

## **National Energy Action (NEA) supplementary response to the Business, Energy and Industrial Strategy (BEIS) Select Committee Inquiry on Energy Pricing and the future of the Energy Market**

### **1. About National Energy Action (NEA)**

- 1.1 NEA<sup>1</sup> works across England, Wales and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, dry home. To achieve this, we champion and deliver energy efficiency programmes, aim to improve access to energy and debt advice, provide training and co-ordinate other related services which can help change lives<sup>3</sup>.

### **2. Our supplementary evidence**

- 2.1 Since submitting our original written evidence and subsequent supplementary evidence, there have been more changes in the energy market which have a material impact on energy pricing. This supplementary evidence addresses these issues: The level of standing charges on bills; Ofgem's intention to move to a quarterly price cap; and the UK Government's May package to address the cost of living.

### **3. Standing charges on energy bills**

- 3.1 Standing charges have a significant impact on vulnerable households, in particular for prepayment meter (PPM) users. This is because when a PPM user runs out of credit (i.e. they self-disconnect), standing charges will accrue on the meter as a debt that needs to be cleared before energy can be accessed again. Standing charges are currently higher than they have ever been. This is for two reasons: Because Ofgem have decided through the Targeted Charging Review<sup>4</sup> that a greater proportion of network charges should be paid for through the standing charge (the Supplier of Last Resort (SOLR) Levy); and that the electricity related cost of failed suppliers is recouped through the electricity standing charge. Ofgem, are currently considering moving the SOLR levy to be recovered on a volumetric basis<sup>5</sup>.
- 3.2 Higher standing charges mean that a debt accrues more quickly. This, in turn, means that households who self-disconnect will be off supply for longer periods. This is currently very acute. In 2018, Citizens Advice reported<sup>6</sup> that 140,000 households self-disconnected due to affordability reasons in GB each year. They have recently reported a 100% increase<sup>7</sup> in self disconnections. Those without access to energy in this way will feel the most acute outcomes of fuel poverty this winter, being unable to heat their homes when the weather is coldest, leading to impacts such as worsening health conditions, bad mental health. In many cases, people will die because they are too cold at home.
- 3.3 NEA believes that Ofgem and the UK Government should reconsider how the Supplier of Last Resort (SOLR) levy is paid for. Optimally, these costs would be paid for through general taxation, as this would be the most progressive route to collecting these costs. If that were not possible, then Ofgem should look to collect the levy through a volumetric charge, which is a more progressive method of payment than the flat rate levy that currently exists for the electricity SOLR levy. In the longer term, and more broadly, UK Government should consider the split between volumetric and fixed charges, particularly for policy costs, in the upcoming review on fairness and affordability in the energy market.

### **4. Ofgem's intention to move to a quarterly price cap**

- 4.1 Ofgem has signalled an intention to move towards a price cap that updates every quarter, instead of twice per year. NEA believes that Ofgem should not move to a quarterly price cap. Our clients tell us that they value the certainty that the current cap gives them over winter, in that they know the price for the whole of winter, as early as September. Moving to a quarterly cap would risk prices increasing in January<sup>8</sup>, which would cause budgeting issues for millions of households at the worst possible time. NEA believes that at the very least, Ofgem should delay implementation

of the quarterly cap until summer 2023, to avoid a price cap in the middle of the forthcoming winter.

## 5. The May cost of living package

- 5.1 The Government's response to the cost-of-living crisis in May was significantly better than the measures that had been taken beforehand. With both universal support, and deep, targeted support, it seemed that the majority of the upcoming October price increase had been mitigated for the poorest households. However, it is now becoming clear that the £2800 cap that Ofgem predicted for October will be much higher, potentially in excess of £3200<sup>9</sup>. And there could even be further price increases in January. Government must therefore take these increased prices into consideration in the next budget to ensure that the poorest households do not face these additional costs.
- 5.2 NEA believes that Ofgem should reinstate the safeguard tariff, as an additional protection for PPM users this winter. This should come in the form of eliminating the uplift for PPM users so that the PPM cap is in line with the direct debit cap. This would eliminate the significant unfairness that occurs at the moment, where a household is unable to pay their energy bill, is moved to a PPM, and charged more for their energy as a result.
- 5.3 Ultimately, Government should look to introduce a social tariff<sup>10</sup> for energy that can react to these price changes and provide an affordable price for energy for the most vulnerable households, regardless of the wholesale price.

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

<sup>2</sup> NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

<sup>3</sup> A major recent focus for the charity has been NEA's Health and Innovation Programme (HIP) which was a £26.2 million programme to improve energy efficiency within fuel poor and vulnerable households in England, Scotland and Wales. Launched in April 2015 by NEA as part of an agreement with Ofgem and energy companies to make redress for non-compliance of licence conditions, it remains the biggest GB-wide energy efficiency programme implemented by a charity which puts fuel poverty alleviation at its heart. For more information on HiP visit: <https://www.nea.org.uk/hip/>

<sup>4</sup> Targeted Charging Review, Ofgem, <https://www.ofgem.gov.uk/publications/targeted-charging-review-decision-and-impact-assessment>

<sup>5</sup> Open letter: Review of how the costs of supplier failure are recovered, Ofgem, 2022 <https://www.ofgem.gov.uk/sites/default/files/2022-07/Open%20letter%20Review%20of%20how%20the%20costs%20of%20supplier%20failure%20are%20recovered%20.pdf>

<sup>6</sup> 140,000 households can't afford to top up prepayment energy meter, Citizens Advice, 2018 <https://www.citizensadvice.org.uk/cymraeg/amdanom-ni/about-us/1/media/press-releases/140000-households-cant-afford-to-top-up-prepayment-energy-meter/>

<sup>7</sup> How to protect consumers as energy prices rise, Citizens Advice, 2022 [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Cost%20of%20living%20policy%20briefing%20-%20Jan%202022%20\(1\)%20\(1\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Cost%20of%20living%20policy%20briefing%20-%20Jan%202022%20(1)%20(1).pdf)

<sup>8</sup> Default Tariff Cap forecast climbs further as Ofgem announcement looms, Cornwall Insight, 2022 <https://www.cornwall-insight.com/default-tariff-cap-forecast-climbs-further-as-ofgem-announcement-looms/>

<sup>9</sup> Default Tariff Cap forecast climbs further as Ofgem announcement looms, Cornwall Insight, 2022 <https://www.cornwall-insight.com/default-tariff-cap-forecast-climbs-further-as-ofgem-announcement-looms/>

<sup>10</sup> Solving the cost of living crisis: the case for a new social tariff in the energy market, NEA, 2022 <https://www.nea.org.uk/publications/solving-the-cost-of-living-crisis-the-case-for-a-new-social-tariff-in-the-energy-market/>