

# Economy 7 and the price cap / Energy Price Guarantee

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**Sustainability** *first*

**Grid Edge Policy**

Regulation · Energy · Consumers

# Agenda

- Welcome - Sustainability First (Zoe McLeod)
- Introduction - Glen Dimplex (Rowena Rodrigues)
- Overview of “It’s a Lottery” report - Maxine Frerk
- Ofgem response – Dan Norton
- Reflections:
  - Consumer groups (Citizens Advice, NEA et al)
  - Others (British Gas, BEIS et al)
- Concluding remarks – Maxine / Rowena / Zoe

# Overview of “It’s a Lottery” Report

- Economy 7 – why it matters
- How the price cap / Energy Price Guarantee works for Economy 7
- Our concerns with the price cap / Energy Price Guarantee
- Current tariffs – a lottery
- Our asks of consumer groups and suppliers
- Conclusion

# Economy 7 – why it matters

- Economy 7 and other multi-rate meters = “Profile Class 2”
- Around 4 million households with Profile Class 2 meters (*Ofgem/ CMA*)
  - NB: Not all on multi-rate tariffs
- 1.4 million homes with storage heating (*English/ Scottish Housing Survey*)
- Best estimate: c 10% of all households are on multi-rate tariffs of whom half have storage heating
- Ofgem archetypes for electric heat: Low or very low income – or young professionals in rented accommodation
- Future role in heat decarbonisation and importance of flexibility

# Economy 7 – two distinct sets of customers

| Households <u>with</u> storage heat   | Households <u>without</u> storage heat   |
|---|--|
| <ul style="list-style-type: none"><li>• May also have hot water tanks heated overnight</li><li>• Will have high % night usage (especially in winter)</li><li>• Economy 7 (or similar) probably the best tariff for them</li><li>• Need benefit of low night rate to justify up front cost of storage heater v direct electric</li></ul> | <ul style="list-style-type: none"><li>• May once have had storage heating</li><li>• Now often direct electric (or gas / communal heat)</li><li>• Relatively low % night usage</li><li>• Single rate better unless very unusual pattern of usage</li><li>• Can be overpaying by hundred of pounds</li></ul> |

# How the price cap works for Economy 7

- Ofgem sets cap on “average” unit price (p/kWh) and daily standing charge
  - Varies by region and payment method (as for single rate)
  - Now updated quarterly
- Ofgem calculate “average” unit rate based on 42% night / 58% day
  - Suppliers have flexibility on how they set relative night-day rates

# Suppliers have a lot of flexibility

– illustrative example of the range of day/night tariff combinations consistent with a cap of 32p/kWh

| <b>Day rate<br/>(p/kWh)</b> | <b>Night rate<br/>(p/kWh)</b> | <b>Weighted average<br/>58% day – 42% night<br/>(Ofgem)</b> |
|-----------------------------|-------------------------------|---|
| <b>51.5</b>                 | <b>5</b>                      | <b>32.0</b>   |
| <b>47.9</b>                 | <b>10</b>                     | <b>32.0</b>   |
| <b>44.3</b>                 | <b>15</b>                     | <b>32.0</b>   |
| <b>40.7</b>                 | <b>20</b>                     | <b>32.0</b>   |
| <b>37.1</b>                 | <b>25</b>                     | <b>32.0</b>   |
| <b>33.4</b>                 | <b>30</b>                     | <b>32.0</b>   |
| <b>32.0</b>                 | <b>32</b>                     | <b>32.0</b>   |

# Actual average unit rate varies depending on actual proportion of day and night usage

| Day rate<br>(p/kWh) | Night rate<br>(P/kWh) | Weighted average unit rate (p/kWh) for different proportions of day time usage |      |      |
|---------------------|-----------------------|--|------|------|
|                     |                       | 58% (Ofgem)  | 70%  | 45%  |
| <b>51.5</b>         | <b>5</b>              | 32.0   | 37.6 | 25.9 |
| <b>47.9</b>         | <b>10</b>             | 32.0   | 36.5 | 27.1 |
| <b>44.3</b>         | <b>15</b>             | 32.0   | 35.5 | 28.2 |
| <b>40.7</b>         | <b>20</b>             | 32.0   | 34.5 | 29.3 |
| <b>37.1</b>         | <b>25</b>             | 32.0   | 33.5 | 30.4 |
| <b>33.4</b>         | <b>30</b>             | 32.0   | 32.4 | 31.5 |
| <b>32.0</b>         | <b>32</b>             | 32.0   | 32.0 | 32.0 |

**Scope for gaming:** Suppliers gain from high day rate / low night rate combinations if actual daytime usage by their customers in a region is higher than the Ofgem standard % eg East Midlands higher day proportion at 68%, cf N. Scotland lower at 49%



