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RECCo response to: Affordability and debt in the domestic retail market – a Call for Input

We welcome the opportunity to respond to this Call for Input. Our non-confidential response represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as operator of the Retail Energy Code (REC). RECCo is a not-for-profit, corporate vehicle ensuring the proper, effective, and efficient implementation and ongoing management of the REC arrangements. We seek to promote trust, innovation and competition, whilst maintaining focus on positive consumer outcomes. We are committed to ensuring that RECCo is an "*intelligent customer*", ensuring efficacy and value-for-money of the services we procure and manage on behalf of REC Parties, including those which constitute the REC Code Manager.

This is a very timely Call for Input. As it notes, the affordability challenges of recent years have implications both for today's energy market and that which ongoing industry initiatives, such as Market Half Hourly Settlement, are progressing us towards. It is not in our view a temporary issue or one that will be addressed by movements in energy prices alone. Interventions are needed both to support consumers already in debt and to prevent this from impacting ever higher numbers of households.

Our comments and recommendations further take account of Ofgem's recognition that it might, based on the feedback received, make recommendations to the Government.

We make the following points:

- In light not least of rising levels of energy debt, affordability challenges will remain irrespective of falling prices and an enduring cost support scheme is urgently needed;
- A priority should be to work towards increased data sharing both within and beyond the utilities sector, in order to facilitate the improved targeting of support;
- Ofgem should ensure that its distributional analysis of the impacts of intervention is based on an authoritative understanding of the factors influencing consumers' energy costs;
- International markets can provide important learnings for our approach to providing electricity cost support to consumers dependent on the use of medical equipment at home.

We are happy to discuss any of the points raised in this response.

Yours sincerely,

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Appendix: RECCo response to consultation questions

Q1: What are the key drivers of energy affordability challenges and how do we expect those to change in the future?

We think that the Call for Input highlights the key drivers of affordability. While by no means the sole factor, energy prices are particularly important. The spike in prices experienced in 2021/22 correlated with evidence of increasing numbers of consumers finding it difficult to pay their energy bills. More recent evidence, as prices have started to ease, has revealed this trend to be reversing: ONS data published in February showed that the proportion of consumers finding it difficult to afford their bills has been slowly reducing since Spring 2023.[1]

In isolation, however, falling energy prices are highly unlikely to provide a resolution to the acute affordability challenges of recent years. It has been estimated that even after the reduction in the price cap in April 2024, around six million households will be in fuel poverty.[2] Government interventions to ease the cost pressure on consumers in winter 2022/23 (above and beyond the Energy Price Guarantee), such as the Energy Bill Support Scheme, were not sustained into the next winter, meaning that most consumers were unlikely to have experienced a significant reduction in their bills, despite the lower prices. More disappointingly, a longer-term approach to supporting vulnerable customers, which the Government had said it would unveil in April 2024, has not been forthcoming. Ofgem's levelisation of standing charges for PPM customers is welcome, given the higher proportion of those customers who are fuel poor, but will make a relatively small difference in the context of the overall bill.

In the meantime, overall energy debt levels have continued to rise, reaching record highs.[3] Even if prices fall further, many consumers will experience the pressure of repaying historic debts, and this may in turn limit their ability to take advantage of better offers and other opportunities to reduce their costs. They will face this challenge in the context of wider cost-of-living pressures. Other costs such as mortgage repayments and a range of household bills, including council tax, broadband and mobile, have continued to increase and will therefore exert additional pressure on consumers' ability to meet energy repayments, irrespective of the trajectory of energy prices.

As the Call for Input correctly notes, the future path of wholesale prices is highly unpredictable. The possibility of further spikes driven by supply constraints and unforeseen geopolitical developments cannot be excluded. This emphasises the need to guard against complacency. Action should be taken now to ensure that as an industry, working alongside Government and the regulator, we are better positioned than during the recent crisis to ensure that in such circumstances we are able to limit the scale of the cost pressures faced by households – or, better still, that we have enduring protections in place that reduce the need for emergency interventions.

