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Re: Affordability and debt in the domestic retail market - Call for Input

Sustainability First is an independent think tank and charity that focuses on promoting fair and sustainable energy and water sectors. We have published and engaged extensively over many years on policy, regulatory and consumer issues. We welcome the opportunity to respond to this important Call for Input and are happy for this response to be published.

GB households are facing significant affordability challenges due to a combination of factors. While energy prices appear to have stabilised and the energy price cap has fallen, energy bills remain much higher than customers are used to. Ofgem outlines a picture of household energy debt at record levels and rising. Not only are the numbers of customers in debt and arrears growing, but the levels of debt they are struggling with is also. Debt advice agencies report an alarming increase in customers with 'negative budgets' whose monthly income doesn't cover their basic needs and they have exhausted all wider support available.

Sustainability First sees affordable energy as a means to an end not an end in itself; in the domestic setting, the ultimate goal is a healthy comfortable home that enables all citizens to participate with dignity in society. The competitive market, as structured, has failed to deliver affordable energy and warm homes for millions of customers. This isn't just because of unusually high energy prices and the cost of living crisis. Pre the pandemic in the era of relatively low energy prices, GB governments missed their fuel poverty targets, customers struggled with energy debt, and prepayment customers were self-disconnecting unable to afford to top up their meters.

Looking ahead, the broader economic future remains uncertain. But it is expected that investment in our energy infrastructure to support the net zero energy transition and resilience will further increase bills, at least in the short to medium term. The Review of Electricity Market Arrangements (REMA) reforms are huge, complex and technical and will take years to conclude and implement. However, major decisions made in REMA over the next two to three years will bake-in basic end-user outcomes and distributional impacts for different customer groups for the next 20-30 years. This will have significant impacts for different households' affordability and debt.

The introduction of half-hourly settlement prices and flexible tariffs, smart low carbon technologies, and bundled deals, will result in even greater market complexity and lock-in, with potential new barriers to customers being able to access affordable energy, and the risk of compounding inequalities. The difficulties of realising notional bill reductions from these reforms and ensuring 'nobody is left behind' cannot be underestimated. Consumer engagement will be vital, at a time when around 86%

of domestic customers are on regulated retail tariffs subject to the price cap, and trust in the market is weak. All of this suggests a need for radical and ambitious solutions.

Summary of our response

It is well recognised that the causes of unaffordable energy are complex and multi-faceted and transcend the energy sector. Households can struggle to afford their bills, or be at risk of doing so, for a variety of reasons. In our response to the Ofgem's questions we outline six interconnected drivers of debt and affordability problems and how we expect those to change. These are:

1. Low absolute incomes
2. Bill and income volatility
3. Energy unit rate and fixed costs
4. The volume of energy required by a household
5. Living costs (non-energy related)
6. Customer information and control.

In Question 2 we offer a series of ideas to address each contributory factor (1-6), mostly building on the recognised protections that are already in place and working within Ofgem's current and proposed future energy market structures. While some of these 'debt drivers' are beyond the direct control of Ofgem and energy suppliers there is still much that both parties can do. In addition, to existing protections and regular monitoring of supplier performance in this area, we propose:

- a. Energy retailers develop a **minimum standard affordability toolkit** drawing on best practice to provide proactive help to prevent debt as well as support for customers once they accrue debts. This must include some kind of **debt write-off or debt matching** and enable **suppliers to tailor support to different customers' needs**. In Question 7 we highlight the toolkit we developed for the water sector and wider good practice, but there is significant scope for further innovation beyond that, which Ofgem should encourage.
- b. Explore introducing a **financial vulnerability Priority Services Register (PSR) needs code**. This could be valuable to identify those at risk of greatest harm and to target and prioritise support, especially given the interplay between financial and non-financial vulnerability.
- c. Ofgem reviews if **interest rates on overdue debt amounts** are consistently 'fair' – cost reflective and as low as possible - and if these costs could be socialised.
- d. Ofgem needs improved customer insight and tools so it can better assess the **distributional impacts** (the winners and losers) of its decision making e.g. accurate energy demand-side data linked to socio-demographic data. At present the regulator and government are 'flying blind' and at risk of unwittingly exacerbating or entrenching inequality.
- e. As a priority, Ofgem and suppliers must fix overdue problems in the energy market that unfairly cause avoidable debt - notably strengthen back-billing protections and ensure a **fair deal for the estimated 3 million Economy 7 and multi-rate** customers. In addition **sort out the smart meter rollout** so it delivers on its promise to help customers better manage their energy use. If we can't get it right for a supplier-led smart meter rollout and these basic time of use customers, it bodes very badly for flexible energy markets delivering affordable energy for all in the future.
- f. Ofgem could review the **quality of energy efficiency advice** provided by suppliers under current licence conditions and codes, and explore if there is scope for suppliers to do more in this area.
- g. Having a low income is a key cause of energy poverty and debt. We urge Ofgem and suppliers to get their houses in order and **guarantee a living wage** and financial support to their own

employees and those of their contractors. Also to **commit to pay small and medium companies promptly**, supporting jobs in line with the regulator's new Growth Duty.

- h. **Retain the price cap and reform it to better safeguard current and future consumers.** This includes retaining short to medium term a single rate default tariff to protect vulnerable customers on the price cap who may struggle to engage with future time of use tariffs or would be worse off on such a tariff. In addition the cap needs to include a basic time of use tariff – like Economy 7. We advocate for a static storage-heater default tariff for existing and future storage heater customers to ensure storage heater tariffs are 'future-fit.'
- i. Ofgem must **better understand the cost of decarbonising heat.** Under any scenario it seems inevitable that gas networks will play a smaller role than today. With these costs set to be spread over a declining gas customer base there are potential impacts for the poorest and most vulnerable to be hit hardest.
- j. **Explore introducing capacity charges** i.e basing more of the charges on KW of capacity provided rather than KWh. We see capacity charges as better reflecting the underlying cost structure of a low carbon energy system going forward, and fairer on low income customers than the current reliance on fixed standing charges.
- k. **Better understand the potential for surplus renewable energy on the grid to provide free electricity to low income households.** E.g. as per Octopus' Energy and UKPN's 'Power Up' scheme or EnergyCloud Ireland (see Question 7).
- l. Explore how Ofgem can **remove regulatory barriers to community energy** while safeguarding consumers. E.g make it easier for schools and community organisations to sell affordable surplus electricity to their neighbours without becoming a fully licenced supplier. Also understand the contribution community energy might be able to make to affordability.
- m. Suppliers and Ofgem to continue to work in partnership with charities to support customers and **tackle the wider causes of debt and poverty.** In particular to use their voices to advocate to government for further **price support** and for a step change in activity to improve the **energy efficiency of our housing** stock.

Another way?

In truth, while all of the options outlined in this response will help customers on low incomes and in debt, they are unlikely to solve what is an enduring problem of energy poverty and debt that existed long before the energy and cost of living crises. A whole-system joined up approach is needed to deliver affordable energy for all.

On issues of affordability, in a competitive market, there is a genuine question as to where the role of an essential services' provider ends and the state begins. This is a public debate never explicitly had, let alone a consensus reached.

Notions of social support funded by cross subsidy are based on an assumption that the majority of customers find their bills affordable and therefore can and are willing to help the minority. But if the number of customers struggling or unfairly impacted by the market becomes a more sizeable proportion of the overall customer base (as it has done recently), the approach becomes less workable and the state needs to step in.

The term 'affordability' is arguably by its nature industry-focussed, concerned with customers' ability to pay their bills to the retailer. Ofgem's working definition of affordability is set out as 'the household burden' of paying for energy, which on the surface welcomingly acknowledges the human impact of debt and poverty. But it is then refined as - a high burden (low affordability) means a relatively high

percentage of household income is spent on energy, especially when set against other (increasing) household expenditure.

As mentioned, the outcome we really wish to achieve is net zero healthy homes (warm in winter, cool in summer) which have sufficient reliable power to enable those who live in them to participate with dignity in society e.g. run a fridge, power lights, charge a mobile phone etc. This supports individual well-being and sustainable growth. This may seem overly philosophical but redefining the problem could help to unlock different solutions. For example, it would lead the regulator to look beyond billing for electricity and gas in kWh and instead encourage the retailers to focus on providing of a certain degree of comfort, which is what heat as a service proposes.

Part of the challenge is we don't actually understand how much heat or power is enough for different customer segments to live well and meet their basic needs despite the increasing 'availability' of data and sophisticated uses of data in other sectors. This is why we recommend the following:

- n. Research to **better understand what a minimum energy allowance might look like** i.e. how much energy is enough? To explore if it's possible to provide **a lifeline of energy** to consumers, ending disconnection, including self-disconnection by prepay customers. An essential usage allowance could be charged at a much lower price or even free to those in financial difficulty (or more radically to all consumers with costs recovered through taxation as part of a minimum basic income style approach).

There are no doubt lessons to be learned here from the Welsh Government's approach to setting a Minimum Digital Living Standard. They worked with the public to develop a citizen-centred definition of what counts as digital inclusion or exclusion using deliberative methods. The public defined minimum digital allowance as being able to do a series of everyday activities. This kind of approach would likely be complicated but is worthy of exploration.

