

Can some good come of this energy crisis?

To help customers get through the current energy crisis there is a need for targeted financial support but also a real push on home insulation and wider energy saving actions. This would not only help households struggling this winter but is essential in tackling the pressing challenge of climate change.

Context – the energy crisis

The current energy crisis leaves millions of customers worried about how they will afford their energy bills this winter. Customers on a price-capped tariff are now feeling the impact of the October increase. Over 2 million customers have seen their supplier fail and are now facing the shock of a much higher tariff. And next spring all customers face the near-certainty of a further unprecedented price-hike. What can be done beyond keeping our fingers crossed for an abnormally mild winter?

The crisis is also causing a major headache for suppliers as they struggle to balance their books. Firstly, on their existing customers, where the October price-cap increase simply doesn't cover current sky-high prices across wholesale energy markets. And, secondly, for the customers of failed suppliers which they are expected to take on in very significant numbers – but in conditions where right now these new customers are costing the supplier more than the price-cap income allows.

Dr Chris Harris, who has long experience in energy markets, has kindly provided us with a Technical Paper, setting out the basic economic considerations in supplier hedging and describing how these may interact with the price-cap in a period of major uncertainty. This 'explainer' of the underlying problems was written to help us in thinking about where we might look for solutions. His conclusion is clear – there is no pot of gold that we can demand be repaid and the biggest issue for suppliers is the "volume risk" they face i.e unexpectedly gaining (or losing) customers in timescales mis-matched against the 'smoothing' effect of the price-cap. That leads him to a conclusion, that we would fully endorse, that a push on energy saving is a solution that can both help suppliers (as lower demand should ease pressure on prices) and crucially can help those struggling to pay.

On the "pot of gold" point while we accept that chasing industry will not get anywhere, we are aware of the work by NEA that showed that government had benefitted to the tune of £100 million from higher VAT payments on energy

bills – plus a further billion pounds from increased carbon tax revenues. There is a strong argument for these government windfalls to be used to top up cold weather payments or other forms of support for those struggling to pay their bills. The price cap provides protection against overcharging, but it does not directly address affordability. More targeted support is needed and will become even more crucial next year. But there was no new help offered in the Budget so for the short term we have to look elsewhere – and to focus on how best to help people cope and how to bring down overall demand on the system.

To meet these twin and interlinked goals we need to improve the thermal efficiency of buildings (reducing energy demand for heat) and to promote wider behavioural actions to reduce overall energy demand.

Insulating our homes

On the first, insulation, we know anyway that this is something we need to do (urgently) to meet net zero. With higher gas prices the cost-benefit case is even more compelling, and the crisis might help get people over some of the other practical barriers that exist, like the need to clear the loft. There is money on the table from government through Local Authority Delivery (LAD) and other schemes to improve the homes of those on low incomes, as well the supplier "ECO" obligation to undertake a certain number of measures each year. Network companies (both gas and electricity) and others can play a valuable role in sign-posting these schemes and providing other more direct assistance. They should redouble their efforts at this critical time. The challenge for everyone is how to speed up this programme of work – even through this winter – in response to the crisis. More funding is needed going forward to hit fuel poverty targets but for now the problem is skills and supply chains. It's essentially a delivery challenge not a policy one.

Beyond those who are struggling and qualify for support, there is a wider opportunity to use the higher prices to press the message around the benefits of insulation – and at the same time to link this to climate change, building on the undeniably effective awareness-raising by Insulate Britain. Those who can afford the work still need advice. What should I be doing? What measures – big and small – could make a difference to my bills? What can I do myself? Where can I find a reputable installer? In Scotland Home Energy Scotland provides that advice. In England the EST has a

website and the new Simple Energy Advice scheme¹ has a website and phonenumber. However, the advice still feels generic rather than tailored to peoples' lifestyles and circumstances - and installers are thin on the ground. The Heat and Buildings Strategy offered nothing new on how to help able-to-pay households navigate through the practicalities of installing energy efficiency measures. Could the crisis provide an impetus for that to happen?

But even if it does and even with an accelerated programme for those on low incomes, we will struggle to do much to help people this winter. So, we need to look as well to the second strand - behaviour change.