Ofgem rightly notes that consumers facing affordability challenges are able to receive valuable advice and other forms of support from charities and consumer groups. This can serve as a particularly important source of non-financial help as these organisations are more likely to be able to communicate with consumers in terms that are

[1] Office for National Statistics, *Cost of Living Insights: Energy* (February, 2024).
[2] National Energy Action, *Briefing on Ofgem's Debt and Affordability Call for Input* (Accessed April, 2024) p1.
[3] Ofgem, *Welcome fall in the price cap but high debt levels remain* (February, 2024).

relevant to them. However, the impact of this support is limited by consumer awareness; for example, research commissioned by RECCo suggests that over half of consumers with mental health challenges are unaware of the help available to them from charities.[4] At the same time, it is clear that such organisations are also operating under increasingly severe resource constraints, which are likely to limit the amount of support that they can provide to consumers in any event. We think that this is an important issue for policy-makers to consider as anecdotal evidence from, among others, local authorities, indicates a real appetite among consumers for trustworthy information and guidance on energy usage.

Q2: What options should be explored to tackle energy affordability?

We believe that all stakeholders – the Government, Ofgem, the industry and consumer organisations – should work collaboratively towards the improved targeting of energy cost support.

This is to some extent likely to be achievable within the parameters of existing mechanisms; for example, further enhancements could be made to the design of the Warm Home Discount in order to ensure that it is providing levels of support that better reflect the needs of eligible consumers, without increasing overall costs.[5] The various proposals for a social tariff put forward over the past couple of years should also be explored in greater depth, including the question of whether such a policy should be funded through general taxation so that it can be more impactful.[6]

But we believe that it is also important to be ambitious about the potential of improved data-sharing to make a beneficial impact on energy affordability and in particular the ability to target cost interventions. This should for example be relevant to the future purposes of the Priority Services Register (PSR). The commitment made by the Government in Summer 2023 to exploring the potential of a multi-sector PSR was highly welcome and chimed with the work that we have been undertaking, alongside key stakeholders, towards the delivery of a "tell me once" PSR.[7] One of our priorities throughout has been to think beyond the implications purely for the utilities industries and consider the benefits for consumers of enhanced data sharing with other sectors, such as healthcare and local government, who are often best placed to deliver support.

This issue should be approached in conjunction with a fundamental evaluation of the value to consumers of the services being provided through the PSR. A concerningly high proportion of registered consumers are uncertain about the benefits and say that the services that they have received have not resulted in a positive experience.[8] This of course does not currently include additional energy cost support, which is not currently available through the PSR. However, research suggests that around six in 10 vulnerable consumers would be more comfortable with data about their vulnerability being shared if they believed it were to result in cheaper bills.[9] A useful step to this end would be the introduction of a financial vulnerability flag onto the register.

We also believe that recognising the risks to health and wellbeing caused by consumers' rationing their energy usage, improved collaboration between the energy industry and the healthcare sector should be a priority. Notwithstanding the potential benefits to public health, this would be of value given the wider cost to NHS finances that arise from disabled consumers feeling unable to use electricity or to heat their homes to an extent

[4] Money and Mental Health Survey, produced for RECCo and Gemserv (awaiting publication)
[5] Citizens Advice, *Shock proof: breaking the cycle of winter energy crises*, p14.
[6] For example, Age UK, *Keeping the lights on: the case for an energy social tariff* (March, 2023); or Citizens Advice, *Fairer, warmer, cheaper: new energy bill support policies to support British households in an age of high prices* (March, 2023).
[7] Retail Energy Code Company, *How can we improve the Priority Services Register for vulnerable customers?* (May, 2023).
[8] Money and Mental Health Survey, produced for RECCo and Gemserv (awaiting publication)
[9] Money and Mental Health Survey, produced for RECCo and Gemserv (awaiting publication)

that meets their needs.[10] The improved consumer outcomes that can be delivered through these linkages have recently been demonstrated, albeit until now on a relatively small scale, by the Energy Systems Catapult's Warm Home Prescription scheme.[11] More innovation in this area would be welcome – for example, on the point of data sharing, it should be reasonable to consider whether patients' journeys within the healthcare system could be better used to offer them the opportunity to register on the PSR. From an energy industry perspective, one important barrier to better collaboration between the two sectors, which certainly reflects our experience, is locating and engaging with the appropriate individuals within the NHS in the first instance.