Ultimately we may have to accept that the competitive energy market simply isn't delivering or going to deliver for millions of customers. Some of the underlying assumptions – supplier-led greening of our homes, customers active in new dynamic flexible markets, retailers actively competing for low income customers - fly in the face of experience (think failure of retail-led smart meter rollout, the scale of market interventions to address customer 'stickiness' to switching, and mis-selling).

Ofgem's moves to address unfairness - levelising payment differentials, discussions on standing charges/volumetric charging - are rarely clear cut and inevitably create winners and losers amongst the poorest. In a context of wider demographic and market change they are like a game of 'whac-a-mole', creating an unholy mesh of cross subsidies, or worst still, simply moving deck chairs on the Titanic.

This is not a call for renationalisation. But it is a reality check. Given the scale of the affordability, net zero and wider resilience challenges we face, traditional models of competition aren't going to work – at least not alone. There will be sizeable numbers of customers who will not be able, or will not want to play this net zero transition flexible market game. History teaches us that energy retailers and businesses selling green products and services will not always play fair. Faced with this reality the need for pre-emptive regulation and a stronger role for government to ensure affordable green energy is stark. This leads to our final two options:

- o. There may be merit in setting up a **publicly run energy retailer** that provides basic energy services and wrap around support such as energy efficiency advice, insulation and access to renewable energy solutions, especially for poorest and most vulnerable.

- p. Or perhaps something comparable but more ambitious at a national or regional level that draws on the approach of Australia's **Thriving Communities Partnership**. The latter aims to ensure consumers have fair access to not just energy but all the modern essential services (water, telecoms, financial services) that they need to thrive in society. Its goal is to build more resilient communities, stronger businesses, by tackling issues of vulnerability and hardship.

With this kind of approach those who want choice and are able to benefit from future flexible markets, would still be able to do so. It could free up competitive energy suppliers to focus on the able to 'pay and participate' part of the market (the bit most are really interested in) with less regulatory intervention. We could put the nationalised energy company versus competitive energy suppliers' debate to the test, and let customers decide which they prefer.

ANSWERS TO QUESTIONS

Q1: What are the key drivers of energy affordability challenges and how do we expect those to change in the future?

Q2: What options should be explored to tackle energy affordability?

We answer these two questions together. First outlining the key driver and then some solutions to address it.

Energy affordability is complex and multi-faceted; households can struggle to afford their bills, or be at risk of doing so, for a variety of reasons. We summarise these interconnected reasons below and consider how those drivers might change in the future. In addition, we highlight how different kinds of support can help to address the different drivers of energy debt and energy poverty.

We propose that energy retailers develop a **minimum standard affordability toolkit** drawing on best practice to prevent debt as well as provide support to customers once they accrue debts. This could address the different drivers of debt and unaffordable energy that we outline and facilitate tailored support to meet customers' different needs. There's much good practice but this is not consistently applied. **Consistency across energy retailers** enables advice agencies to more easily communicate support available to those that need it and would facilitate universal, high-quality customer service. We share in Question 7 the affordability tool kit we developed for the water sector and basic good practice such as 'Help to Pay' schemes. But there is room for significant further innovation beyond this which Ofgem should encourage/incentivise.

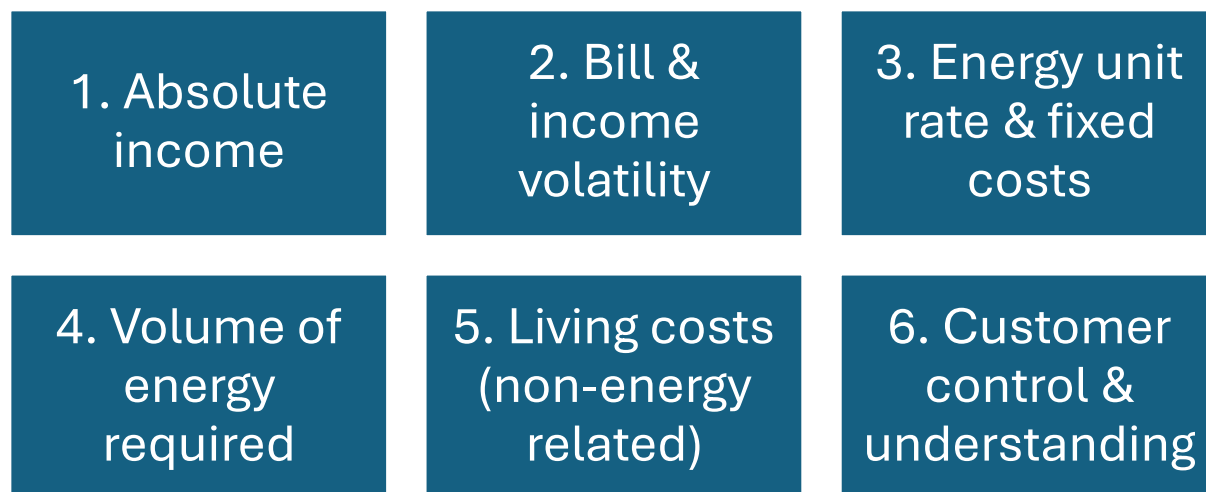
Given the temporary **£16 per household Ofgem allowed suppliers to address bad debt** in the April 2024 price cap, Ofgem should make sure suppliers use a substantial proportion of this to support consumers in debt. **The £54m suppliers currently provide for discretionary support represents only an estimated 4% of the total debt mitigation allowance.**

We also encourage Ofgem to explore with cross sector utility companies and consumer groups the development of a financial vulnerability PSR needs code¹. While we recognise the challenges involved in this, such an approach may help better identify and target support at those customers most in need, especially given the interplay between financial and non-financial vulnerability and harm from debt. CCW's independent Affordability Review for Defra and the Welsh Government argues that sharing financial vulnerability data between organisations could also help cross-sector

¹ This is a recommendation of CCW's Independent Review of Water Affordability, available at: <https://www.ccwater.org.uk/affordability-review/>.

utility suppliers take a collective approach to supporting customers in financial difficulties, reduce the administrative burden on the customer, and streamline signposting between organisations.

Drivers of energy affordability challenges – Sustainability First’s framework



1. Absolute income levels

Driver: It is well established that those on low incomes are at greater risk of not being able to afford their energy bills. A household’s level of absolute income is representative of the resources that each household has available to them in order to meet their needs. Income can be made up of a variety of factors, such as income from employment, pension or state support. Absolute low income can result from having a permanently low income e.g. as a result of a low paid job, underemployment, or be triggered by a change in circumstance e.g. as a result of moving into retirement, reduction in hours or losing employment. Front-line debt advice agencies such as Money Advice Trust, Christians Against Poverty and Citizens Advice have reported a growing incidence of people with ‘negative or deficit budgets’ – customers who simply don’t have enough income to cover their basic costs.

Future: It’s hard to predict how absolute income levels will change in the future. This will depend on a range of factors including government policy (e.g. tax, social welfare, labour laws, education and skills) and the wider economy. However, Sustainability First’s research for UKPN and South East Water on future vulnerability found that even in the most positive scenarios, it is likely that in the short-term economic inequality will worsen with increases in poverty most likely in the working-age population. There will also be a significant increase in older people who may have lower fixed incomes and disabled and long-term sick who tend to have relatively lower incomes.² We are currently updating this work and will be happy to share findings.

Options: Having a low income is a key driver in energy affordability problems. As an essential service provider, we think the following are directly within an energy retailers’ ‘boundary of responsibility’ on affordability:

² Covid-19: What next? A future vulnerability assessment for UKPN and South East Water -Sustainability First and CSE October 2021.