Behaviour change

Here there is a more difficult line to tread. Delivering behaviour change and ensuring the right targeted messaging is hard given the diversity of needs and habits today. We know that many people already under-heat their homes to a level that is dangerous for their health. However, we also know that one of the groups most concerned about energy bills coming out of the Covid crisis was young people renting who may be having to manage household bills for the first time. For some of them basic energy education around putting on a jumper, closing the curtains and turning down the thermostat by a degree might actually be helpful. Tailored messages, delivered by the right "messenger" will be key to getting this right.

That said a common theme must be around encouraging people to take control of their energy use. We are now at a point where around 20 million smart meters have been rolled out which make energy more visible. One of the aims was to enable customers to better manage their energy use but the practical advice on how you do that remains limited. The smart meter can be as important in terms of reassuring people that they can afford to put the heating on as it can be in, for example, identifying the "vampire devices" that British Gas recently flagged as contributing heavily to bills. Linking the smart meter with smart heating controls might have an appeal for Generation Z and millennials.

Historically most suppliers have shown limited interest in really helping their customers reduce demand. They have licence obligations to provide energy efficiency advice to customers if they are debt-blocked² and when they install smart meters but performance on the latter is very variable with the latest SMICOP [compliance report](#) showing a range

across suppliers from 16% to 86% of customers saying they had been offered advice or information on how to use less gas or electricity³. Suppliers also have a general obligation to provide information on energy efficiency⁴ including signposting to government funded sources of advice. Most suppliers' websites signpost to the EST but not to Home Energy Scotland or the new Simple Energy Advice scheme and they vary in how engaging or helpful their sites are on steps customers can take to manage their energy.

Suppliers are in the business of selling energy and the business model has always been one where the more they sell the more money they make. Has this crisis and the "volume risk" they face changed that? Suppliers could regain some of the moral high ground by really helping customers understand and manage their energy consumption, using smart meter data alongside targeted conversations. And if that doesn't happen - and perhaps in any event - Ofgem should review supplier performance in this area from both a compliance and "best practice" perspective.

Smart Energy GB also have an important role to play in this space, providing both information and motivation around energy saving. More generally they have found that a combination of "me" and "we" messaging is most effective in encouraging people to take up smart meters. So, on the same basis, if it's clear that reducing your energy demand is good for the planet, can help us get through this crisis without pushing prices up further - and will help bring down your bills (even a little bit) then taken together that should give people a reason to act.

At the start of the smart meter rollout DECC (as was) carried out a major piece of work⁵, drawing on behavioural insight theory around how to drive energy demand reductions. This highlighted the role of direct feedback (the IHD), indirect feedback from suppliers, advice and information and motivational campaigns. All of these have a role to play and we still need to push forward on all fronts.

One final reflection is that while this Viewpoint has focussed on energy efficiency there are similar discussions going on in the water sector where water companies have a price control incentive to reduce per capita consumption. There must be opportunities to join up the messaging more, in particular, around hot water usage. Water companies might find the energy crisis gives their messages new salience.

¹ Set up in response to the [Each Home Counts](#) review of how to deliver insulation which merits revisiting

² Suppliers can prevent a customer who is in debt from switching away but must provide advice if they do so

³

⁴ SLC 31F.13 in both gas and electricity

⁵ DECC Consumer Engagement Strategy - [consultation](#) (which contains more of the theory) and [decision](#)

Conclusion

Going back to where we started: energy costs and bills have created a major national crisis. This will run well into next year and beyond – with significant impacts upon energy retailers and customers alike. Ultimately, we may well need energy prices to be higher than they have been historically to fully reflect the cost of carbon, but this has to be done in a managed way that supports those who cannot afford to pay. We can learn from this crisis about what that entails.

A key strand of tackling this crisis has to be a focus on energy saving which will help tackle both the cause and the symptoms.

Regardless of how small each step might seem on energy saving, taken together those steps could start to make a difference. We do need people to insulate their homes. We do need people to engage with energy. No-one wanted the current energy crisis but, as with Covid, concerted collective action – both immediate and over the next few years – actively supported by both government and Ofgem – could help ensure that at least something positive comes out of it.

This paper was written by Maxine Frerk

For further reading please see a technical paper by Dr Chris Harris entitled: Energy Supply Prices – issues and solutions

[Energy Supply Prices technical paper](#)

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