Further thought must also be given to the way in which policy mechanisms are administered. The past couple of years have provided multiple examples of schemes that were well-intentioned but in practice fell short of their potential owing to the practical difficulties in delivering financial support to consumers. The most conspicuous of these was the prepayment vouchers delivered through the Energy Bill Support Scheme; over £100mn worth of vouchers remained unclaimed in the days before the deadline. We are yet to see a comprehensive analysis of this scheme and the factors that caused so many consumers to not redeem the vouchers for which they were eligible. This would surely offer valuable learnings for future such interventions.

Q3: What factors should be considered when redistributing costs?

One factor that Ofgem should consider is the confidence with which it can understand the impacts of such redistribution. The outcomes achieved will be enhanced through the establishment of improved consumer archetypes, which are able to provide a more nuanced perspective than the existing archetypes of the drivers of household energy costs.

In August 2022, Ofgem decided not to move the costs of the Supplier of Last Resort scheme out of the standing charge and instead to recover the costs volumetrically, as it was concerned about the detrimental impacts of this change on vulnerable consumers who run medical equipment at home and therefore have high electricity consumption. The accompanying analysis showed that most low-income households stood to benefit from a move to volumetric charging, but Ofgem said that the relatively small gains achievable were outweighed by the costs to disabled consumers.[12] It is worth noting, however, that its archetypes were too broadly drawn to take into account the fact that a proportion of disabled consumers – namely those dependent on oxygen concentrators and certain types of dialysis – can have the cost of their medical equipment's electricity consumption covered through reimbursement by the NHS. While the effectiveness of these rebate schemes has been questioned (as set out in response to Q7), in principle this is a very important source of cost support for Ofgem analysis to take into account if considering the impact on these consumers of redistributive policies.

We note that earlier this year the archetypes were updated (albeit not in a way that would have addressed their limitations in the particular instance described above). The new document emphasises that the archetypes are not intended to be used as the main source of information in policy design and are instead of use in considering the distributional impacts of policies.[13] However, unless they operate with a more precise understanding of the factors influencing consumers' energy costs, they will not be successful in that respect either. This is particularly relevant in light of the thought that Ofgem is currently giving to the future of the standing charge, which will require careful distributional analysis.

[10] For example, a report published in 2023 suggested that cold homes were costing the NHS £540mn per year. See BRE, *The cost of poor housing in England by tenure* (March, 2023).
[11] Energy Systems Catapult, *Warm Home Prescription* (Accessed April, 2024).
[12] Ofgem, *Follow up on our review into the arrangements for recovering the cost of supplier failure* (August, 2022).
[13] Centre for Sustainable Energy, *Ofgem energy consumer archetypes update 2024* (February, 2024), p7.

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Q4: To what extent is debt a factor that puts suppliers off taking on new customers or offering certain types of services and tariffs to them?

No response.

Q5: With reference to the themes and indicators in our Competition Framework, to what extent is the affordability of energy and the build-up of legacy debt affecting competition and innovation (including new entry) in the domestic retail market?

We believe that the Call for Input identifies the most significant impacts of reduced energy affordability on competition and innovation in the market. The sharp growth of legacy debt is likely to be detrimental to the Competition Framework theme of consumer engagement and empowerment, as customers with debt can be prevented from switching or at least face additional barriers to doing so. These customers' ability to engage in the market and to select tariffs that better reflects their lifestyle preferences will therefore be reduced.[14] In turn, suppliers' ability to innovate and offer new, competitive products is likely to be hampered by the need to manage increased levels of debt within their portfolios.

