

## **Citizens Advice response to Ofgem draft Forward Work Programme 2023/24**

Citizens Advice welcomes the opportunity to respond to Ofgem's work plan for 2023/24. Overall, we support the continuation of Ofgem's key programmes of work, and we are pleased to see a continued commitment on helping the energy sector to meet the UK and devolved governments' Net Zero targets.

This will be an important year for the regulator. A continuing cost of living crisis may push up energy prices even further, leaving more consumers in vulnerable circumstances; retail market failures will continue to be addressed, and price protections beyond the price cap will need to be considered and implemented.

### **Views on the consumer interest framework**

Trade-offs between different energy consumers may unfortunately be necessary in the transforming energy market. Citizens Advice's approach to making these trade-offs will be on a case-by-case basis, prioritising the needs of the disempowered, on low incomes and in vulnerable situations.<sup>1</sup> However, we support Ofgem's proposed consumer interest framework, particularly its focus on ensuring fair prices for consumers. More clarity on how these consumer interests interact and how they would be prioritised would be useful.

### **Views on Ofgem's short and longer term priorities**

#### **Short term priority 1: ensuring prices are fair**

#### **Government Bill Support**

We support Ofgem's intention to monitor compliance for the EBSS, EPG and EBRS schemes and take action against suppliers where necessary.

As outlined in our response to the Energy Bill Support Scheme consultation, we remain concerned that the scheme delivery for those on prepayment meters could see many of the 2 million households on prepayment meters, (including those who most need it) missing out on support.<sup>2</sup> We believe Ofgem should work in partnership with the government and suppliers to ensure all those on prepayment meters receive the support they are entitled to.

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<sup>1</sup> [Rough trade? Balancing the winners and losers in energy policy](#), June 2021, Citizens Advice

<sup>2</sup> [Citizens Advice response to BEIS consultation on the Energy Bills Support Scheme](#), May 2022, Citizens Advice

For non-domestic consumers, we are seeing rising debt, with the number of microbusiness customers contacting our Consumer Service doubling this year, and 96% of small businesses stating they are concerned about rising energy costs.<sup>3</sup> Our data indicates that non-domestic suppliers are not going far enough to help their customers, with increasing concern about debt collection and disconnection practices. We fully support Ofgem's recent letter to non-domestic energy suppliers outlining expectations for good practice, and hope to see continued monitoring and enforcement over the coming year.

### **Vulnerable consumers**

We were disappointed that the specific target on improving outcomes for vulnerable consumers was missing on the draft 2022-23 programme, so it is encouraging to see it return for 2023-24.

Following Ofgem's Market Compliance Reviews, it will be essential to continue proactively monitoring energy companies on how far they are fulfilling their obligations to vulnerable consumers. This must include a meaningful engagement with outcomes measurement to ensure future reviews do not overly rely on energy suppliers self reporting via sharing of process documents at the expense of insight from their customers.

A review to the Consumer Vulnerability Strategy is welcome and necessary, with more clarity needed on the timing and potential updates over the coming year. As part of this work, Ofgem should also consider obligating suppliers to implement further protections for those in vulnerable circumstances above the existing supply licence conditions, such as offering customers the ability to lower or pause their debt repayments in line with their ability to pay.<sup>4</sup>

Further, more should also be done to protect prepayment meter consumers on an enduring basis, who experience detriment in the market. The temporary, voluntary ban on the forced installation of new traditional prepayment meters, until additional safeguards are put in place to end self-disconnection will deliver an important measure of protection.<sup>5</sup> However, urgent action is required to ensure energy suppliers review the circumstances of those already on prepayment meters and for the ban to be extended to forcing people onto prepay mode for consumers using a smart meter.

### **Retail market reform**

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<sup>3</sup> [Supporting microbusiness customers with debt](#), January 2023, Citizens Advice

<sup>4</sup> [Supporting energy customers as bills rise: A good practice guide for Winter](#), September 2022, Citizens Advice

<sup>5</sup> [Kept in the dark - The urgent need for action on prepayment meters](#), January 2023, Citizens Advice

We are pleased to see Ofgem build on its Market Compliance Reviews to ensure consumer protection standards deliver the best outcomes for consumers.

### **Consumer price protections**

Ofgem will need to both monitor the impact of changes to the Price Cap and begin to implement plans for post-April 2024 when the price cap period ends. Price protection will be crucial if we continue to see average bills of £3,000 - at this price, those on the lowest incomes would spend 62% of their total household income on energy after accounting for housing costs, up from 34% in 2019/20.<sup>6</sup> Our review of future energy bill support with the Social Market Foundation and Public First revealed strong stakeholder and public support for financial help to households struggling with bills, with 73% for and only 9% opposed, with many citing a need for a social tariff with a fixed cash discount and unit price discount polling the best with the public.<sup>7</sup> Our final report will be published in March and we look forward to working with the regulator and government to introduce enhanced protections for consumers in vulnerable circumstances..

