



Response to Strategy and Policy Statement for Energy Policy in Great Britain consultation

August 2023

About Fair By Design

Fair By Design is dedicated to reshaping essential services such as energy, credit, insurance and payments so that they don't cost more if you're poor – also known as the poverty premium. Fair By Design collaborates with regulators, government and industry to design out the poverty premium. Our Venture Fund provides capital/funding to grow new scalable ventures to innovate the market and design out the poverty premium. Ascension manages the Fair By Design Fund. Fair By Design is managed by the Barrow Cadbury Trust on behalf of a group of foundations.

In the context of the energy market, we believe that households on low incomes/living in poverty should have access to energy at an affordable price and should not incur a poverty premium based on the way they pay for their energy.

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

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Summary

Energy is an essential service which underpins people's health and wellbeing. Over the last winter we have seen households rationing energy use to unhealthy levels, including in households where individuals have a long-term illness or disability, or going without food in order to heat their homes. National Energy Action (NEA) estimates that 6.6m households are currently living in fuel poverty. Fair By Design welcomes the Government's Energy Policy and Strategy Statement but would like to see a much more explicit commitment to ensuring that all households have access to affordable energy, and a commitment that those on low incomes should never have to pay a "poverty premium" for their energy.

Question 1: Does the strategy and policy statement identify the most important strategic priorities and policy outcomes for government in formulating policy for the

energy sector in Great Britain? If not, please provide details of the priorities that you think should be included.

Strategic Priorities

We would like to see the second priority split into a priority on energy security and a separate standalone priority to protect consumers and ensure access to affordable energy.

Section One: Enabling Clean Energy and Net Zero Infrastructure

We warmly welcome the first strategic priority of enabling clean energy and net zero infrastructure.

We would like to see a new bullet point inserted on page 16 under section one that recognises that low-income consumers should not be left behind or disadvantaged by the transition to net zero in energy.

A policy outcome on significantly improved household energy efficiency is needed. The lack of any mention of energy efficiency is a serious omission. Improved energy efficiency must be a key plank of the Government's energy policy both to contribute to meet zero targets and to address fuel poverty. A rapid evidence review produced for Fair By Design by Bristol University (July 2023) found that a typical household might save £450 a year by making energy efficiency improvements, and this would be much more in the least efficient properties. A recent systemic review¹ identified that lower-income households are often strongly motivated to reduce their energy costs but the high upfront costs of efficiency upgrades can be a big barrier for them. Higher energy costs have only made the situation worse: "Paradoxically, the increasing costs of energy make the high investment costs for retrofits even more of a barrier; while a retrofit would pay itself off faster, lower income households have difficulty accessing the finances that would be needed for the initial investment since day-to-day costs are already squeezed by high energy costs (Liu et al. 2019; MacDonald et al. 2020)." Those who do not own their own home are even less incentivised to invest in energy efficiency and disappointingly the Government has recently delayed minimum efficiency requirements for private sector landlords. We would like to see a step change in Government ambition starting with seeing energy efficiency acknowledged as a priority in this Strategy and Policy Statement.

Similarly, under the section on heat pumps, whilst we agree that Ofgem has an important role in supporting the heat pump market to grow, we would like to see a recognition of Government's role in encouraging uptake by consumers. Our Participatory Action Research² undertaken with Toynbee Hall and Ofgem warned that prohibitive costs of green choices could exacerbate inequality in the energy market and that more extensive support schemes were needed to help low-income household make green changes.

Section Two: Ensuring Energy Security and Protecting Consumers

As stated above, we believe both energy security and protecting consumers are two crucial and broad strategic priorities and need to be separated into two separate objectives.

¹ Tozer et al (2023) [Achieving deep-energy retrofits for households in energy poverty](#). Buildings and cities, 4(1), pp.258-273

² Toynbee Hall, Ofgem, Fair By Design (2022), *Net Zero Transition for low-income consumers*. Available at: [Toynbee-Hall Net Zero Report 29_09_2022-1.pdf \(fairbydesign.com\)](#) [Accessed 1 Aug. 2023]

We would like to see more clarification on what “An energy system that provides protection for both domestic and non-domestic consumers” means. Fair By Design supports the Government’s objectives to have a retail market that works better for consumers, and to restore confidence in the energy retail market. Our focus groups held with Poverty Alliance³ in April 2023 suggested that trust in the energy sector amongst those on low incomes is low. However, consumers are not a homogenous group and even when the market was competitive, it only worked well for “active consumers” who were able to shop around, whilst those who were not able to engage for a range of reasons lost out. The poverty premium attributed to non-switching was £233 in 2016⁴. The Government should clarify that while the market has a part to play in ensuring affordable energy to low-income consumers, when the market does not deliver this objective, Ofgem and the Government need to intervene to ensure that all households can access the energy required to meet their reasonable needs at an affordable price. We would therefore like to see a policy outcome of “affordable energy for all, and no poverty premiums”.

