Economy 7 and the price cap / Energy Price Guarantee

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Sustainability first

Grid Edge Policy

Regulation · Energy · Consumers

Agenda

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

Overview of “It’s a Lottery” Report

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

Economy 7 – why it matters

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

Economy 7 – two distinct sets of customers

Households with storage heat	Households without storage heat
• May also have hot water tanks heated overnight • Will have high % night usage (especially in winter) • Economy 7 (or similar) probably the best tariff for them • Need benefit of low night rate to justify up front cost of storage heater v direct electric	• May once have had storage heating • Now often direct electric (or gas / communal heat) • Relatively low % night usage • Single rate better unless very unusual pattern of usage • Can be overpaying by hundred of pounds

How the price cap works for Economy 7

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

Suppliers have a lot of flexibility

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

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

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

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

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

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

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

Price cap and EPG interaction (example)

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

Our concerns with the price cap / EPG

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

A lottery by supplier

- unit rates in Eastern region under the EPG

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

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

A lottery by region

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

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

Case study – potential for significant detriment

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

Our ask of consumer bodies and industry

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

Households with storage heat	Households without storage heat
• Economy 7 (or similar) probably the best tariff for them • How good varies by supplier etc • Need to be wary of high day rates – “know your hours” • And need to understand wiring • Keep checking rates as they change frequently	• Can be overpaying by hundred of pounds • Single rate better unless very unusual pattern of usage • No simple rule of thumb for % – varies by supplier etc • Lack of clear advice • Unclear if all suppliers allow switch to single rate

Conclusion – key asks

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

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