- **In addition to ensuring fair treatment of customers in debt, ensuring fair treatment of their own staff and those employed via its contractors.** Ofgem should explore if energy suppliers could be required to pay their direct and indirect employees a living wage. In particular, call centre staff, can be on low incomes below the Minimum Income Standard, while day to day dealing with the emotional stress of supporting distressed customers in financial difficulty. Glassdoor reports that average energy customer service salaries in the UK are £19-24k.³ Minimum Income Standard (MIS) calculate that the budget needed for a single person to achieve a ‘socially acceptable living standard’ per year is £25,500 for a single person and £24,400 for a couple.⁴ In addition, better inform their own staff about available assistance and check in on their financial wellbeing. CIPD, (Chartered Institute of Personnel Development), the professional body for HR in the UK, reports that one in four employees say money worries affect their ability to do their job⁵ which in turn can impact the quality of customer service they provide to energy customers and business efficiency.
- Energy suppliers are well placed and have a responsibility, either directly or via third party trusted intermediaries, to **provide high quality debt and budgeting advice face to face and remotely** including income maximisation to those struggling with their energy bills. However, for the growing number of households with negative budgets (whose basic needs exceeds their income), advice alone is unlikely to lift them out of debt or provide a permanent solution. In this context, Ofgem should impress upon government the extent of energy debt that has arisen due to higher energy prices and the wider cost of living crisis, leaving many households with insufficient income to meet their basic needs. **Wider price support and government policies are essential for addressing the problem.** Price support eligibility criteria can focus on enabling those on the lowest incomes to access support, and/or consider other factors such as energy need.
- Initiatives such as EDF’s Right Track Customer Journeys⁶, which aim to facilitate earlier identification of customers who are falling behind on their payments are very welcome. But suppliers could also do more to **proactively reach out to customers at risk of a decline in income** at predictable trigger points. E.g. British Gas’ partnership with CLIC Sargent aimed to deliver a referral package of support to help families who have a child diagnosed with cancer recognising this is a time when incomes often decline and costs go up; this helps prevent problems and support those struggling with the financial impacts of cancer. E.ON Germany’s Unemployment Link means they work in partnership with welfare organisations and job centres, so that when a customer becomes unemployed they can take proactive action to support them in managing their energy use, and in reducing or preventing energy debts.⁷
- SMEs employ millions of people. Ofgem could also explore **improving transparency around who is/isn’t a prompt payer of small and medium sized businesses.** Even before the cost of living crisis, the ‘Good Business Pays’ campaign reports that “slow and unfair payment practices are threatening the future of almost half a million UK small businesses”⁸ who in turn employ and provide incomes for hundreds of thousands of workers.⁹ In addition to the affordability implications, late payment can also serve as an early warning indicator of the financial health of the company paying.¹⁰ SMEs going bust as a result of late payment can also increase the cost of goods and services if competition weakens, can slow supply chains,

³ [Salary: Energy Customer Service Advisor in United Kingdom 2024 | Glassdoor](#)

⁴ Joseph Roundtree Foundation, ‘A Minimum Income Standard for the UK in 2022’, 2022 <<https://www.jrf.org.uk/report/minimum-income-standard-uk-2022>> [accessed 12 May 2023].

⁵ [Rising inflation may widen the UK’s gender pay gap - Ciph](#)

⁶ [EnergyUK VulnerabilityCommitment GoodPracticeGuide Dec2022.pdf \(energy-uk.org.uk\)](#) p.8

⁷ [Sustainability First: Project Inspire - Confidential. WORKING DRAFT – not for circulation Version 24 September 2017](#) p.96 and p.98

⁸ <https://goodbusinesspays.com/wait-off-campaign/>

⁹ At the start of 2023 there were 5.6 million small businesses (with 0 to 49 employees), 99.2% of the total business population. SMEs account for 99.9% of the business population (5.6 million businesses). SMEs account for three-fifths of the employment and around half of turnover in the UK private sector.

¹⁰ [GBP-Report-Who-Cares-Online-Version-1.pdf \(goodbusinesspays.com\)](#)

impacting performance and increasing bills for all. This is a small change that would make a big difference and is in line with Ofgem's new Growth Duty.

2. Bill and income volatility

Drivers: In addition to permanently low income, households can face transient issues with paying their energy bill as a result of temporary income changes or due to ongoing volatility of income. For example, a customer may be temporarily unemployed, or they may not have a salaried job but instead have an income which varies from week to week due to the number of hours they are contracted. The Work Foundation at Lancaster University reports that 6.8 million people are in severely insecure work in the UK.¹¹ Three quarters (73.5%) of the 1.1 million people (aged 16-65) are currently on zero-hour contracts, meaning they face contractual and financial insecurity, and a lack of access to rights and protections. And young workers, particularly young women and black workers 'bearing the brunt.'¹² Where this leads to difficulty paying their energy bill, the customer can fall into a cycle of debt (potentially also relating to non-energy living costs) which can lead to more permanent energy poverty. Energy debt, could be new debt, or existing debt, which can create a cumulative debt burden, worsening financial stability and deepening social inequalities.

In addition to income volatility, customers can also face bill volatility which impacts their ability to budget for their energy. In particular, volatility can occur due to unexpectedly high energy bills, or back-bills. This can have similar implications as income volatility for those customers who are close to facing affordability challenges under normal circumstances. It is well recognised that a large back-bill or 'shock bills' can push customers into a cycle of problem debt or significantly exacerbate existing problems, often through no fault of the customer themselves.

Future: The level of unstable work and zero hours contracts has increased substantially since 2015, but it is unclear how that will evolve.¹³ The Labour Party has mooted policies to provide greater safeguards for those on zero hours contracts and unstable work which may support affordability caused by this driver. Moves to market wide settlement and increased tariff flexibility and greater uptake of new energy related technologies, increase the potential for bill volatility as well as teething problems with billing accuracy.

Options:

- We welcome retailers offering **payment breaks, gifted prepay top-ups during winter months and extended emergency credit and non-disconnection times**, as part of their toolkit of support for customers struggling to pay their bills. These can provide **breathing space** especially for those with temporary income problems.
- Ofgem could **encourage greater innovation in payment options/flexibility and bill reminders**. E.g. CLP Hong-Kong – Autopay reminder (see Question 7). Octopus enables customers to make a one-off payment towards their bill at any time. Bulb Energy (which went bust) used to offer Go cardless - flexible billing. GoCardless technology provided real-time alerts when payments failed or Direct Debit mandates were cancelled. This allowed Bulb to get in touch with customers immediately and handle the problem, preventing debt build up. Customers could choose for payments to be taken on a particular day of the month and could request changes to their payment plan, which Bulb reportedly implemented within three working days. Bulb

¹¹ [Zero Choices: Swapping zero-hour contracts for secure, flexible working \(lancaster.ac.uk\)](https://www.lancaster.ac.uk/research/zero-choices-swapping-zero-hour-contracts-for-secure-flexible-working/)

¹² [New analysis reveals UK continues to fall behind rest of world as zero-hour contracts reach record numbers - and it's young people bearing the brunt - Lancaster University](https://www.lancaster.ac.uk/research/new-analysis-reveals-uk-continues-to-fall-behind-rest-of-world-as-zero-hour-contracts-reach-record-numbers-and-its-young-people-bearing-the-brunt/)

¹³ Ibid. p.9 Figure 2.

said its GoCardless' technology enabled them to keep down admin costs, so they could pass on further savings to customers¹⁴.

- Ofgem's **back-billing rules need significant updating and enforcing** to prevent suppliers causing customer debt. Licence conditions should be updated to recognise the genuine harm back-billing causes, to reflect the capability of new smart technology, and rising consumer expectations, and to provide a stronger incentive on suppliers to make improvements to their billing and smart metering systems. It's ten years since Ofgem set its smart objective to end back-billing and more than 18 years since the then consumer watchdog Energywatch's initial super complaint about back-billing 'significantly harming the interests of consumers'. Yet still this issue hasn't been addressed. We outline the case for this in more detail in our Sustainability First Viewpoint – *Time to End the Cruelty of Back-billing and sort out smart meters*.¹⁵
- Billing problems remain the single most cited complaint by energy customers and can cause financial heartache. But challenging companies over unexpectedly high and potentially inaccurate bills can be incredibly difficult. Ofgem should **review company complaint handling and redress systems** to ensure they are easy to use and effective to build trust and confidence in the sector. This is also important as we transition to a more complex net zero energy market to ensure quick resolution of problems.

3. Energy unit rate and fixed costs

Drivers: Ofgem's analysis rightly focuses on the critical contribution that high energy prices make to energy affordability and debt and the drivers of high prices including rising wholesale prices, as well as rising network and policy costs. The regulator reports that total energy debt and arrears has increased by about 50% from roughly £2bn to £3bn in the last 12 months. The number of households in debt and arrears has risen from 1.9 million to 2.3 million during 2023 (an increase of 20%) and the amount of individual debt has increased at an even faster rate. This means those who are in debt and arrears, are getting deeper into debt/arrears and are struggling to pay it off, even with prices falling. For those with a repayment plan in place, average debts are £851, and for those with no repayment plan in place, average arrears are a staggering £1,761. This is also in part a legacy impact of covid-19 pandemic, where many households used up their savings and took out unsecured debt. Evidence suggests that Britain's poorest people as of 2023/24 owed twice as much to energy suppliers than they did during the energy crisis of 2022.¹⁶

While the scale and depth of the debt problem has worsened substantially in recent years, it is worth remembering that, even when energy prices were relatively low, energy debt, energy poverty and self-disconnection were still prevalent. Indeed GB governments' consistently missed their targets to eradicate fuel poverty.

In addition, in practice, the cost a customer pays for the same amount of energy can vary quite substantially depending on a range of other factors including but not limited to: the supplier they are with; the tariff they are on (even within the same supplier); energy debts, when they use their energy; their fuel type; network region; smart technology, and payment method. This in turn is influenced by a range of other factors such as their income, access to information, property type and tenure; time; personal capacity and confidence; credit score and technology access.

Future: There is no guarantee that the downward trend in energy costs will continue in 2024/25 and there will likely still be millions who struggle to afford their bills even if it does. It is clear that the

¹⁴ Sustainability First: Project Inspire - Confidential. WORKING DRAFT – not for circulation Version 24 September 2017

¹⁵ [Time to end the cruelty of back-billing and sort out smart meters \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk/time-to-end-the-cruelty-of-back-billing-and-sort-out-smart-meters)

¹⁶ <https://www.baringa.com/en/insights/financial-vulnerability/poorest-face-doubling-of-debt/>

transition to net zero will result at least in the near to medium term in increased network costs and important questions for Ofgem in terms of how those costs fall.

