

Future of the energy retail market: call for evidence

Citizens Advice response



Citizens Advice welcomes the opportunity to respond to the BEIS call for evidence on the future of the energy retail market. Citizens Advice provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. We are the statutory representative for domestic and microbusiness energy consumers across Great Britain.

We are encouraged that the call for evidence reaffirms the aims set out in the Energy Retail Market Strategy for the 2020s¹, sharing as we do the view that ideal outcomes for the future of the retail energy market include:

- consumers receiving appropriate levels of protection and paying a fair price for energy
- energy companies being able to bring forward innovative services to deliver decarbonisation, and
- better consumer outcomes and consumer choice contributing towards a lower-cost flexible energy system.

We see these outcomes as essential to deliver the necessary decarbonisation of the energy system and, crucially, to maintain public confidence and support for net zero while the transition is in progress. It is right however that the recent market turmoil necessitates a re-evaluation of the mechanisms and interventions by which these goals are achieved. Our recent report, *Market Meltdown*, highlighted our view on the key regulatory and policy failures that led to poor service for many customers and the failure of many suppliers.²

As well as reforming the market for the future, we also need to fix urgent problems for consumers, and we strongly urge policymakers to take swift and necessary action to address the cost of living crisis that is emerging.

External estimates project that the energy price cap will increase in April to as much as £2,000 per year for a typical household. That increase is predicted to push an additional 2 million more households into fuel poverty, bringing the total to 6 million. Citizens Advice is already seeing the impact of rising energy prices - in December 2021 we helped double the number of people who had run out of money on their prepay meter compared to the previous year.³

¹ [Energy retail market strategy for the 2020s](#) (2021) BEIS

² [Market Meltdown](#) (2021) Citizens Advice

³ [Market Meltdown](#) (2021) Citizens Advice

We believe the best balance of interventions targeting those who most need help with higher prices are:

- Support should be targeted to low-income households via an 'Energy Support Grant'. Similar to Winter Fuel Payments this would be a one-off payment to all Universal Credit (and legacy benefit) claimants in April 2022, together with an additional payment to people in receipt of Pension Credit
- At the same time, temporarily extending the Warm Home Discount would channel money directly to those that are most at risk of fuel poverty enabling them to heat their homes in Winter 2022, when prices are expected to soar further
- Lastly, the government is planning to uprate benefits by September's CPI rate of 3.1%, but inflation has spiked dramatically since then. The government should reflect this by uplifting benefits by either the Bank of England forecast or the March rate of CPI

We have also called for consumers to be protected from the cost of dealing with supplier failures, with the supplier of last resort levy recovered over a longer period and the final costs of special administration recovered from taxpayers rather than billpayers. With only weeks remaining until the level of the April 2022 price cap is confirmed, the case for intervention is overwhelming to protect those most in need of support from unprecedented energy price rises. Further information can be found in our recently issued cost of living policy briefing.⁴

Longer term, some policies to achieve the outcomes in the Energy Retail Market Strategy for the 2020s are now less clear, but many of the fundamentals still apply. Our views on the impacts of current market volatility and pathways forward are grouped under the three headings contained in the call for evidence.

How the retail market can help achieve the best outcomes for consumers, no matter how they engage

With 28 supplier failures in 2021, the retail energy market is far more consolidated than at any point in recent years. Consumer choice has been constricted both in terms of provider and competitive tariffs. In December 2021, the average fixed tariff increased to

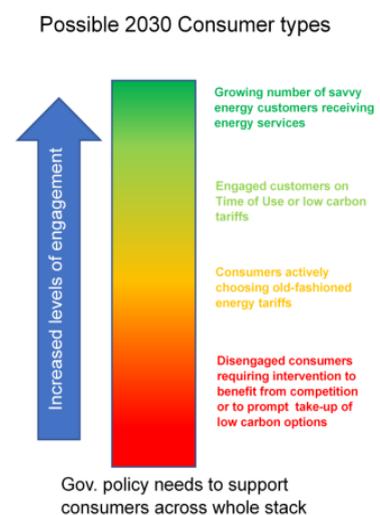
⁴ [How to protect consumers as energy prices rise](#) (2022) Citizens Advice

£2,359 per year. The number of tariffs on the market also continued to reduce, with only around 90 tariffs currently available.⁵ Many of the suppliers remaining in the market - especially by market share - are the legacy incumbent suppliers who continue to have a high proportion of customers on standard variable tariffs⁶ and have previously performed poorly at engaging their own customers. The pause of policy development on opt-in and testing opt-out switching means there is now no policy solution in development to support engagement by people on default tariffs and this exacerbates the real risk of a two-tier market in future.

The engagement hierarchy (right) which was included in the Energy Retail Market Strategy for the 2020s continues to be a useful framework by which to assess interventions, with the overriding objective of supporting consumers moving up the hierarchy towards products and services that deliver the most consumer value and support decarbonisation.

The impact of the current market crisis is likely to increase the number of customers at the bottom of the hierarchy, with millions of customers either rolling off their fixed deals onto a default tariff due to a lack of any competitive acquisition deals or moving to a new supplier through Supplier of Last Resort. The end result is the same - a higher proportion of consumers with providers or tariffs they have not actively made a choice to move to, and some consequently feeling a lack of trust towards the market having experienced poor service and supplier failure⁷, which could limit their willingness to engage in the future.