We welcome the recognition that the costs of transition to net zero should be fairly distributed. We would like to see the removal of “amongst all consumers” on the basis that we think that funding some of the infrastructure investments needed would be more progressive if funded from general taxation and we would like to see the Government retain this option.⁵

Under “working better for consumers”, as explained above, effective competition has a role to play but it has not been sufficient to ensure good outcomes for low-income consumers. We are concerned by the statement that “Ofgem will also continue to be responsible for ensuring that households pay a fair price for energy” (although we welcome the recognition of an ongoing role for a price cap). This winter has shown clearly, that even with a price cap, Ofgem’s actions on its own would not have been sufficient to ensure adequate “protection” for consumers, hence the introduction of the Energy Price Guarantee and the Energy Bill Support Scheme. Fair By Design, alongside nearly one hundred other organisations and the energy industry represented by Energy UK believe that there is a role for ongoing, targeted price support and urge the Government to consult on this as a matter of urgency as previously promised. For the purposes of this statement, the Government must recognise its role in ensuring fair energy prices to consumers and not abdicate all responsibility to Ofgem, which does not have the right powers or tools to do this.

We welcome the emphasis on Ofgem’s principle objective of protecting the interests of existing and future consumers, including vulnerable consumers. We look forward to seeing an improvement in consumer standards, particularly in relation to the treatment of pre-payment meter customers but also in relation to ease of contact and customer service.

Section Three: An Energy System Fit for the Future

We welcome the vision set out in the Strategy and Policy Statement about what a future energy system should look like. However, we would like to see an added priority to consider the needs of all consumers, particularly those on low incomes and/or with particular vulnerabilities, when moving towards an energy system fit for the future.

³ Poverty Alliance are Scotland’s network of organisations and individuals working together to end poverty: www.povertyalliance.org

⁴ Davies et al (2016) [Paying to be poor: understanding the scale and nature of the poverty premium](#)

⁵ See for example D. Helm (2023) [Why social tariffs are needed](#) [Accessed 31 Jul 23]

We are concerned that the technical vision of what is required to establish an energy system fit for the future, ignores the foundation of trust and support needed to bring all consumers on board. For example, smart meters are a key underpinning technology for the transition to net zero and yet recent focus groups as well as our Participatory Action Research⁶ revealed deep seated privacy concerns among some participants, as well as worries about increased costs and whether the technology worked⁷. Measures such as shortening the length of time that a household can be back billed for if there are any issues with meter readings would help consumers to feel that they are protected⁸.

We know that not everyone has the capacity in their lives, or the circumstances to engage in active demand management which is why we would like to see long-term, sustainable price support to ensure that new poverty premiums are not created.

In summary, the needs of those on low incomes or with other needs stemming from disability, illness or old age need to be designed into the energy transition at every stage.

Question 2: Does the strategy and policy statement effectively set out the role of Ofgem in supporting government to deliver its priorities? If not, please identify where these expectations could be made clearer.

We would like to see Ofgem have an explicit objective to ensure that energy is affordable to all domestic customers including an obligation to eliminate any poverty premiums so that those on low incomes are not penalised for the way they use energy whether that is the way they pay (for example paying by pre-payment meter or on receipt of bill), the amount they use (households on low incomes are disproportionately impacted by standing charges which do not vary even if you don't use any energy), or how active they are in the market. However, as stated above, we also recognise that Ofgem cannot on its own be responsible for ensuring consumers pay a fair and reasonable price for their energy – this is also a Government responsibility.

Question 3: Given the Future System Operator does not exist yet but will need to have regard to the strategy and policy statement once it does, do you consider that we have effectively reflected the Future System Operator's role in this document? If not, please identify where these expectations could be made clearer.

No comment.

⁶ Toynbee Hall, Ofgem, Fair By Design (2022), *Net Zero Transition for low-income consumers*. Available at: [Toynbee-Hall_Net_Zero_Report_29_09_2022-1.pdf \(fairbydesign.com\)](https://www.fairbydesign.com/Toynbee-Hall_Net_Zero_Report_29_09_2022-1.pdf) [Accessed 1 Aug. 2023]

⁷ Booker, M *Blog: A reduction in energy bills is welcome – but low-income consumers' distrust in the energy market remains the biggest challenge*. [online] Available at: <https://fairbydesign.com/news/blog-a-reduction-in-energy-bills-is-welcome-but-low-income-consumers-distrust-in-the-energy-market-remains-biggest-challenge/> [Accessed 1 Aug. 2023]

⁸ McLeod, Z. (2023). *Time to end the cruelty of back-billing and sort out smart meters*. [online] [www.sustainabilityfirst.org.uk](https://www.sustainabilityfirst.org.uk/publications-expert-viewpoints/463-back-billing-smart-meters). Available at: <https://www.sustainabilityfirst.org.uk/publications-expert-viewpoints/463-back-billing-smart-meters> [Accessed 1 Aug. 2023]