The REMA reforms are huge, complex and technical and will take years to conclude and implement. However, major decisions made in REMA over the next two to three years will bake-in basic end-user outcomes and costs for different customer groups for the next 20-30 years with impacts for different households' affordability and debt. With the introduction of half hourly settlement and more flexible tariffs, consumption patterns will likely start to substantially diverge across the consumer base with winners and losers dependent on the approach adopted by Ofgem and government. Not everyone will benefit from flexible tariffs and some, including people already struggling will likely be worse off without protection.

There is a chasm between notional bill reductions modelled from REMA reforms and their delivery in practice. The introduction of half hourly settlement and flexible tariffs, smart technologies, and bundled deals, will result in even greater market complexity and lock-in, with increasing barriers to customers being able to access the best deal for them and the risk of compounding inequalities. Citizens Advice for example has identified that those participating in the Demand Flexibility Service were typically older, white British, on a higher income or homeowners.¹⁷ CSE's Smart and Fair project has identified five capabilities – energy technology and usage, financial barriers, dwelling and local area, digital and technology readiness and personal and social factors that will impact a customers' ability to benefit from the net zero world.¹⁸

Despite 25 years of competitive retail market, 86% of energy customers (as of October 2023) are still on the default standard variable tariff offered by their supplier i.e. on a regulated retail tariffs subject to the Ofgem price cap and happily not engaging in the market. In truth, many reasons stand behind this headline statistic – lack of alternative attractive retail offers, a continued customer-wish for price-protection – particularly given recent price-hikes, millions of households in deep debt (a chicken and egg scenario), general customer inertia, continued market mistrust etc. But it remains to be seen if they can be coaxed into the market and even if they are willing, if they are able to in practice.

In addition, our work for the GB Electricity Demand project¹⁹ led us to conclude that unless every customer is eventually mandated onto a static ToU tariff as default, retailers and customers would simply 'cherry pick' / revert to the tariffs that are most attractive either commercially or individually. Assuming there could be multiple forms of default tariffs (such as having one dynamically priced and one statically priced default tariff), there is still a risk that energy suppliers could apportion a higher level of fixed costs to households without smart technology. Households who cannot afford smart technology may be more likely to face affordability pressures and debt. If energy suppliers take a cost-reflective approach to recovering the costs of servicing debt that they face, the households who are more likely to be in debt will face higher levels of fixed costs compared to households with smart technology. Not only would households be paying higher costs on account of having less ability to respond to price signals, but this could create significant disparity between the affordability of energy for households with or without smart technology.

Options:

- **A 'help to repay'** scheme, as in the water sector, or funded by government, could encourage people to engage with their debt, by rewarding them with payment matching to get back on track. Approaches such as EDF's Fresh Start which offers debt clearance for vulnerable

¹⁷ - [A flexible future: extending the benefits of energy flexibility to more people - Citizens Advice](#)

¹⁸ [Smart & Fair: Working with the smart energy capabilities lens \(centreforsustainableenergy.ams3.digitaloceanspaces.com\)](#) (2023)

¹⁹ [Open letter to Jonathan Brearley on Economy 7.pdf \(sustainabilityfirst.org.uk\)](#)

customers who do not meet the eligibility criteria for broader industry and Warm Home Discount support are very welcome. With customers in debt falling into deeper arrears despite repayment plans, it is hard to see how many will ever exit this debt trap without some kind of write-off of unmanageable debt or significant income support.

- There is a clear and overdue need to strengthen **protections for the estimated 10% of customers/3 million households on Economy 7 and** multi rate tariffs. Ofgem’s own consumer archetype framework shows that customers with electric heating are disproportionately younger people in rented accommodation, older people or people with disabilities on low or very low incomes. We have consistently raised concerns that this group are being unfairly treated in the energy market as they:
 - Are being overcharged because of the way in which the Ofgem Price Cap is calculated. They are not seeing the benefit of lower wholesale electricity costs at night.
 - Face a lottery in terms of what they pay with significant variations in Economy 7 tariffs depending on supplier, region and payment method that are hard to justify, and reflect the significant discretion that suppliers have under the price cap in how they set relative day and night rates.
 - That the estimated 1.5m customers on these tariffs who do not have storage heaters, and hence have relatively low night-time usage, are being overcharged. Their position has been made worse by the widening gap between day and night rates (which benefits those with storage heating) and by the limited advice and information available – including on their rights to switch to a single rate tariff.
 - In the context of the current energy crisis, with many households struggling to afford their energy bills, the issues facing multi-rate customers should be a priority for Ofgem. These customers urgently need protection. Looking to the future, Ofgem should be viewing Economy 7 as a key stepping stone to net zero. If existing customers on relatively basic time-of-use tariffs have a poor experience today, the resulting reputational damage risks undermining Ofgem’s plans for future energy retail markets. Economy 7 should be seen as an opportunity for Ofgem to understand how to regulate these more complex markets of the future.
- **Retain the price cap and reform it to better safeguard current and future consumers.** This includes retaining a single rate default tariff to protect vulnerable customers on the price cap who may struggle to engage with future time of use tariffs – or low-income customers who would be worse off on such a tariff. Longer term we accept the aim should be to move to ToU as the default once it is a more familiar concept and alternative protection in terms of a social tariff or other support is available for those on low incomes. We are also clear that the future price **cap needs to include a basic time of use tariff – like Economy 7** given the number of existing (typically low income) Economy 7 storage heat customers who are reliant on these tariffs to make their current (low-carbon off-peak) heating viable. However this tariff needs to properly reflect the differences in wholesale costs at different times which the current price cap does not do. We advocate for **static storage-heater default tariff** for existing and future storage heater customers to ensure storage heater tariffs are ‘future-fit.’
- **Further work is needed to properly understand the distributional impacts of energy market decisions** so the regulator does not unwittingly penalise those already struggling with their bills. This includes accurate energy demand-side data linked to socio-demographic data, particularly for low income and vulnerable customers. With REMA, Government and Ofgem are largely ‘flying blind into the future’ without full visibility of the scale of the potential price increases some individual customers might face, if a time of use tariff is not suitable for their needs. A better understanding of winners and losers will also be a critical factor in paving the way towards appropriately targeted support for disadvantaged and vulnerable customers.
- There is significant uncertainty around the **decarbonisation of heat and the costs associated with that.** Under any scenario it seems inevitable that gas networks will play a smaller role

than today. Most of the costs in owning and running a gas network (investment, operational) are around ensuring safety. While there is gas in the pipes, this must remain the over-arching priority. But with costs set to be spread over a declining gas-customer base there could be relatively significant near-term bill impacts, with the potential for the most vulnerable to be hit hardest. While this challenge is widely acknowledged, there has so far been little considered debate around what this means at a practical level for future policy and regulation of the GB gas networks, for their investors and, above all, for customers. This should be addressed. Our '*Looking through the FOG – Future of Gas Networks*' viewpoint, discusses these issues in more detail²⁰.

- **Debt related charges** - Ofgem reports **Terms and Conditions of domestic supply contracts** indicate that suppliers charge a range of **interest on overdue amounts** of between 2% to 8% above the Bank of England base rate, depending on the supplier. This means consumers may be paying 7.25% to 13.25% interest on overdue amounts at the current base rate. Ofgem should consider if these interest rates are fair (especially given the variation), if this is cost reflective and as low as possible and if these costs could be socialised.
- **Using customer data to help not hinder customers** – Ofgem highlights there is interest from stakeholders, including the Welsh Government, in **how credit market information is used by suppliers** to assess debt risk, prevent some customers from switching payment methods, and identify consumers with financial vulnerability. At Sustainability First we have long had concerns that while there are pockets of excellent practice that not all energy suppliers are maximising use of available data to support customers in financial difficulties. E.g. top up data to proactively support those who are self-disconnecting; energy use data to identify customers who aren't on the right deal for them or under heating their homes; credit histories to identify customers at risk of payment difficulties.
- Sustainability First has consistently argued for **Ofgem to explore introducing (peak related) capacity charges** i.e. basing more of the charges on KW of capacity provided rather than KWh. We see capacity charges as better reflecting the underlying costs structure of a low carbon energy system going forward (including the significant generation and grid capacity growth needed to meet net zero). It would also be fairer than the current reliance on fixed standing charges. It would also offer a form of rough justice in terms of lower income households typically placing less demands on the system.
- **Ofgem should explore if it can make it easier for community energy schemes to sell surplus affordable energy to low income households.** E.g. Community energy schemes may successfully raise and deploy capital to build renewable generation assets for self-consumption e.g. solar panels could be installed on the roof of a school for use by the school. But it is not possible for the community energy scheme to sell any surplus electricity to neighbouring properties without becoming a licensed supplier.
- While we don't see this as an enduring solution to energy poverty, in the short-term there is a clear need for additional **targeted energy price support** for those struggling to afford their bills (including to mitigate the worst impacts on low income customers of any move to volumetric, locational pricing or half-hourly settlement). But its role, how that is designed, including the scale of support and who is eligible, will need careful consideration depending on how the market evolves to avoid unintended consequences. This would ultimately be a decision for government if it involves significant redistribution of costs and our preference is for this to be funded via income taxation as that is more progressive. Sustainability First has concerns that with increased use of data matching and state benefits used as a passport onto support schemes that many with high need are missing out on financial help. Also, if eligibility criteria for social tariffs starts to align across water, telecoms and energy, this unfairness could be compounded as the same people consistently miss out.