# How the Energy Price Guarantee (EPG) works for Economy 7

- EPG for single rate set at £2500 pa– fixed to April 2023 (UK average dual fuel)
  - Government pays suppliers the difference between the Ofgem cap and EPG
- For Economy 7 Government pays suppliers that same p/kWh “discount”
- But this doesn’t provide fixed prices for Economy 7 customers if the Ofgem price cap for Economy 7 goes up more than single rate (as in January 2023)
  - And some suppliers took the opportunity to significantly change day / night differentials at the same time

# Price cap and EPG interaction (example)

|          |              | Ofgem cap | Price cap<br>Discount | EPG Price | Comment             |
|----------|--------------|-----------|-----------------------|-----------|---------------------|
| Oct 2022 | Single rate  | 49        | 17                    | 32        | Fixed to April 2023 |
|          | E7 “average” | 47        | 17                    | 30        |                     |
| Jan 2023 | Single rate  | 64        | 32                    | 32        |                     |
|          | E7 “average” | 65        | 32                    | 33        | +8% cf Oct 22       |

# Our concerns with the price cap / EPG

- E7 customers over-charged by c £100 pa as Ofgem's cost model takes no account of lower cost of wholesale energy at night
- No consideration of impacts on E7 customers of wider changes to price cap:
  - Recent changes have increased the cap for E7 customers
  - Distributional impact assessment explicitly left out electric heated homes
- The flexibility suppliers have to set relative day/night rates is open to abuse and is creating a lottery
  - Lack of price stability / certainty under the EPG for E7 customers

# A lottery by supplier

- unit rates in Eastern region under the EPG

(direct debit and Dec-Oct 2022 unless otherwise stated)

|                        | Day Rate (p/kWh) | Night rate (p/kWh) |
|------------------------|------------------|--------------------|
| <i>Shell Energy</i>    | 40.7             | 19.9               |
| Octopus Energy         | 44.3             | 14.9               |
| British Gas            | 44.4             | 14.8               |
| E.ON                   | 44.5             | 14.7               |
| Scottish Power         | 46.7             | 11.6               |
| Utilita                | 46.9             | 11.3               |
| EDF (from Jan 23)      | 54.5             | 7.0                |
|                        |                  |                    |
| EDF PAYG (from Jan 23) | 57.4             | 0.9                |

# A lottery by region

- EDF Ratio of Night to Day rates (as a %) by region and payment method  
(from Jan 23)

|             | Direct debit | Cash/cheque | PAYG |
|-------------|--------------|-------------|------|
| E. Midlands | 11           | 13          | 14   |
| Eastern     | 13           | 15          | 2    |
| London      | 29           | 26          | 20   |
| Midlands    | 27           | 28          | 15   |
| N East      | 28           | 30          | 16   |
| N Scotland  | 31           | 40          | 25   |
| N Wales     | 27           | 26          | 16   |
| North west  | 29           | 31          | 19   |
| South east  | 12           | 13          | 11   |
| S Scotland  | 33           | 34          | 20   |
| S Wales     | 25           | 26          | 13   |
| South west  | 23           | 24          | 7    |
| Southern    | 28           | 30          | 16   |
| Yorkshire   | 31           | 31          | 17   |

# Case study – potential for significant detriment

- Young couple in one bed rented flat
- Economy 7 but building now has communal heating
- Disengaged - pile of unread letters from EDF
- Price change notice for January:
  - Price increase of 14%
  - Potential savings of £993 (36%) from moving to PAYG with smart meter
  - Letter very unclear “if you are on a multi-rate tariff...”
- Extreme case – zero night usage (because of how meter wired)
- But won't be unique – and even in more typical cases still £100s
- Original motive for price cap was to protect disengaged

# Our ask of consumer bodies and industry

- Consumer groups and charities have a role to help ensure customers:
  - Are on the right tariff for them (Economy 7 v single rate)
  - Understand what the different rates are and the hours they apply
  - Keep this under review as prices change quarterly
- To do this there needs to be transparency around current tariffs (cf EDF schedule)
- Suppliers have a duty to ensure customers are on a tariff that is suitable for their needs

## Households with storage heat

- Economy 7 (or similar) probably the best tariff for them
- How good varies by supplier etc
- Need to be wary of high day rates – “know your hours”
- And need to understand wiring
- Keep checking rates as they change frequently

## Households without storage heat

- Can be overpaying by hundred of pounds
- Single rate better unless very unusual pattern of usage
- No simple rule of thumb for % – varies by supplier etc
- Lack of clear advice
- Unclear if all suppliers allow switch to single rate



# Conclusion – key asks

- **Ofgem and BEIS** must ensure position of multi-rate customers is properly considered in price cap / EPG:
  - Ofgem model to reflect lower energy cost of night usage
  - Position of E7 customers to be explicitly considered in wider reforms
  - Review approach to supplier flexibility on day-night rates
- **All parties** to help customers navigate through the complexity
  - Focus area for advice agencies
  - Need transparency on multi-rate tariffs (cf EDF schedule)
  - Need clear right to switch between single and multi-rate
  - Compliance review of supplier obligations on treating customers fairly / quality of communications
- An issue for today's consumers but also learning for the future

# Contact us

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