Sustainability *first*

Maxine.frerk@sustainabilityfirst.org.uk

25 February 2023

To: RetailPriceRegulation@ofgem.gov.uk

Dear Ofgem team

Call for Input on Additional Wholesale Allowances Review

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 on retail issues in the context of the current energy crisis.

We have also been in discussion with Ofgem about our concerns around the handling of Economy 7 in the price cap and in particular that Economy 7 customers are not seeing the benefit of lower wholesale electricity costs at night and that there is scope for gaming in how relative day and night rates are set. The basis for these concerns is set out in the Grid Edge Policy report[1] "It's a Lottery – How Ofgem's Price Cap Fails Economy 7 Customers" which is available on the Sustainability First website together with slides and notes from the roundtable we ran, which we are grateful to Ofgem for joining and presenting at.

The clear consensus from all the consumer groups at the roundtable was that the treatment of Economy 7 customers needs more focus by Ofgem – both because of the demographics of these customers and because of the role time of use tariffs will need to play as part of the transition to net zero. Ofgem's own consumer archetypes[2] show that customers with electric heating are typically disengaged young people in rented accommodation or older / disabled customers on low or very low incomes. As such Economy 7 should be a priority for Ofgem in the current crisis.

We were therefore pleased to see the specific reference to Economy 7 customers in your latest Call for Input and hope that the various materials we have highlighted provide the evidence that you need to support a focus on that group of customers as you take forward the next phase of your work on the price cap.

However we are concerned that, as we understand the Call for Input, Ofgem is only proposing to look at the narrow question of "additional wholesale allowances" (shaping, imbalance and transaction costs). As the table in the Call for Input makes clear these costs only account for a small fraction (c 6%) of the total wholesale electricity costs.

As set out in the Grid Edge Policy report (in particular the Annex) the concern for Economy 7 customers relates to total wholesale costs and the fact that no account is taken of the fact that these customers typically use more energy at night when wholesale electricity costs are lower. Specifically, in calculating wholesale electricity costs, the Ofgem cost model assumes suppliers are purchasing the same 70-30 mix of base load and peak load for Economy 7 as for single rate customers despite

[11] Sponsored by Glen Dimplex Heating and Ventilation

[2] https://www.ofgem.gov.uk/sites/default/files/docs/2020/05/ofgem_energy_consumer_archetypes_-_final_report_0.pdf

their different time of day usage profiles. Our estimate is that this means Economy 7 customers are over-paying by around £100 pa – far more significant than any fine tuning of the "additional wholesale allowances" could be.

Moreover, it seems to us impossible for Ofgem to look at how the "additional cost allowances" might vary between Economy 7 and single rate without first examining differences in the wholesale energy requirements for these two groups and the question of the base load – peak load split.

As such we would support a review of the enduring issues on the "additional cost allowances" methodology that looks more broadly at the impacts on Economy 7 as outlined in your Call for Input. While we recognise that this is a more substantive exercise than simply updating inputs (which would not address the differences in Economy 7), we are concerned that the summer 2024 timeframe proposed is too slow and would encourage Ofgem to look at how this work could be expedited.

We hope that the evidence we have provided has demonstrated the need for Economy 7 to be included as a specific issue in Ofgem's Programme of Work on the Price Cap. We do not have the expertise or the resource to provide evidence on the detail of the methodology that should be adopted and are dependent on Ofgem to take that forward in customers' interests.

We would be happy to discuss this response further if that would be helpful.

Yours faithfully

Maxine Frerk, Associate Sustainability First

cc Zoe McLeod, Policy Director Sustainability First