²⁰ [Sustainability First - V2 Viewpoint - Gas Network Decline and Stranding in RIIO-3 - v 041223 final.pdf \(sustainabilityfirst.org.uk\)](#)

- Given the scale of the challenge Ofgem and government could explore the viability of some kind of **minimum energy allowance or essential usage allowance which could be charged at a lower price or even free to those in financial difficulty (or more radically to all consumers with costs recovered through taxation as part of a minimum basic income style approach).**
- There may also be merit in setting up a **publicly run energy supplier** that provides basic energy services and wrap around support such as energy efficiency advice, insulation and access to renewable energy solutions, especially for poorest and most vulnerable. This could, with a customers' consent, take the poorest and most vulnerable out of the competitive market or the company could be part of the market, available for anyone to choose. Alternatively, perhaps something comparable but more ambitious at a national or regional level that draws on the approach of Australia's **Thriving Communities Partnership**. The latter aims to ensure consumers have fair access to not just energy but all the modern essential services (water, telecoms, financial services) they need to thrive in society. Its goal is to build more resilient communities, stronger businesses, and tackle issues of vulnerability and hardship.

4. Volume of energy required

Driver: Each household requires a certain amount of energy to live; to heat and power their home, appliances and carry out day to day activities. How much energy is required will depend on a variety of factors including the size, location (weather) and energy efficiency of their property; the household make-up; and personal circumstances (including additional needs and disability). As with wider living costs, it is well recognised that customers with certain disabilities and the long-term ill have higher energy needs. For example, to power essential disability related equipment, as they need to wash more frequently due to certain conditions, or they need a higher thermal temperature to stay well. Scope regularly tracks the additional costs disabled households face through its disability price tag research. While it doesn't give a separate figure for energy costs alone, it does state these represent a significant element of additional costs. Its 2023 research found that:

- disabled households with at least one disabled adult or child, face extra costs of **£975 a month** on average.
- for households with two disabled adults and at least two children, these average extra costs increase to **£1,248 a month**.
- disability related extra costs are equivalent to 63% of a disabled household's income, after housing costs.

Future projections: The future picture is complicated. As noted we do not know how much energy customers 'need' and if we move away from gas for domestic heating there will be more households on alternative forms of heating – so relative volumes of energy required e.g. between gas and electric heating, will change. The amount of energy used in UK homes fell by 14% in 2022²¹. This drop was largely driven by the response to the record high energy prices, but it has been falling for much of the previous two decades. Smaller single person households (which may require less energy although spend more of their income on basic needs) are also expected to increase. Further improvements in energy efficiency of housing²² and electric appliances may reduce the volume of energy required but it could also be that some households, especially those rationing use today, decide to take savings as an increase in thermal comfort.

In the next ten years there's expected to be a substantial increase in the number of older people and those with disabilities and long-term sick, who may require higher levels of thermal comfort to stay healthy. Heat related deaths and illness are also on the rise. Heat related illness starts to increase even

²¹ [CBP-9889.pdf \(parliament.uk\)](#).

²² The current government has a target that all fuel-poor homes should be at least band C by 2030 and an aspiration for as many as possible homes across the country to be at least band C by 2035.

at moderate temperatures over 17 - 20°C, depending on a person's location and housing conditions – highlighting potential increased need for electricity for cooling²³. Sustainability First is currently undertaking research for network energy company SGN looking at future social trends and how they might impact vulnerability and affordability. We will be happy to share the findings with Ofgem once this is complete.

Options

- Ofgem should review the **quality of energy efficiency advice provided by suppliers** and if there is scope for companies to do more in this area. Under the current regulatory framework energy suppliers have very limited obligations around the provision of energy efficiency advice. E.g. when customers are in debt or have a smart meter installed. Energy Savings Trust reports some companies comply with the Smart Energy Code requirements by publishing general information and blogs on their website rather than tailoring feedback or proactively engaging with customers during the smart meter installation visit. Not all companies offer near real-time feedback or insights from smart energy data. This is not in the spirit of the Code and is a missed opportunity to support customers in better managing their energy use.
- While not within the direct scope of Ofgem, the Energy Saving Trust and Citizens Advice are calling for a **national home energy advice service, delivered locally, that provides independent, free and detailed energy efficiency advice to households**, similar to the Home Energy Scotland service, funded by the Scottish Government. This would include home visits for the very vulnerable. Ofgem could support this call which would also support the effective functioning of the competitive market. Similarly with respect to improvements to energy efficiency programmes, fuel poverty organisations **estimate that a further £18.2bn is required if the government** is to hit its 2030 target of improving fuel poor homes to B and C. Around £8bn of this would be met by raising the minimum energy efficiency standard (MEES) regulation of private rented housing to Band C, as proposed by the Government in 2020 but abandoned in 2023 (NEA/EAS, 2024). However, an expanded programme is estimated to bring about £33bn in benefits. This arises from £5bn in direct energy bill savings, £15bn from improvements in air quality and the remainder from GVA benefits arising from, for example, increased capital value of private rented properties.
- Ofgem has an administrative role with regards to the Energy Company Obligation (ECO), helping to ensure its efficient delivery. Energy efficiency organisations also advocate the **establishment of national publicly funded retrofit programme to complement ECO** delivered by local authorities or consortia of authorities (FPRN, 2024). Funds for this should be allocated according to fuel poverty need, rather than by competition, to avoid the current so-called postcode lottery. Improved support for delivery teams within local authorities is also required. While ECO itself is generally welcomed, energy efficiency organisations suggest it should move away from its current focus on a small number of deep retrofits in large homes off the gas network in rural areas and towards a higher volume of retrofits that reach a larger number of fuel poor households in a wider range of property types. This essentially would entail removing the current minimum requirement to move homes up 2 EPC bands (E3G, 2024).
- In winter customers will need a certain amount of heat to stay warm, and in summer, a certain amount of electricity, potentially to stay cool and be comfortable. We also need power for key essentials including charging phones, operating lighting, cooking, heating water, fridges and freezers among other items. In reality while there is advice on the temperature required in living spaces to stay well (though no consensus), we have little understanding as to **what constitutes a basic energy need for power. This is a noticeable research gap that needs to be addressed**. There are no doubt lessons to be learned here

²³ Covid-19: What next? A future vulnerability assessment for UKPN and South East Water -Sustainability First and CSE October 2021.

from the Welsh Government's approach to setting a Minimum Digital Living Standard. They worked with the public to develop a citizen-centred definition of what counts as digital inclusion or exclusion using deliberative methods. The public defined minimum digital allowance as being able to do a series of everyday activities. Such research would not be without its challenges, but is worthy of exploration (See Question 7).

5. Living costs (non-energy)

Driver: Households have a number of inescapable costs, or living costs, that they must meet. These can include, but are not limited to, housing, care (children, elderly), food, transport and the cost of utility bills. High non-energy living costs result in less money available to pay energy bills. Customers can be 'forced to choose between heating and eating'. For households with tight budgets (i.e. where the level of household income is near the level of inescapable costs), an increase or decrease in one living cost can either put them at risk of being unable to pay all of their bills or make it easier to pay bills respectively. Issues could result from a permanent change such as a change of address which leads to increased housing and/or transport costs for example. It could also result from temporary changes such as increased water use over a hot summer, extra care or transport costs due to an unwell family member, but which can lead to more permanent energy poverty challenges through the mechanisms discussed previously.

The Joseph Rowntree Foundation **monitor found that in October 2023, 4.2m households were going without essentials and 3.4m households reported** not having enough money for food (Joseph Rowntree Foundation, 2024). In 2024 Joseph Rowntree Foundation poverty monitor reported that more than 1 in 5 people were in poverty in 2021/22 – 14.4m people. This included:

- 8.1 million (or around 2 in 10) working age adults,
- 4.2 million (or around nearly 3 in 10) children,
- 2.1 million (or around 1 in 6) pensioners and
- 4.8 million (or around 3 in 10) disabled people and 2.3 million (or nearly 4 in 10) people with a long-term, limiting mental health condition were in poverty.

Poverty rates have returned to around their pre-pandemic levels, as middle-income households incomes rose at the same time as a range of temporary COVID-related support was withdrawn (Joseph Rowntree Foundation, 2024). Furthermore, 6 million households were in 'very deep' poverty, those with an income below 40% of median income after housing costs (Joseph Rowntree Foundation, *ibid*).

