Sustainability *first*

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To: FWP@ofgem.gov.uk

Ofgem's Forward Work Programme 2024/5

Dear Ofgem,

Sustainability First is a charity and think tank focussed on social and environmental issues in energy and water with a long history of engagement on key regulatory issues.

Having reviewed Ofgem's Forward Work Programme we agree with the broad priorities identified. However, we are very concerned at the omission of two crucial topics – the treatment of Economy 7 customers and Ofgem's approach to EDI (equality, diversity and inclusion).

Economy 7

We are very disappointed at the absence of any reference to the issues we raised[1] with Ofgem over a year ago now around the treatment of Economy 7 in the price cap, based on the Grid Edge Policy report "It's a Lottery". There are around 3 million customers on Economy 7, who are typically low income or vulnerable, and the Ofgem price cap currently results in them paying an estimated £100 pa more than they should for their energy because it fails to allow for the fact that wholesale energy costs are lower at night when these customers use most energy.

We have also argued that this is a strategically important issue in the context of a move to more time of use tariffs going forward. Ofgem should be looking at Economy 7 as a basic time of use tariff to help inform its wider thinking in this area.

We note that there is a (slightly obscure) reference on p17 of the Forward Work Programme to Dynamic Price Protection which says, *"The price cap is currently designed for relatively simple tariffs and may need to be adapted to work effectively under market-wide half-hourly settlement (see ensure the enabling systems are in place). We will review whether this is possible within the current arrangements, or whether more fundamental changes to price protection arrangements are needed*."

Our point is that the price cap needs to evolve to take account of Economy 7 tariffs that are currently covered by the cap – this is a here and now issue for 3 million customers, not just about the future with market-wide half-hourly settlement. Moreoever, whether more sophisticated time of use tariffs are ultimately covered by the price cap or not, Ofgem still needs to understand how varying usage across the day impacts on suppliers' costs to understand whether the market is working for customers. If Ofgem cannot get this right for Economy 7 today it risks undermining customer confidence in future time of use tariffs which are critical for a flexible energy system going forward.

We would therefore ask Ofgem to amend this action to include a specific reference to Economy 7 and to strengthen the wording beyond simply "reviewing whether this is possible", instead making a clear commitment to ensure customers who are covered by the price cap are properly protected.

[1] https://sustainabilityfirst.org.uk/images/Open_letter_to_Jonathan_Brearley_on_Economy_7.pdf

Equality, Diversity and Inclusion

We have been impressed with the emphasis that Ofgem has given over recent years to equality, diversity and inclusion (EDI), showing leadership to make this a focus in the industry (through initiatives such as TIDE). There is a real opportunity within the section 'Shaping a retail market that works for consumers' for this to highlight the importance of engagement with those who are regularly excluded from policy discussions. The absence of any reference to EDI across the Forward Work Programme sends the wrong signal about what remains an important topic.

Yours faithfully

Maxine Frerk

Associate Sustainability First

Cc David Murray