



**UTILITY REGULATOR
FORWARD WORK PROGRAMME 2021/22 CONSULTATION
FEBRUARY 2021**

[Fair By Design](#) welcomes the invitation to respond to the consultation from Utility Regulator (UR) on its Forward Work Programme 2021/22.

Please note that we consent to public disclosure of this response.

For more information about this response, please contact Carl Packman:
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ABOUT FAIR BY DESIGN

Fair By Design is dedicated to reshaping essential services, such as energy, credit and insurance, so they don't cost more if you're poor.

People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, loans and credit cards with high interest rates; and higher insurance premiums, through postcodes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust manages our advocacy work, and Ascension Ventures manage the Venture Fund.

Our response

Summary of recommendations

- Utility Regulator to investigate with the Northern Ireland Assembly a single point of contact for consumer organisations on the specific remit of price protections and affordable bills. This will help consumer organisations in their work on matters that cut across the regulator and its sponsoring department.
- Utility Regulator should adopt an inclusive design strategy that will guide their approach to understanding the needs of all consumers (particularly those on low incomes and/or who are in vulnerable circumstances) and to help set their priorities, develop and implement interventions, and assess their effectiveness. Fair By Design welcomes further conversations to help enable this.
- Utility Regulator to commit to investigating what role it can play in ensuring households with legacy prepayment meters receive a smart meter as a priority. This being a first step to increasing protections for customers using prepayment meters.

Introduction to the energy poverty premium

Our main focus is on the parts of UR's future work that intersects with protecting low income consumers from high energy bill prices.

Low income households experience the poverty premium in the energy market in a number of ways. Many of these households use prepayment meters for domestic fuel rather than paying monthly by direct debit. Many low income households are also not switched to the best fuel tariffs. We consider not switching to be a poverty premium as lower-income households are less likely to switch and higher rates of digital exclusion make it more difficult for them to do so.

In 2020, Fair By Design, along with the Personal Finance Research Centre at the University of Bristol, published findings on how the poverty premium affects people today in the UK.¹ The research provides details on the most up-to-date analysis of the poverty premium (drawn from market comparison sites and accurate pricing information direct from suppliers) and a survey of 1,000 people living in low-income households who have received help and support from national charity Turn2Us.²

The researchers compared the costs of the energy poverty premium in 2016 and 2019 to assess the degree to which the retail energy market has changed. While their findings showed an improvement, low income consumers still face excess costs for their energy.

¹ University of Bristol (2020) 'The poverty premium: a customer perspective' <https://fairbydesign.com/wp-content/uploads/2020/11/The-poverty-premium-A-Customer-Perspective-Report.pdf>

² <https://www.turn2us.org.uk/>

The findings show:

- The gap between the standard variable direct debit tariff and the best online one has reduced from £317 in 2016, to £213 in 2019, a reduction of over £100.³
- The gap between the best PPM tariff and the best online only one had almost halved, dropping from £227 in 2016 to £131 in 2019.⁴
- The only energy-related premium that was higher in 2019 was for those who paid for energy on receipt of their bill. The best tariff available for those who paid in this way was £143 higher than the best tariff for those who pay by direct debit and managed their account online. This had increased from only £43 in 2016.

For the UK energy market, these findings show that the poverty premium is still an issue that needs addressing, at a regulatory and governmental level. All of our work at Fair By Design is shaped around trying to reduce the exposure to the poverty premium that low income households face today.

This is a particular issue worth noting in Northern Ireland. From a recent Consumer Council Insight paper we know that half of Northern Ireland adults have £300 or less to spend after essential outgoings each month, with this figure significantly higher for C2DEs (59%), those not working (62%), those with an income of <£20,000 (68%), renters (69%) and those with a disability (62%).⁵ We also know that a 10% rise in energy bills costs £1.02 per week for the poorest quartile, taking the average discretionary income deficit to -£9.71.⁶

The Consumer Council's recent research on consumer experiences of electricity and gas prepayment meters shows:

- Nearly one in five consumers (19%) could not power their home in the last 12 months because they could not afford to top up and a third (32%) struggle at times to pay for their electricity; and
- Around a third (33%) of natural gas consumers using a prepayment meter struggle at times to pay for their gas and around 20% could not heat their homes in the last 12 months because they could not afford to top up.⁷

Responsibilities on price protections and affordable bills

Fair By Design welcomes the focus in the work programme on pricing. We will engage at the appropriate times during the year when UR carries out additional ongoing work to review gas tariffs affecting consumers' bills.

³ Drawn from the average across big 6 suppliers and across household size.

⁴ Drawn from the average across big 6 suppliers and across household size.

⁵ <https://www.consumercouncil.org.uk/policy-research/publications/consumer-insight-survey-2019-summary-report>

⁶ <https://www.consumercouncil.org.uk/policy-research/publications/discretionary-income-and-living-cost-changes-northern-ireland>

⁷ <https://www.consumercouncil.org.uk/policy-research/publications/consumer-experience-report-prepayment-meters-and-home-heating-oil-2019>

In particular, we will engage on activities relating to price protections broadly. As a matter of principle we want to see how price caps can be used to help energy bills be affordable, in combination with government schemes to reduce costs.

This issue naturally cuts across different departments. While the Department for Energy (DfE) has responsibility over how schemes to lower bills are distributed and how well they work, UR will be looking closely at what protections are required to keep the price of energy appropriate across all customers. It is correct that one should inform the other.

