Sustainability *first*

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To: jonathan.brearley@ofgem.gov.uk

Dear Jonathan Brearley

Re Unfair treatment of Economy 7 and other multi-rate tariff customers

You may be aware that Sustainability First recently hosted a roundtable with a number of consumer organisations and companies, who are joint signatories to this letter, to discuss the treatment of Economy 7 and other multi-rate customers in the current energy crisis. With around 10% of customers on multi-rate tariffs – many in rented accommodation or on low or very low incomes - this is a significant group of customers who are too often ignored.

While we appreciate the engagement that we have had with Dan Norton over the treatment of Economy 7 under the price cap, it is clear that the issues faced by these customers run much wider. We are therefore writing to urge Ofgem to prioritise Economy 7 customers and those on multi rate tariffs across your future work programme.

Around 3 million households are on these electricity tariffs where they pay a cheaper rate for their night usage and more for usage during the day. We have strong concerns that these consumers 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**. In particular, they are not seeing the benefit of lower wholesale electricity costs at night.
- Are **not protected from price hikes** under the Energy Price Guarantee (EPG) in the way that customers on single rate tariffs are, due to the interplay between the price cap and the EPG.
- 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.
- Find **it hard to know what is the best tariff for them** due to the lack of transparency on pricing, the complexity of comparing deals, poor supplier communications, and the absence of advice and tools to support them. Even expert consumer advice agencies have struggled to find information on which to base advice to their clients in this area.

What is clear is that there are two distinct groups of customers on Economy 7:

- **Those who have storage heaters** (and often also hot water tanks) that charge overnight and who therefore have significant energy use at night. For these customers, Economy 7 will almost always be the best tariff and indeed there are currently some exceptionally competitive deals available for those with high night

time usage. However, it remains important that the price cap properly rewards these customers for their higher night time usage – to avoid the risk of them switching to less efficient and more expensive methods of heating - and that they understand when the different rates apply and what the rates are. Switching has always been a challenge for these customers and so they cannot necessarily benefit from the better deals in the market.

- Those who are **on Economy 7 for historic reasons and who do <u>not</u> have storage heating**. We estimate that **around 1.5m customers** are on multi-rate tariffs who do not have storage heaters and hence have relatively low night-time usage. These customers are almost certainly paying substantially more for their electricity than they would if they were on a single rate tariff. 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.

Supporting a fairer sustainable energy market – for today and for the future

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. 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. These customers urgently need protection.

Looking to the future Ofgem should be viewing Economy 7 as a key stepping stone to net zero. In its recent consultation on Delivering a Smart and Secure Electricity system, BEIS acknowledges the important role of thermal storage in providing demand side flexibility, and as part of the transition to decarbonised heat. 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. Instead, Economy 7 should be seen as an opportunity for Ofgem to understand how to regulate these more complex markets of the future.

Ofgem action required

We therefore call on Ofgem to include a focus on Economy 7 and multi-rate tariffs across its forward work programme. In particular:

1. **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 electricity 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;
    - working with BEIS on the interactions with the EPG including how to avoid the additional price uncertainty that these customers face with quarterly price changes,

and ensuring future price support considers the needs of this group of consumers; and
- ensuring that where wider changes are being made to the price cap that the impacts on Economy 7 customers are explicitly considered.

2. In terms of communications, Ofgem should take steps to **improve transparency** around Economy 7 tariffs under the price cap and the Energy Price Guarantee. In particular:
    - Ofgem and BEIS should provide clearer information on their own websites on what the price cap and Energy Price Guarantee mean for Economy 7 customers.
    - Ofgem should require suppliers to publish schedules of their Economy 7 tariffs - as EDF and Octopus Energy do - to enable advice agencies to help customers understand their options.
    - Ofgem should make clear that customers can switch freely between Economy 7 and standard rates and still be protected by the price cap.

3. Ofgem should carry out **a Market Compliance Review** of how suppliers are treating Economy 7 customers including:
    - the clarity of their price change notifications (and whether they are in line with SLC 31F Encouraging and Enabling Engagement);
    - whether their "treating customers fairly" obligations (SLC 0) require them to be more proactive in contacting customers where they are evidently not on a suitable tariff for their patterns of usage; and
    - looking at how customers are being treated where complex meters (such as Total Heat Total Control) are replaced as part of the smart meter rollout.

4. Ofgem should assess **what additional data it needs** to effectively monitor and oversee this part of the market, including:
    - building an evidence base and improving transparency on the precise numbers of customers on these tariffs, their distribution, demographics and experience in the energy market.
    - collecting more granular data around demand profiles to help understand the different day-night usage patterns across different customer segments (including seeing this as two groups with very different profiles rather than as a single group).
    - considering the position of smaller **commercial customers** on E7 tariffs (Load Profile 4) of which there may be around 0.5 million who may also be at risk of overpaying.
    - conducting a **wider review of the lessons** that can be learned from Economy 7 and multi-rate tariffs for future smart, flexible energy markets and the transition to net zero, including smart EV charging.

Further detail regarding our concerns is provided in the report by Sustainability First Associate Maxine Frerk, **'It's a Lottery: how Ofgem's price cap fails Economy 7 customers'**, which was commissioned by Glen Dimplex Heating & Ventilation. The report and the note

from the recent Sustainability First/Glen Dimplex Heating & Ventilation roundtable, where the report was discussed, are available on the Sustainability First website.

This is an issue that is of concern to not only consumer representatives and advisors, but also product manufacturers given not only its significant current day fairness implications but also its importance for the success of future smart, fair and sustainable energy markets. We therefore hope that Ofgem will give these customers much greater focus in its work going forward.

Yours sincerely

Zoe McLeod, Policy Director Sustainability First on behalf of:

Sustainability First
National Energy Action
Centre for Sustainable Energy
Fair by Design
Energy Action Scotland
Glen Dimplex Heating & Ventilation
BEAMA