Future: Projecting future living costs is notoriously difficult. That said, Sustainability First is doing some horizon scanning on future vulnerability and affordability projections for SGN which will be complete at the end of the summer. We will be happy to share our findings. What is clear, is that it is not unreasonable to expect an increase in many of the costs outlined above in the short to medium term, given the need for infrastructure investment in utilities such as water and transport, supply chain challenges, the projected increase in care needs, and climate impacts on food chains.

Options: This driver highlights the **scale of the challenge, the limitations of cross subsidy as a mechanism to fund support, and the importance of a joined up and multi-agency approach to tackling affordability and debt**. In designing support and prioritising help energy retailers should consider not only energy costs and usage, but customers' wider living costs.

6. Customer control and understanding

Driver: Being able to control energy use and budget is a key factor in energy affordability and preventing debt. This is reflected in the fact that (despite its bad press) many customers prefer prepayment due the control it gives them, reducing the worry about receiving bills that can push them into debt. Some customers do not have the information and tools to regulate their energy use e.g. if they are not on prepayment, or don't have an operational smart meter with near real-time energy feedback. Others can lack understanding that can help prevent high bills and debt e.g. Advice providers report there is still a gap in knowledge for prepayment customers, that standing charges accrue over the summer months. CSE also reports that customers on Economy 7 tariff tariffs do not always understand how their tariff works or when their peak and off peak times are so can pay hundreds of pounds more than they need to for their energy. Economy 7 customers also find it hard to compare deals as switching sites don't support their tariffs and switching and finding information can also be much harder for those who don't have internet access. These are just some examples. Customers may also lack the confidence, skills or ability to easily engage in the energy market or seek redress when things go wrong. Consumers in the most vulnerable situations are likely to face a combination of these kinds of barriers.

Future: As noted, the introduction of half-hourly settlement and flexible tariffs, smart technologies, bundled deals, will result in even greater market complexity, lock-in and new barriers to accessing the best deal for them. Conversely, consumers having access to real-time information about their energy usage, costs, and carbon footprint, is expected to empower them to make informed decisions about the way they use energy. Automation may also offer some benefits though is unlikely to be a silver bullet, while the future of advice provision remains uncertain.

Options

In addition to improving customer access to high-quality debt and energy efficiency advice and encouraging more flexible payment options and bill alerts Ofgem could:

- Do more to ensure **information** provided by suppliers including via apps and online is **inclusively designed - clear, comprehensive, and easy to understand**. E.g. Anecdotal reports suggest British Gas' is struggling to provide customers with the information they need to switch provider and make an informed decision - notably 12 months actual annual consumption.
- **Sort out the smart meter rollout** so that as many homes as possible have a fully functioning smart meter and access to near real time energy information to help manage their energy use if they want it.
- **Learn the lessons from existing time of use tariffs** including Economy 7 and work with Sustainability First and advice providers to develop advice for multi-rate customers.
- Play an active role with trusted intermediaries in **promoting information remedies and public awareness campaigns** as needed.
- Work with government and or Citizens Advice to **set up a not for profit switching website**, showing all the energy deals in the market, thus ensuring a single source of trusted information and ridding the market of the unnecessary costs that switching sites build into tariffs.

Certain groups of customers are at greater risk of being impacted by a combination of these drivers. Sustainability First is currently undertaking research to understand who has the greatest need for affordability support and the extent to which available support meets need. We are happy to share that research.

Q3: What factors should be considered when redistributing costs?

This question is important as there continues to be grave inequalities in GB. We understand and broadly agree with the challenges identified in redistributing costs associated with debt, payment methods and standing charges identified by Ofgem. Decisions on the redistribution of costs are rarely clear cut and inevitably create winners and losers including amongst the poorest, different energy retailers, and different parts of GB. The transition to net zero must deliver a fair affordable energy, yet there are very real risks of compounding inequalities. **There are a wide range of issues to be considered when re-distributing costs, and to capture the complex interplay of economic, social, inter-generational, spatial, environmental and even political factors.**

Tools and data

Importantly, **Ofgem doesn't yet have all the tools and data it needs to make informed decisions.** As noted Sustainability First / CSE's PIAG project on access to smart-meter data for a public-interest purpose highlighted a dearth of accurate energy demand-side data linked to socio-demographic data²⁴. This data is needed to answer distributional questions, to inform future energy policy development and for market oversight. Indeed, in this regard, we described both government and Ofgem as 'flying blind into the future'. We therefore very much welcome the commitment in the REMA consultation to re-visit government policy appraisal methodologies in 2024 to ensure that these properly value the whole system benefits of electricity demand reduction.

There may also be value in Ofgem using Health Impact Assessments (HIA), with Equalities Impact Assessment (EqIA) to understand the wider impact of its decisions. By integrating the two assessments it can offer a more holistic approach to policy development, promote social justice and inclusive development to ensure an energy resilient population. Health Impact Assessment (HIA) is a recognised and valuable tool to understand and identify inequalities of programmes, projects and strategies. It provides a systematic, evidence-based approach to aide decision-makers, as well as fostering collaboration.

HIA can identify positive and negative impacts and unintended consequences, and mitigates the negatives and enhances and promotes the positives. Differing from an Equalities Impact Assessment (EqIA), which focuses on nine protected characteristics (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation), HIAs captures all and any groups, individuals and communities who might be affected. It can enable wider mapping to capture all groups that might be affected and otherwise missed out - thus preventing further inequalities from future energy challenges. Sustainability First has the knowledge and expertise to undertake this work.

Other factors to consider

Sustainability First developed a briefing in 2020 on Social and Distributional Impacts of Decarbonisation and Climate Adaptation in the UK²⁵ (2020) which outlines a **proposed framework with** four key areas for consideration – **affordability, inclusion and access, spatial distribution and intergenerational impacts**. These are all relevant and we direct Ofgem to that note.

Since then, at the first **REMA End User Forum together with Citizens Advice, Sustainability First led a discussion on what fair outcomes might look like**. This was informed by joint paper 10 which included

²⁴ [Smart Meter Data \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk)

²⁵ Briefing - Social and Distributional Impacts of Decarbonisation and Climate Adaptation in the UK Sustainability First [Microsoft Word - Social & Distributional Impacts SF Briefing May 2020 FINAL.docx \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk)

strawman principles for fairness in REMA – see Annex 1 below. These need further refining but can help guide options on how to judge fair outcomes²⁶.

Annex 1 - High-level ‘strawman’ principles by which to consider what fair outcomes for end-users in REMA might look like.

Citizens Advice and Sustainability First first outlined these principles to the REMA End-User Forum on 16 February 2023.²¹

Principle	What could this look like in terms of fair outcomes for electricity end users?
Equitable treatment	<ul style="list-style-type: none"> • Some end users receive targeted financial support to overcome barriers to participation in e.g., flexibility • Work done to overcome non-financial barriers to participation • Cost recovery is progressive • Consideration of intergenerational equity • Consideration of industrial competitiveness
Inclusive	<ul style="list-style-type: none"> • End users, especially those in vulnerable circumstances, are able to engage with the future energy system in a way that meets their own needs • Robust governance, including retail market regulation that permits choice, ensures transparency and ensures appropriate consumer protections
Justifiable	<ul style="list-style-type: none"> • End users are only exposed to price signals to which they are able to respond • Affordability: REMA policy costs are not borne by those least able to pay them
Transparent	<ul style="list-style-type: none"> • End users have been made aware and had opportunity to be involved in how policy decisions have been reached and why • REMA policy options have been evaluated based on their ability to facilitate fair outcomes for end users – including through a distributional impact assessment • Clarity of roles between BEIS, Ofgem and ESO in delivering fair outcomes for end users • End users informed of composition of energy bills and factors that drive change

Sustainability First is about to start a quantitative and deliberative engagement project on behalf of a transmission company to explore customer attitudes towards how net zero costs should be passed on to customers bills, including issues of inter-generational fairness and affordability.

History also teaches us the importance of the following factors:

- **Anticipating the impact of any redistribution of costs** on current and future competitive suppliers’ and customer *behaviour* to avoid unintended consequences. E.g. any shift in costs inevitably incentivises or disincentivises certain activities.

²⁶ [REMA Documents \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk)

- Linked to ‘justifiable’ in the table above **‘perceived fairness’ is important** – what is sometimes referred to as the ‘Daily Mail test’. Over the last two decades of energy regulation we have seen a disconnect between what the public see as fair i.e. the poor should not pay more for their energy, and Ofgem’s approach to fairness which focussed on cost-reflective pricing.
- There is an incredibly complex set of cross subsidies in the energy market currently. From an end user perspective there is much to be said for **pricing simplicity**. Our recent engagement with customers and stakeholders on a Fair Transition for National Grid confirmed this²⁷.
- Ofgem should **ward against focusing on the ‘typical household’** as this can mask huge variations including in the level and pattern of usage between customers and distributional impacts of cost allocation.
- It’s essential to **consider future trends** – economic, environmental, technological, and social change can influence who in practice become the winners and losers from a decision. The size of different demographics and the vulnerabilities they face will change. Realistically any decision needs to stand a reasonable test of time.
- The need to **consider the potential impact of any decision on the six energy poverty drivers** outlined above in Question 1 and also wider societal impacts.

