks believes that the flat approach to the price cap did not take into account environmental considerations. Better consideration needs to be given as to how the design of the cap – flat or otherwise – interplays with decarbonisation goals.

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<sup>16</sup> [The most vulnerable shoulder rising energy costs because their homes aren't efficient enough – here's why that's so hard to tackle | Blog | Centres and institutes | University of Leeds](#)

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

- Changeworks does not view the options presented as adequate, for the reasons set out under Question 7. We urge the UK Government to introduce a social tariff that better shields vulnerable and low-income customers in fuel poverty.
- We have set out our recommendations under our response to Question 11.

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

- **Rather than relying upon the price cap, we strongly believe that introducing a social tariff is a crucial step** in protecting vulnerable customers, and addressing the high levels of fuel poverty across the UK. Like the Warm Home Discount, the tariff can be required as an offering for people on certain benefits and can be verified through the Department for Work and Pensions.
- **This should be an automated process** as the application process is a significant barrier to access for vulnerable customers.
- We believe the eligibility criteria for both the **Warm Home Discount and Priority Services Register** are good starting points for identifying vulnerable customers. The Warm Home Discount eligibility criteria offers a vehicle for introducing a social tariff. Suppliers already liaise with the Department for Work and Pensions to verify that customers are in receipt of benefits.
- **Any approaches to price protection should be made more accessible** so that vulnerable customers can engage meaningfully.

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

Below, we have set out some actions to be taken by Ofgem, and others to be taken by the UK Government. Whilst we appreciate not all of these recommendations are within Ofgem's remit to take forward, they present opportunities for Ofgem to take a supportive role.

**As previously outlined, rather than relying solely upon the price cap, Changeworks supports the introduction of a targeted (non-voluntary) social tariff for a discrete and well-defined set of customers that meet certain criteria.** This is a crucial step in protecting vulnerable and low income customers from price shocks and addressing the high levels of fuel poverty across the UK. Like the Warm Home Discount, the tariff can be required as an offering for people on certain benefits and can be verified through the Department for Work and Pensions.

While there is more that the UK Government can do to help low income and vulnerable households, we also believe there are some clear actions that Ofgem should take. These are in line with Ofgem's statutory remit and can ease the pressures on struggling households this winter. Like the UK Government, Ofgem have committed to make the needs of vulnerable consumers their key priority but there is much more that could, and should, be done.

### We believe that these opportunities include:

- Introducing a non-voluntary **social tariff** to better shield vulnerable and low-income customers at high risk of fuel poverty.
- Automatically identify eligible customers, as application processes are a significant barrier for vulnerable customers.
- Progressing work to ensure suppliers can identify and act on financial vulnerability.
- Ensure any modifications to how an energy price cap is calculated does not lead to more frequent adjustments and provides greater certainty for consumers, especially throughout the colder months.
- Consider the **introduction of climbing rates for standing charges**, with exceptions in place for consumers reliant on medical equipment that requires significant energy usage, and other mitigating circumstances.
- **Ensure flexibility of payment methods** to better enable vulnerable and low-income customers to pay for their energy **Error! Bookmark not defined.**, and to reduce the accumulation of energy debt.
- **Ensure the provision competitive tariff options** that are specific to those that are reliant on electric heating systems, and, as a result, are at greater risk of fuel poverty. This would also encourage householder investment in electric vehicles and batteries.

**We recommend that Ofgem work alongside the UK Government to:**

- Accelerate the deployment of smart meters to ensure a range of tariff options for consumers, prioritising households relying on RTS meters and at risk of fuel poverty.
- Take meaningful action to ensure the RTS switch off does not have negative impacts for householders.
- **Remove levies** from electricity bills. Changeworks would also support action to remove 'legacy' policy costs on bills.

Changeworks has been leading the way in delivering high impact solutions for low-carbon living for over 35 years.

Get in touch with the team to discuss how we can help you.

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