If government schemes aren't working for some customers then there has to be a place for price caps to provide further protections. Though if for various reasons price caps cannot provide this protection then naturally there would need to be improvements to the deliver and funding for schemes.

Working across different stakeholders (DfE and UR) isn't always particularly easy for consumer organisations. Particularly small ones, only part of whose overall remit is domestic energy. We hope that in the future there will be efforts made to make this process easier. For example, it would be very useful to be able to speak to both DfE and UR at the same time (via consultation process, or via a distinct consumer network) on issues relating to price protections and affordable bills.

Recommendation: UR to investigate a single point of contact for consumer organisations on the specific remit of price protections and affordable bills. This will help consumer organisations in their work on matters that cut across the regulator and its sponsoring department.

Inclusive design

Inclusive design is increasingly being recognised as a way to ensure markets are fair and inclusive, especially for consumers in vulnerable circumstances.

It starts from the principle that setting good regulation must start from the experience of the consumer.

The first step is for regulators to know what consumers really experience and what the best solution to problems look like to them. In order to achieve that they must not only be regularly collecting information on how that experience is changing but also ensuring people with lived experience of poverty are at the centre of decision making. By doing this, they minimise the risk of detriment and maximise consumer welfare.

This is because the best solutions are those created and informed by the actual lives of consumers, rather than the experiences of economists, competition specialists or just the remits of institutions. Institutional remits rarely match the reality of people's lives.

This is particularly important today. We are at a crossroads on domestic energy policy that requires an inclusive design approach. In the most recent consultation from the Department for the Economy⁸ on the future energy strategy there is a strong focus on ensuring energy is affordable for domestic customers, especially in relation to fuel poverty. That is because how we consume energy will change significantly in the next few years, there is a need to make sure nobody is left behind in that transition.

That transition will involve a whole set of changes that require proper design thinking and deeper understanding of the access needs of consumers (including low income and vulnerable consumers). The changes will include:

- New technologies to access household energy.
- New forms of financial support for low income households (such as the Northern Ireland Sustainable Energy Programme (NIESP) schemes).
- A strategy for making buildings energy efficient, including homes.
- Availability of new electricity tariffs for domestic customers that deliver cheaper prices at times of low demand (e.g. time of use tariffs).

With such important changes taking place, making sure new technologies and new tariffs are designed around the actual needs of consumers is vital. For example, what will be the considerations to those consumers who don't have access to the internet (especially those living in rural locations) or who are not digitally confident enough to use it for controlling household energy? What measures will be in place to help low income consumers access the cheaper prices for their energy with new tariffs? We think an inclusive design process is key to delivering for energy customers in Northern Ireland.

Recommendation: UR should adopt an inclusive design strategy to:

- guide their approach to understanding the needs of all consumers – through evidence, research and market analysis – to help set their priorities, develop and implement interventions, and assess their effectiveness.
- guide their expectations of businesses to embed consideration of all consumers, including low-income consumers, when they design and deliver products and services.

Fair By Design, along with project partners Money Advice Trust, has published a practical report⁹ on what inclusive design means and how it can be incorporated into the work of regulators.

We would welcome further discussion with you on how to move forward in collaboration with this.

⁸ <https://www.economy-ni.gov.uk/articles/northern-ireland-energy-strategy-2050>

⁹ <https://fairbydesign.com/wp-content/uploads/2021/01/Inclusive-Design-Regulators-Report-Final-Fair-By-Design-Money-Advice-Trust.pdf>

We would be keen to build on work that has already started within UR on inclusive product design. As it's put in the vulnerable customer review of 2019: "Products should be designed for all customers not an 'average' customer."¹⁰

Inclusive design is the framework around the principle that products and services (including energy services) should be designed for all customers.

Smart meter rollout

Smart meters provide significant benefits for low income households who are impacted by the poverty premium. Smart meters generate behavioural data more useful for suppliers to better engage with customers than legacy prepayment meters. This gives suppliers a better opportunity to notify struggling/at-risk customers of available schemes helping them to reduce the cost of bills, avoid financial harm such as arrears, and other interventions like payment holidays or friendly credit.

A report by Carnatic Capital, written for The Consumer Council, says that prepayment smart meters are "hugely beneficial and offer significantly better consumer experience and could ensure that they have a wide variety of payment methods available to have continued access to electricity and gas."¹¹

UR has a role in monitoring the smart metering programme rollout with the Department of Enterprise, Trade and Investment (DETI).¹² We feel that within this remit should be assurances that the rollout of smart meters is performed in the best interest of energy customers in vulnerable circumstances. To that end, we recommend that households with old-styled legacy prepayment meters should receive a smart meter as a priority. This is so these households can be prioritised in enjoying the benefits of smart meters, including those we state above.

Recommendation: UR, working with DETI, should commit to investigating what role it can play in ensuring households with legacy prepayment meters receive a smart meter as a priority. This being a first step to increasing protections for customers using prepayment meters.

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¹⁰ <https://www.uregni.gov.uk/sites/uregni/files/media-files/Annex%203%20Vulnerable%20customer%20review%202019.pdf> (p.15)

¹¹ https://www.consumercouncil.org.uk/sites/default/files/2021-01/Response_to_the_Department_for_the_Economy_Energy_Strategy_Call_for_Evidence.pdf

¹² https://www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/Consumer_Protection_Strategy_final.pdf (p.70)