There are a number of challenges with the price cap which are in need of more urgent review. These include the differentials between different payment types. The increase in energy prices has made payment methods more commonly used by low income households much more expensive. The drivers for these differentials should be assessed to see whether they are fair and cost-reflective. For example, setting standard credit costs as a fixed percentage of overall costs is clearly insufficient. A review of the price cap should also take into account Economy 7 arrangements as a priority. We have concerns that these consumers currently do not see the benefit of lower wholesale electricity costs at night due to the way the price cap is calculated, and are not protected from price hikes under the Energy Price Guarantee due to the way it interacts with the price cap.

### **Short term priority 2: creating resilience across the energy sector**

#### **Security of supply**

We support the priority of securing energy supply for the coming winter, in particular monitoring the wholesale market to assess participant resilience.

#### **Cyber**

Increasing cyber security and resilience measures across Ofgem-regulated companies will be key to maintain essential services. Outages will have negative consequences for all consumers, particularly those in vulnerable circumstances, who may be less able to

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<sup>6</sup> [Energy Bill Support Interim Report](#), December 2022, Social Market Foundation

<sup>7</sup> [Energy Bill Support Interim Report](#), December 2022, Social Market Foundation

contact companies independently. We encourage companies to account for and adequately plan for increased cyber security risks as more interdependent smart technologies are taken up.<sup>8</sup>

### **Power market liquidity**

We support an exploration with BEIS of wholesale power market liquidity, ensuring it is sufficient to meet market participant requirements and that risk is managed effectively.

### **Financial resilience and controls**

Following Ofgem's action plan on retail financial resilience, we are pleased to see the priority of increasing resilience in the supply market taken forward for 2023/24. Our research shows that supplier failures since August 2021 will cost £4.6 billion - £164 added to people's bills.<sup>9</sup> This has added undue pressure to consumers who are already having to pay high energy prices, and it has also eroded consumer confidence in the energy supply market. To ensure trust is rebuilt, Ofgem should make the process of building resilience transparent, publishing supplier-level data publicly as far as possible and giving companies a reputational incentive to increase their resilience.<sup>10</sup>

### **Short term priority 3: setting, monitoring and enforcing quality standards**

#### **Proactive and robust compliance and enforcement**

In our response to the 2022-23 forward work programme we detailed how greater focus on enforcement and compliance would be needed to avoid another period of market turmoil that saw 29 suppliers fail in 2021 and 2022. We therefore strongly support its inclusion in this year's work plan, particularly the focus on areas of greatest harm to consumers. Ofgem should dedicate more resources to its enforcement function to ensure consumer protections and customer service standards are protected. We also want to see Ofgem commit to higher standards (potentially in the form of a new consumer duty to enhance standards of fairness) to repair the loss of consumer trust incurred by the tumultuous retail market over the past few years.<sup>11</sup>

### **Heat network regulation**

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<sup>8</sup> [Citizens Advice response to the National Infrastructure Commission Resilience Study Scoping Consultation](#), April 2019, Citizens Advice

<sup>9</sup> [Back from the Brink? How consumers are still reeling from the energy market meltdown](#), July 2022, Citizens Advice

<sup>10</sup> [Citizens Advice response to Ofgem's action plan on retail financial resilience](#), January 2022, Citizens Advice

<sup>11</sup> [Market Meltdown: How regulatory failures landed us with a multi-billion pound bill](#), January 2022, Citizens Advice

Ofgem's preparations for regulating the heat network sector are welcome, as we at Citizens Advice prepare for our role as the consumer advocate for heat network consumers. We support the regulator's objectives to help to ensure consumers get a fair price, fair treatment and a reliable supply of heat, and to support the decarbonisation of the sector. We have further recommendations for suppliers, including standards for information, communication, flexibility of payments and complaints, and the need to provide appropriate support for customers in vulnerable circumstances.<sup>12</sup>

## **Longer term priority 1: facilitating infrastructure investment**

### **Enable time-critical investment in infrastructure**

#### **Future network regulatory framework**

We support Ofgem's intention to set policy direction for a new regulatory framework. Effective network regulation will be key to delivering the network infrastructure needed for a net zero world while still providing value for money for the consumers that are paying for it. We responded to the recent Ofgem consultation on Future Network Regulation and have 8 key recommendations that should be incorporated into Ofgem's work programme in this area. The report is given below<sup>13</sup> but some of our overarching recommendations include:

- The Ofgem regulatory framework needs to dovetail effectively with the other reforms underway in retail and wholesale markets. Whole-system and cross-sector thinking needs to be incorporated and rewarded
- Consumer and stakeholder views have to be better incorporated within the process. The ways of collating and using such views needs to be improved so that Ofgem has confidence in applying their insight into decisions
- Flexibility has to be built into the regulatory framework to cope with a rapidly changing environment. Longer-term and ongoing price controls using adaptive planning could help steer the early strategic investment needed for net zero
- Rebalance the asymmetry between network companies and other stakeholders, including the regulator, which negatively impacts consumer interests. There are current imbalances in resources and knowledge, and a commercial imperative within companies that may not align with the interests of consumers

#### **Nuclear Regulated Asset Base (RAB) model**

As raised in our response to the BEIS consultation on whether a RAB model should be used to finance new nuclear power stations, we are concerned that consumers could be exposed to increased risks and costs. In light of this, we are encouraged to see Ofgem's

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<sup>12</sup> [Getting ready for heat network regulation](#), May 2022, Citizens Advice

<sup>13</sup> [Future Network Regulation: Delivering a regulatory framework fit for the future](#)

focus on ensuring current and future consumers are protected and receive value for money.<sup>14</sup>

## **Hydrogen**

It is encouraging to see Ofgem prioritising consumer interests in its work on supporting government decisions on hydrogen. We believe that safety, cost and consumer protections are the key factors that should be assessed in the lead up to the strategic decision on the role of hydrogen in heating in 2026.

## **Longer term priority 2: developing and delivering market reforms**

### **Enabling markets for flexibility**

We are in support of Ofgem's role in helping to deliver market-wide half hourly settlement. As stated in response to the 2022/23 Forward Work Programme, we believe Ofgem should focus on developing new consumer and data privacy protections to encourage take up of new smart tariffs whilst also protecting consumers from detriment.

Regulatory oversight of the smart meter rollout will be an important focus for Ofgem this year. We are concerned that suppliers remotely switching smart meters to prepayment is having negative impacts on consumers, particularly those in vulnerable circumstances, and it could damage the smart meter roll-out by putting people off from having one installed. Ofgem should act to explicitly ban this practice.

We welcome the focus on the new regulatory model for the Data Communications Company (DCC). As outlined in our response to Ofgem's Phase 1 consultation on the DCC review, we believe that Option B should form the basis of the new regulatory design framework, as it has the potential to drive outcomes in consumers' interests.<sup>15</sup>

While Ofgem considers how to maximise the benefits of flexibility, it should also work to protect consumers who may lose out as our system responds to smart products and services. We are concerned that consumers on Economy 7 and multi-rate tariffs are being treated unfairly in the market, and that low confidence in smart home technology (only 26% of people told us they would be likely to use energy as a service, falling to just

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<sup>14</sup> [Response to BEIS consultation on whether it should move to a Regulated Asset Base \(RAB\) model to finance new nuclear power stations](#), October 2019, Citizens Advice

<sup>15</sup> [Citizens Advice response to Ofgem's DCC review: Phase 1 Consultation](#), January 2023, Citizens Advice

13% of people aged over 65)<sup>16</sup> may mean people, particularly those in vulnerable circumstances, are disadvantaged.

### **Longer term priority 3: reforming governance arrangements**

#### **Energy code reform**

We support Ofgem's role as the strategic body in the design and delivery of code reform. Where possible, we support code simplification and consolidation.

#### **Energy sector digitalisation**

The digitalisation of the energy sector has the potential to unlock benefits for consumers, but there is a need for regulator scrutiny to ensure risks are mitigated. We therefore support Ofgem's intentions to embed digitalisation best practices into regulator rules and accelerate digitalisation innovation and improvement in regulated entities.

We would like Ofgem to consider the needs of consumers who could miss out in energy sector digitalisation. Around 1 in 20 adults do not use the internet, and 1 in 5 lack some of the 'essential digital skills for life'<sup>17</sup>: these people are more likely to be at risk of other vulnerabilities and have poorer outcomes in the energy market, such as finding it harder to switch supplier and pay more for their energy. We are calling on Ofgem to protect consumers at a digital disadvantage by restating the need for telephone services, and, more broadly, to upgrade principles-based rules on fairness to an obligation on suppliers to achieve positive outcomes for consumers in vulnerable circumstances.<sup>18</sup>

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<sup>16</sup> [Smartening up: How to improve people's confidence in smart home technology](#), November 2021, Citizens Advice

<sup>17</sup> [UK Consumer Digital Index 2021](#), October 2021, Lloyds Bank

<sup>18</sup> [Access Denied: Digital disadvantage and exclusion in the energy market](#), November 2022, Citizens Advice