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Dear Ofgem team

Price cap Programme of Work – consultation response

Sustainability First is a charity and think-tank focussed on social and environmental issues in energy and water. We have been closely involved in various regulatory debates, including around network charging and the RIIO price controls. We have also commented previously on Ofgem's approach to distributional impacts and participated in the consumer group calls that Ofgem has held around retail issues in the context of the current energy crisis.

Back in August we raised with the Ofgem team our concerns about the handling of Economy 7 in price cap and in particular the concern that Economy 7 customers were not seeing the benefit of lower wholesale energy costs at night and that there was scope for gaming in how relative day and night rates were set. We had a constructive discussion with the Ofgem team on these issues and were therefore disappointed that Economy 7 did not feature in Ofgem's Programme of Work for the price cap on which it is currently consulting. We strongly believe it should.

We are pleased to have been able to contribute to the Glen Dimplex / Grid Edge Policy report "It's a Lottery – How Ofgem's Price Cap Fails Economy 7 Customers" which sets out clearly the issues (and which we have attached again for convenience). We would endorse the asks from that report and specifically:

"*In its programme of work for the Price Cap, Ofgem should include a review of the Economy 7 arrangements as a priority element. In particular this should include*

- *ensuring that the lower cost of wholesale energy at night is properly taken into account in setting the level of the cap;*
- *monitoring how suppliers are exploiting the flexibility that exists in the price cap around relative day-night rates and look at how to ensure customers are not disadvantaged by it;*
- *ensuring that where wider changes are being made to the price cap that the impacts on Economy 7 customers are explicitly considered; and*
- *clarifying that customers can switch freely between Economy 7 and standard rates and still be protected by the price cap".*

At around 10% of households – predominantly in rented accommodation or on low or very low incomes - this is not a niche that can simply be ignored.

Within this group there are two distinct sub-groups with very different patterns of usage – those with night storage heating (where the issues are around having a clear and stable price signal that encourages off-peak usage and discourages people from moving to direct-acting electric heating instead) and those without (who risk paying significantly more than they should).

As further evidence of the potential scale of the detriment that can exist around Economy 7, we attach an (anonymised) price change notification sent to a family member of one of the Sustainability First team. This is a young couple – one of whom is working – living in a rented one

bed flat where they have an Economy 7 meter but where there is now communal heating in the building. What the price change notice shows is that:

- For them prices will be going up 13.5% in January (when customers on a standard tariff will see no or only a marginal increase). This is a result of both the change in the Ofgem cap in January (which particularly hit Economy 7 customers as flagged in the Grid Edge Policy report) and a further widening of the day / night differential (as EDF exploits the flexibility that it has);
- They are being told that they could save £991 pa by moving to PAYG which requires them to install a smart meter. This scale of saving is evidence of the tariff lottery that currently exists and makes a mockery of the idea that these are regulated tariffs.

As you will be aware many customers in their position struggle to get a smart meter installed because of technical difficulties in multi-occupancy buildings or the need to involve the landlord. However, from looking at the EDF tariff schedule it is clear that the main saving here is from moving to a single rate tariff rather than to PAYG (so a smart meter is not essential). Furthermore, the letter is very confusing in talking about "if you have a multi-rate meter…" when it is clear from the tariff that they are on that they do.

This clearly is an extreme case as they do not appear to have any night time consumption (presumably because of how the meter is now wired). However, their situation will not be unique and even with a more typical non storage heat profile (c 20% night time usage) these impacts would still be significant.

While clearly this young couple are on the wrong tariff for them and need to talk to EDF, like many customers who are struggling at this time they had a large pile of unopened letters from EDF (which they couldn't face dealing with). The purpose of the price cap was precisely to protect customers who are disengaged and it is not doing so for customers like this on Economy 7.

The Energy Price Guarantee (EPG) which is providing price stability to most customers is not helping here either. When Ofgem proposed moving to quarterly updates to the price cap many consumer groups raised concerns about the impact of increasing tariffs in the middle of winter. The EPG removed this concern for most customers but not for Economy 7 customers.

While there are clear implications here for the price cap there are also wider questions around suppliers' role in ensuring that customers are on the right tariff and their compliance with their licence obligations in this area. The letter is clearly a long way from being as clear or helpful as it could be with a strong sense of "you do not need to do anything".

For customers who do have storage heating (and high night time usage) the tariffs now out there can be a bargain but this varies hugely by supplier and region - and the significant fluctuations in tariffs over time will create concerns. The failure to adequately reward off peak usage in the Ofgem model is disadvantaging these customers and Ofgem is missing the chance to pave the way for a greater reliance on demand side response (including eg night time charging of EVs) going forwards.

We hope that the report and the additional case study have demonstrated the need for Economy 7 to be included as a specific issue in Ofgem's Programme of Work on the Price Cap but would be happy to discuss it further if that would be helpful.

Yours faithfully

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