Q4: To what extent is debt a factor that puts suppliers off taking on new customers or offering certain types of services and tariffs to them?

Sustainability First’s *Energy for All, Innovate for All* project²⁸ looked at how innovation could improve service delivery for customers in vulnerable situations. The project involved 52 anonymous interviews in 2017, with a range of stakeholders including energy companies, service and product manufacturers, consumer groups and disability organisations. While this research is now six years old, it provides some insight linked to this question which still has relevance.

In the competitive supply market, the standard market view is that competition is expected to drive efficiency and keep bills as low as possible. That it will also drive improvements in service for customers including those in vulnerable situations, with less prescriptive and more outcomes-based regulation enabling more innovative and tailored approaches.

In practice, the project found that companies generally didn’t see the acquisition of vulnerable customers including those in debt as a priority as they were not seen, despite their ‘stickiness’, as attractive market segments. Price caps were seen to exacerbate this. This was because they had higher cost to serve, were more likely to call the company, need home visits, and be a credit risk. Many suppliers felt there was not as much value in vulnerable customers as they had no disposable income to buy additional products and services. This was linked to a view that if they target low income customers with products and services, they would be selling low volume, low cost items with therefore lower margins. Suppliers did not think there were sufficient commercial drivers to innovate in a timely way for low income groups.

Most suppliers said they were focusing on “minimizing vulnerability costs” e.g. reducing bad debt, minimizing call centre costs, rather than seeking to win and retain these customers. They were not exploring the market opportunities of different vulnerable customer segments. Some smaller companies actively avoided low income and vulnerable customer market segments. The main exceptions being around smart prepay (i.e. Utilita), and connected home solutions for older people. Both of these were actively seen as a market opportunity.

²⁷ [Sustainability First National Grid Fair Transition summary report - final v8 FEB-compressed.pdf \(sustainabilityfirst.org.uk\)](#)

²⁸ [Energy for All - Innovate for All \(sustainabilityfirst.org.uk\)](#) – This also includes a good practice guide on supporting customers on low incomes and in debt.

This contrasted with the perception of many non-energy industry representatives and some consumer/ disability groups, who believed there were good commercial opportunities from the vulnerability market especially with smarter technologies.

We did identify pockets of real innovation and good practice to support customers in vulnerable situations but most progress was incremental rather than transformative. Many energy companies in particular some of the smaller retailers at the time were still focussed on getting the basics right rather than ‘pushing boundaries’.

The project concluded that competition alone was unlikely to deliver the supply-side innovation that vulnerable customers require - at least not for all customers with additional needs in a timely way. We made 18 recommendations to address this which are outlined in the report²⁹.

Q5: With reference to the themes and indicators in our Competition Framework, to what extent is the affordability of energy and the build-up of legacy debt affecting competition and innovation (including new entry) in the domestic retail market?

See Question 4.

Q6: What represents best practice in debt management by suppliers?

We draw Ofgem’s attention to our *Project Inspire* good practice guides including ‘*Supporting customers on low incomes and debt*’; the affordability toolkit we developed for the water industry association UKWIR; and best practice case studies all outlined in Question 7. We also highlight the options in Question 2. At a high level, best practice includes:

- Using data and partnerships to proactively identify customers at risk of falling into financial difficulty to help prevent debt.
- Early identification of customers in payment difficulty so the company can intervene early before debt and harm builds.
- Empathetic suppliers who offer a comprehensive package of support tailored to the customer’s needs. E.g. payment holidays, debt write-off, debt matching, affordable repayment plans, prepay top-ups, high-quality advice, price support, income maximisation etc.
- Company staff who are well-trained to use every available touch point to identify vulnerability and confidently provide help/or handhold onto the customer onto trusted and expert third parties for wider support e.g. debt advice agencies, councils.
- Companies absorb debt related costs, not adding to the customers’ financial burden with additional charges once they enter the debt pathway.
- Inclusively designed services and information which supports customers in managing their energy use and bills e.g. choice of communication channel, flexible payments etc.

²⁹ [Energy for All - Innovate for All \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk)

Q7: What lessons can we learn from other sectors and countries on managing affordability and debt? And how should they be applied to the energy sector?

Sustainability First's *Energy for All, Innovate for All* report identified more than 70 good practice case studies to support customers on low incomes and in vulnerable situations drawing on examples from water, energy retail and network companies, telecoms and financial services. It includes four practical guides outlining good practice at the time. Much of this is still not business as usual for all energy retailers. These guides cover a) Supporting customers on low incomes and in debt b) Identifying customers with additional needs c) Improving access d) Security and peace of mind. This report can give a bit of a baseline against which Ofgem can judge how energy retailers have (or perhaps haven't moved on) in service provision since 2017³⁰. We also outline below some lessons learned from other sectors and countries.

Other countries

E.ON Germany – Payment Help Programme³¹

E.ON Germany works in partnership with welfare organisations and Job Centres, so that when a customer becomes unemployed they can take proactive action to support them in managing their energy use, and reduce or prevent energy debts. When an E.ON customer in financial difficulty contacts the Job Centre, the Job Centre can call E.ON on the customer's behalf, (or the customer can call themselves) via a dedicated hotline manned by a specialist team. Customers who come via this route get a preferential service: payment help, including the option of longer repayment terms; energy saving advice; debt advice information; and any debt escalation action underway e.g. disconnection, is cancelled. The advice line works in both directions with customers in financial difficulties also referred to the Job Centre and wider welfare organisations for additional support.

CLP Hong-Kong – Autopay reminder³²

To ensure customers always have sufficient funds in their bank account to cover their next bill, CLP Power Hong Kong offer an email Autopay Reminder service so the customer receives an email two days before their payment due date. If the customer has two accounts with identical payment due dates and receives their bill at a single email address, they can get a single eAutopay reminder – making it easier for them to check and manage all their accounts. Customers can sign up online. The initiative is beneficial to both the company and the customer. It means the payment is less likely to bounce, minimising any associated chasing, and the customer is less likely to incur banking fees if they have insufficient funds in their account.

Norway – capacity charge

A household capacity charge should be explored as a further tool to support both overall fairness, and customer and system efficiency as electricity demand radically grows. This could be alongside a ToU default tariff – either for EV owners – or eventually for every household. The Norway energy regulator has introduced a new household capacity charge to address the increased network cost of connecting EV households. Italy and France also have long-standing 'stepped' household capacity. Sustainability First's Response to DESNZ's call for evidence on Future Default Tariffs³³ highlights there has been little relevant research on the pros and cons of introducing a household capacity charge in GB including the impact on low income customers. In considering how best to evolve the flat-rate standard variable tariff for different customers and different technologies DESNZ and Ofgem could usefully explore whether household capacity charges have a part to play.

³⁰ [Energy for All - Innovate for All \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk)

³¹ [Sustainability First: Project Inspire - Confidential. WORKING DRAFT – not for circulation Version 24 September 2017 p.98](#)

³² [Sustainability First: Project Inspire - Confidential. WORKING DRAFT – not for circulation Version 24 September 2017 p.97](#)

³³ [Future Default Tariffs – response to DESNZ call for evidence \(sustainabilityfirst.org.uk\)](#)

Wales – Minimum Digital Living Standard³⁴

The Welsh Government has developed a Minimum Digital Living Standard to ensure no household in Wales is below the threshold, as part of a vision for digital inclusion in Wales. The Minimum Digital Living Standard is different in that it's a citizen-centred definition of what counts as digital inclusion or exclusion. The approach applies the Minimum Income Standard (MIS) methodology to issues of digital inclusion, using deliberative methods with members of the public to develop a standard based on and rooted in public consensus. Following MIS, the MDLS sets a 'digital participation threshold', defined with members of the public, as a minimum below which households do not have all they need to take part in everyday activities. There is potential to work with consumers to co-create a Minimum Energy Living Standard to better understand what customers see as essential service. This could better inform the design of support for customers in financial difficulty.

EnergyCloud Ireland – using surplus energy to tackle fuel poverty³⁵

This pilot uses surplus renewable energy to tackle fuel poverty by providing free hot water. Fuel poverty impacts thousands of Irish families every day yet according to the Government, in 2019 alone, 711 GWh of zero carbon energy from wind generation was dispatched down. Analysis from EnergyCloud reportedly indicates that this power had the capacity to heat domestic hot water in 200,000 homes. Redeployment of this energy to heat hot water in homes could have displaced 145,337 tonnes of CO₂ in 2019 and avoided €5.8 million in carbon penalties to Ireland and €45 million in fuel bills to householders. Octopus Energy, along with distribution system operator UK Power Networks, is also offering households in eligible areas 'Power-ups.' These are periods of free electricity to utilise local renewable generation, usually lasting for an hour or two and announced by email around a day in advance. We'd welcome understanding the potential of using surplus renewable energy on the grid to provide free electricity to low income households.

