

Consultation Response

Price Cap - Consultation on the process for updating the Default Tariff Cap methodology and setting maximum charges

Office of Gas and Electricity Markets (Ofgem)

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Contact: david.southgate@ageuk.org.uk

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Age UK
Tavis House
1-6 Tavistock Square
London WC1H 9NA
T 0800 169 80 80 F 020 3033 1000
E policy@ageuk.org.uk
www.ageuk.org.uk

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House 1-6 Tavistock Square, London WC1H 9NA.

About this consultation

Ofgem has proposed changes to the Default Tariff Price Cap ('the Cap') to allow for amendments to the Cap outside of the routine six-monthly changes in April and October under exceptional circumstances.

Key points and recommendations

- Age UK strongly recommends that Ofgem rules out allowing any increases to the Cap during the coldest months of November to March.
- Ofgem must work with the Government to ensure greater support for household bills is provided if changes to the Cap are enacted outside of the routine period.
- Ofgem should commit to consulting on the design and implementation of a social tariff, as well as work with the Government to legislate to extend the Cap beyond 2023.
- Charity and consumer groups must be given time to scrutinise planned changes outside of the routine period, challenge them, and propose amendments.
- Ofgem must ensure that any change under exceptional circumstances is communicated to consumers as quickly and clearly as possible via online and offline channels.
- Changes must be reciprocal - an exceptional energy price crash should trigger a reduction in the Price Cap with the same urgency as a price spike prompts a rise.
- Ofgem must commit to publicly review any decision to allow Price Cap changes outside of the normal period within 12 months of implementation.
- A review must be commissioned into any specific Cap change due to exceptional circumstances to improve procedural safeguards and monitor the consumer impact.
- If Ofgem implements the proposed changes this reduces the need for greater flexibility in the Cap to account for increased wholesale energy price volatility.
- We would therefore recommend that Ofgem reconsider whether additional changes to the Cap are required if the proposals in this consultation are enacted.

About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe, and secure at home; and feel valued and able to participate.

Response

We welcome the opportunity to respond to this consultation. The Default Tariff Price Cap ('the Cap') is designed to ensure default tariff customers pay a fair price while ensuring suppliers can charge the efficient cost level for energy. While Age UK is cognisant of the issues faced by suppliers in the last few months, we are committed to ensuring that the needs of older consumers, particularly those in vulnerable circumstances, are foremost in the minds of policy makers and Ofgem.

Ofgem's proposed changes to allow for amendments to the Cap outside of the routine six-monthly changes in April and October have not sufficiently accounted for consumer needs. If these proposals are implemented, Ofgem will need to work with the Government to provide greater support for household energy bills where changes to the Cap are enacted outside of the routine six-month period. Ofgem should commit to consulting on the design and implementation of a social tariff as part of its proposals for altering the Price Cap methodology. It should also reinforce its commitment to the Cap and encourage the Government to legislate for its extension beyond 2023.

Older people have higher heating costs¹, spend longer at home and have a greater propensity to live with health conditions which require more heating or energy use². This makes them particularly vulnerable to the impact of living in a cold home. Age UK strongly recommends that Ofgem rules out allowing any increases to the Price Cap to happen between any November to March period. This will avoid price spikes and increased uncertainty for consumers during the colder months. If Ofgem's new proposals for adjustments outside of the routine period were in place now, then we would almost certainly have seen changes to the Price Cap this winter. Consumers would have faced little protection against rapidly rising bills at a time of continued uncertainty due to the pandemic and wider inflationary pressures, undermining the core purpose of the Cap. We also agree that any modification to the Cap outside of the usual period should be forward looking only. Applying any change to the Cap retrospectively would foster greater uncertainty and place unforeseen cost burdens onto consumers.

Ofgem will also need to ensure that any change under exceptional circumstances is communicated to consumers as quickly and clearly as possible. With older consumers more likely to be digitally excluded³, and those who do not use the internet being more likely to be disengaged from the energy market⁴, Ofgem must commit to ensuring consumers understand any change via a range of online and offline channels. This must include print media, mail drops, and through community and voluntary organisations. Ofgem must also ensure that suppliers inform their customers of any changes to the Cap level as soon as possible and provide sufficient explanation of the implications on their bills and tariffs.

Ofgem's proposed changes must be reciprocal, with an exceptional energy price crash triggering a reduction in the Price Cap with the same urgency as a price spike prompts an increase. We welcome Ofgem's acknowledgement that these proposals could result in the Cap level being reduced. However, we are sceptical that a drastic reduction in energy costs would be seen as an exceptional circumstance which requires a change outside of the normal period. The definition Ofgem has put forward for determining an exceptional

circumstance is focused on situations where prices increase. A drastic reduction in energy prices will have a high impact on consumers because they will no longer be paying a fair and cost reflective price for their energy. Standard Variable Tariff customers who are disengaged from the market⁵ rely on appropriate protection by the Cap. It would be unfair for suppliers to profit from these customers during an exceptional and unexpected price crash. If Ofgem is to enact these proposals and consider exceptional circumstances which negatively impact suppliers, it must provide equal weighting to similar circumstances which negatively impact consumers.

Scrutiny and review of any proposed changes is also essential. While we recognise changes under exceptional circumstances are likely to be enacted more quickly than usual, Ofgem must still be accountable to the public for any decisions taken. Charity and consumer groups must be given sufficient opportunity to scrutinise planned changes, challenge them and propose amendments. This must include a commitment from Ofgem to provide additional charity and consumer group engagement in the build-up to any Cap change and offer opportunities for consultation. Ofgem must also commit to publicly review any decision to allow Price Cap changes outside of the normal period within 12 months of implementation. Ofgem should also commission a review into any specific Cap change due to exceptional circumstances to improve procedural safeguards and monitor the impact on consumers.

Finally, if Ofgem implements the proposed changes then we question the need to also include greater flexibility in the Cap to account for increased wholesale price volatility. We recommend that Ofgem reconsider whether they still require changes to the wholesale risk allowance, or other market uncertainty allowances, if they permit changes to the Cap under exceptional circumstances.

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- ¹ BEIS, 2021. *Annual Fuel Poverty Statistics in England, 2021 (2019 data)*. Department for Business, Energy, and Industrial Strategy. [Online]. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966509/Annual_Fuel_Poverty_Statistics_LILEE_Report_2021_2019_data.pdf. [Accessed 22/11/2021].
- ² BEIS, 2021. *Annual Fuel Poverty Statistics in England, 2021 (2019 data)*. Department for Business, Energy, and Industrial Strategy. [Online]. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966509/Annual_Fuel_Poverty_Statistics_LILEE_Report_2021_2019_data.pdf. [Accessed 05/08/21].
- ³ Age UK, 2021. *Briefing Paper: Digital inclusion and older people – how have things changed in a Covid-19 world?*. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/active-communities/digital-inclusion-in-the-pandemic-final-march-2021.pdf>. [Accessed 05/08/21].
- ⁴ Ofgem, 2019. *Consumer Survey 2019: Consumer Engagement Survey Tables – Table 637*. Ofgem. [Online]. Available at: <https://www.ofgem.gov.uk/publications/consumer-survey-2019>. [Accessed 07/10/21].
- ⁵ The Government has recognised the price cap is particularly important for those consumers who are disengaged from the market and are unlikely to switch from a longstanding default tariff. See: BEIS, 2021. *Domestic energy retail Consultation: Opt-in switching and testing opt-out switching*. Department for Business, Energy, and Industrial Strategy. [Online]. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1005304/domestic-energy-retail-condoc-opt-in-testing-opt-out-switching.pdf. [Accessed 01/12/21]. Pg5.