Also worth considering is the extent to which negative perceptions of energy affordability and the industry more generally might inhibit progress on industry initiatives that are key to the Net Zero transition. Smart meters will be vital to ensuring that consumers benefit from the introduction of Market Half Hourly Settlement; however, the pace of progress on the roll-out has been far slower than had initially been anticipated and consumers on low incomes are already less likely to adopt them.[15]

Those struggling to pay their energy bills are likely, given much of the most recent media coverage of the technology, to be sceptical about the benefits of having a smart meter installed. During 2023, for example, various media outlets highlighted the issue of "smart meter anxiety": consumers who had had them installed but saw the in-home displays more as a source of anxiety than as an opportunity to identify savings. Research commissioned by RECCo has affirmed the extent of this problem: 46% of respondents to our survey suggested that their smart meters made them feel too anxious about their usage.[16] This should be of particular concern because it is not only an issue of perception for those yet to adopt smart meters; it is one of reality for those who have them and are now in the process of reaching conclusions about their value. Further evidence has also suggested that some consumers are worried about the potential of being remotely switched over to prepayment if they adopt smart meters.[17]

The importance of the relationship between affordability and innovation will grow as the market evolves and outcomes become more dependent on consumer engagement. It will be necessary for example to ensure that the market arrangements allow the most financially vulnerable consumers to share in the benefits of innovation. Further, as the market becomes more dynamic and dependent on time-of-use, energy must remain affordable for those unable to vary their patterns of consumption.

[14] We understand that the £500 limit for application of the Debt Assignment Protocol was last reviewed in 2014, and as such it has not kept pace with prices or measures of debt; we consider that this threshold should be reviewed and potentially replaced with a dynamic value, being a percentage of the typical energy bill under the prevailing Default Tariff Cap, or some other benchmarked metric.
[15] Citizens Advice, *Don't settle for second best: ensuring energy market reforms stack up for people* (April, 2024), p19.
[16] Money and Mental Health Survey, produced for RECCo and Gemserv (awaiting publication)
[17] Committee of Public Accounts, *Update on the rollout of smart meters* (October, 2023).

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Q6: What represents best practice in debt management by suppliers?

No response.

Q7: What lessons can we learn from other sectors and countries on managing affordability and debt? And how should they be applied to the energy sector?

We welcome Ofgem's consideration, as part of this Call for Input, of examples from other countries and would encourage it to undertake further, detailed analysis in this regard. Notwithstanding the varying market structures and regulatory regimes in place globally, our own research has suggested that much can be learnt from the principles being applied elsewhere to the tackling of debt and affordability challenges.

Last year, we published a report on the electricity cost support available to home medical equipment users, outlining the practical issues with the delivery of the rebate schemes run by the NHS. As part of this we examined the approaches to this issue adopted in Europe, the US, and Australia.[18] We believe that elements of those schemes ought to be considered by policy-makers in the UK if electricity cost support for those dependent on running medical equipment at home is reformed. In particular, our report found that in most places cost support was provided in the form of credit on the electricity bill; this contrasts with the rebate schemes operated by the NHS, which often deliver funds to patients months after the electricity payment is due and can therefore be a source of additional anxiety.[19] As outlined in our response to Q2, this emphasises the importance, beyond the availability of funding, of looking from the consumer perspective at the effectiveness of the way in which interventions intended to help manage affordability are administered.

One further point should be noted about these international examples. Each of the schemes covered in our report is dependent on at least some measure of consumer engagement (generally, a form needs to be completed by the patient and validated by a health professional) in order to ensure that the appropriate level of credit is applied to the energy bill. We share the preference for cost support schemes to which consumers can be automatically enrolled and have outlined above the urgency with which we believe policy-makers should approach the issue of data-sharing in order, in part, to facilitate them. However, given the immediacy of the energy affordability challenge for, in this instance, medical equipment users, it is important to remain open-minded about the most practical solutions.

It might be, for example, that an enhanced PSR could help to identify eligible households so that they can be engaged but that – in order to apply credit that fairly reflects both the type of equipment being utilised by the consumer and the extent to which it is being operated on a daily basis – an application process remains necessary. If one accepts that patients should be reimbursed fully for the electricity costs of their medical equipment – an important component of the NHS schemes and one that we believe should be preserved – then it is also important to be realistic about the limitations of cost interventions such as a social tariff, which if introduced would almost certainly be targeted at vulnerable consumers more widely.

[18] Retail Energy Code Company, *How can we better support medical equipment users with their electricity costs* (April, 2023).

[19] Well aligned with our thinking on this issue was another report, Marie Curie, *One charge too many: the impact of rising energy costs on people at the end of life* (July, 2023).