Australia – Thriving Communities Partnership

TCP's mission is to ensure that everybody has fair access to the modern essential services they need to thrive in contemporary Australia – water, financial services, telecommunications and transport. TCP has the human at the centre of everything they do, it aims to build more resilient communities and stronger businesses by fostering and facilitating collaboration between business, government and community organisations to tackle issues of vulnerability and hardship. Sustainability First's case study provides further information³⁶.

Spain, Italy and US – social tariffs that support demand management³⁷

In Spain, social support is layered on top of a flexible retail tariff to form a de facto flexible social tariff. The tariff is notable for offering price protection to low-income and vulnerable households while maintaining opportunities for flexibility savings and participation in smart retail offers. Italy also has experience of a mandated ToU tariff. There are also long established ToU default tariffs in parts of the US – targeted particularly in some instances at air-conditioning load. Looking ahead at the longer-term pros- and cons of a possible mandated universal ToU default tariff for all GB households, DESNZ should consider major lessons from these approaches.

³⁴[Towards a Welsh Minimum Digital Living Standard dard: final report \(summary\) \[HTML\] | GOV.WALES](#)

³⁵ [EnergyCloud and Clúid Housing announce renewable energy partnership Clúid Housing \(cluid.ie\)](#)

³⁶ [Microsoft Word - SF The Thriving Communities Partnership Case Study 26.3.19 FINAL.docx \(sustainabilityfirst.org.uk\)](#)

³⁷ <https://www.frontier-economics.com/uk/en/news-and-insights/articles/article-i6106-time-to-pick-up-pace-of-dynamic-electricity-pricing/#>

Sweden, flexible tariffs – lessons learned

Research from Sweden found that customers perception of energy flexibility potential varies according to context and personal attributes. People living with poverty were more likely to judge their comfort as tradeable for reduced cost, and therefore perceive their flexibility potential as higher despite potential risks to health of over rationing use. We need to consider this when designing protections.

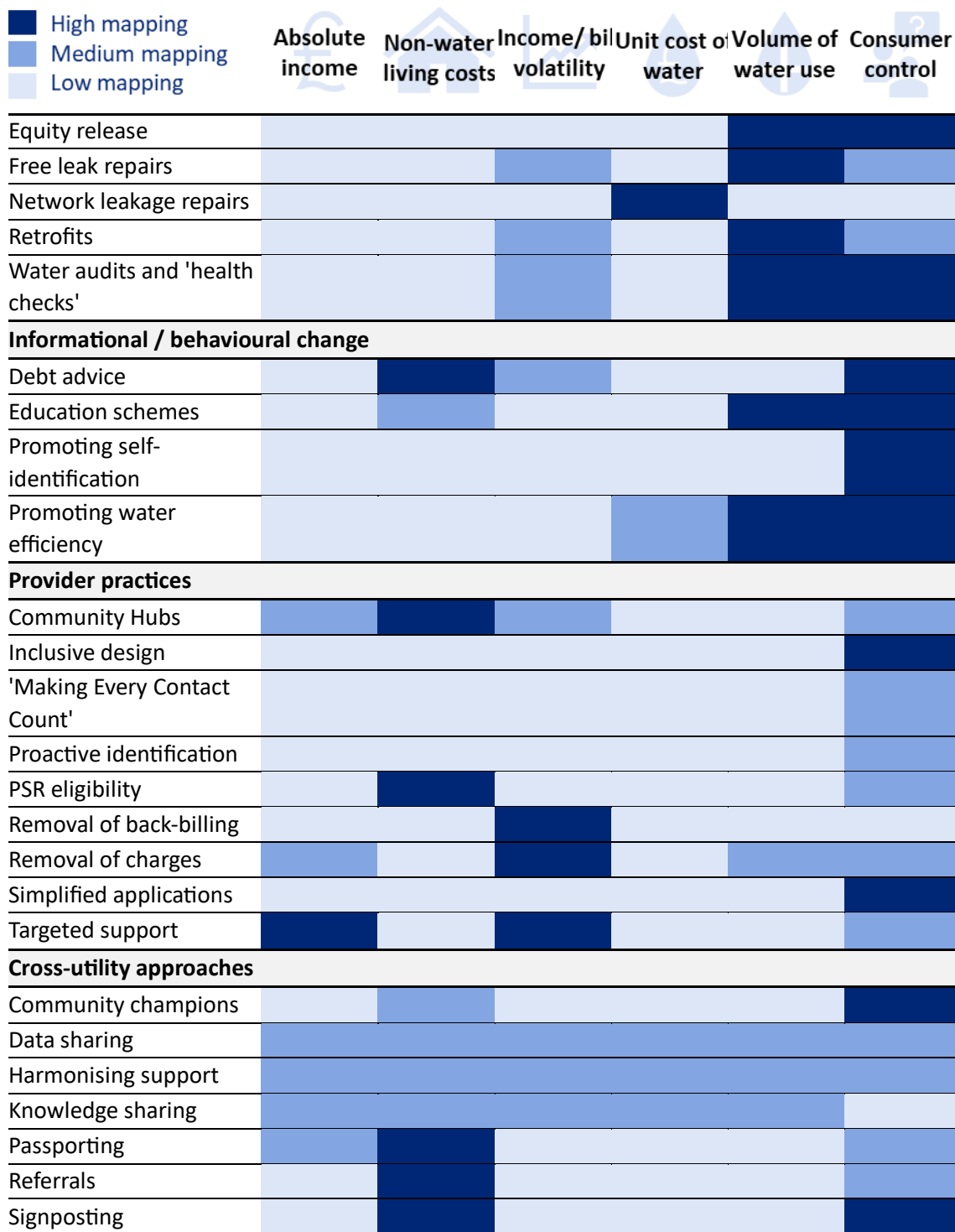
Other sectors

Water sector

Sustainability First’s report for the water industry research association UKWIR highlighted the importance of tailoring support to different low income customer needs. It included a toolkit of support for water companies based on the help available in the water sector at the time (2020) as mapped against the drivers of water poverty.³⁸ See below:

	High mapping	Medium mapping	Low mapping	Absolute income	Non-water living costs	Income/ bill volatility	Unit cost of water	Volume of water use	Consumer control
Bill reduction / income support									
Benefits entitlement checks	High	Low	Medium	Low	High	Medium	Low	High	Medium
Bill caps	Medium	Low	High	High	Low	Low	High	Low	Medium
Charitable trusts	High	Medium	Low	High	Low	Low	High	Low	Medium
Percentage bill reductions	Medium	Low	High	High	Low	Low	High	Low	Medium
Rising block tariffs	Medium	Low	High	High	Low	Low	High	Low	Medium
Single Person Status Discount	Medium	Low	High	High	Low	Low	High	Low	Medium
Social tariffs	Medium	Low	High	High	Low	Low	High	Low	Medium
Water Charges Reduction Scheme	Medium	Low	High	High	Low	Low	High	Low	Medium
WaterSure	Medium	Low	High	High	Low	Low	High	Low	Medium
Financial management									
Debt write-off	Medium	Low	High	High	Low	Low	High	Low	Medium
Financial management support	Low	Medium	High	High	Low	Low	High	Low	Medium
Flexible payments	Low	Medium	High	High	Low	Low	High	Low	Medium
Payment holidays	Low	Medium	High	High	Low	Low	High	Low	Medium
Payment matching	Medium	Low	High	High	Low	Low	High	Low	Medium
Water Direct	Low	Medium	High	High	Low	Low	High	Low	Medium
Water efficiency									
Efficient appliance provision	Low	Medium	High	High	Low	Low	High	Low	Medium

³⁸ Defining Water Poverty and Evaluating Existing Information and Approaches to reduce water poverty. [Setting a framework for alleviating water poverty \(ukwir.org\)](https://www.ukwir.org)



Help to Repay

Most water companies offer debt support schemes where they will match (or in some cases more than match) customer repayments in order to help clear arrears. Feedback from companies is that they find the scheme to be an incredibly useful tool in re-establishing engagement with struggling customers and in re-establishing a regular pattern of payment from them.³⁹

³⁹ [Affordability-research-report-2021.pdf \(ccw.org.uk\)](#)

Severn Trent – engaging hard to reach vulnerable customers

Severn Trent Water worked with schools to inform children, so that they can influence adults in their household, and explored whether community centres and places of worship can help spread information. It also investigated how behavioural science can be used to increase take up. The company published a Playbook detailing findings from the pilot.⁴⁰

South East Water – data matching with local councils

SEW used powers under the Digital Economy Act to set up data sharing arrangements with local councils. This is to directly passport customers on low incomes and struggling with their bills onto their water social tariff and to sign them up to the Priority Services Register. Councils often hold different and more granular data than data matching with DWP – helping to reach a wider range of low-income customers including those not in receipt of benefits.⁴¹

Financial services

Some examples of good practice from financial services include:

- Income maximisation as standard part of the process,
- Proactively getting in touch with customers when spike in mortgage payments occurs (could be replicated for any sizeable increase in energy bills),
- Supporting debt advice sector by funding it
- Offering the chance for in-person support and face to face conversations.

Ends

⁴⁰ [innovation-vulnerable-playbook.pdf \(severntrent.com\)](#)

⁴¹ [Data sharing puts customers on the right tariff | South East Water](#)