One measure to restore consumer trust in the market is to ensure Ofgem takes a more rigorous approach to market entry, compliance and enforcement. Our research identified that an influx of new suppliers combined with lax oversight and reforms to



⁵ Internal Citizens Advice data

⁶ [Ofgem Retail Market Indicators](#) - as of 1 April 2021 across domestic electricity customers (excluding PPM) of British Gas, E.ON, Scottish Power and EDF collectively, 55% of customers were on default tariffs

⁷ Recent polling conducted for [Citizens Advice](#) found that 40% of people who've heard about supplier failures are less likely to switch supplier in future as a result. Yonder Data Solutions interviewed 2,019 GB adults, online, between the 26th and 28th of November 2021. Data were weighted to be demographically representative of all GB adults aged 18+.

rules that were too weak or came too late helped fuel the recent retail crisis.⁸ Ofgem must reform its approach to enforcement to focus on rule-breaking impacting consumers and customer service, as well as technical breaches. Thresholds should be implemented for escalating action that enables breaches to be tackled more quickly, and investigations should be completed in a more timely fashion. Compliance and monitoring activity should be properly resourced. Ofgem should also ensure it can understand and manage the systemic risks posed by suppliers as they grow. This should include new 'prudential regulations' on capitalisation and hedging. While some of these reforms are underway, BEIS should also consider making use of its Strategic Policy Statement to guide Ofgem's approach, and its retail strategy should set out legislative changes to ensure the regulator has the appropriate powers to tackle problems in the market. It should also ensure the regulator has sufficient resource - in many recent years its budget was cut or flat, while its responsibilities have only grown.

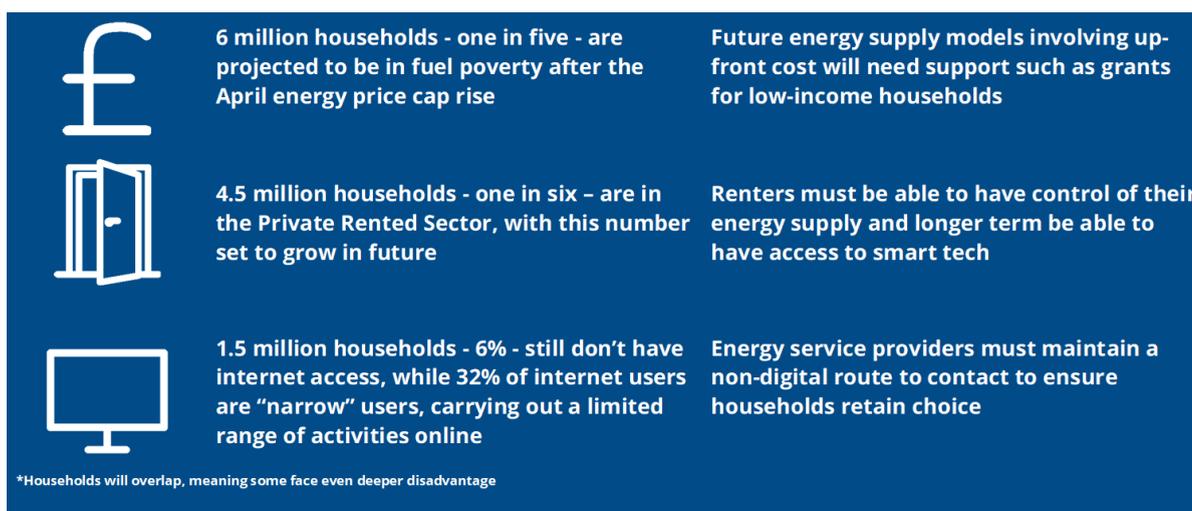
Another essential element of ensuring consumers are motivated to engage with the changes necessary to reach net zero will be ensuring they are provided with the information and advice to support and protect them. We continue to support BEIS's work considering how transparency of carbon content in energy products can be improved, as set out in our response to the call for evidence last year⁹, as well as work to enable smart tariff comparison. Our previous Navigating Net Zero research¹⁰ sets out a framework for advice and support that can help overcome engagement barriers. To be effective, advice and guidance needs to be flexible. In particular advice needs to be provided through multiple channels, so consumers can easily get the support they need for the stage of the journey they are at. There needs to be integration between different channels and providers, so that a consumer can move easily back and forward between different stages of the journey, without having to start from scratch each time.

Adoption of new technology, in particular electric vehicles and heat pumps, is likely to drive some movement up the hierarchy, as these unlock more consumer benefits from smart tariffs. This will be promoted by government plans to make adoption of these technologies more widespread, as well as associated requirements like smart charging. However, we have highlighted in previous research how people with a low level of savings or poor credit are likely to risk exclusion from future energy supply models,

⁸ [Market Meltdown](#) (2021) Citizens Advice

⁹ [Response to the BEIS Designing a Framework for Transparency of Carbon Content in Energy Products call for evidence](#) (2021) Citizens Advice

¹⁰ [Navigating Net Zero](#) (2021) Citizens Advice



especially those that require an up-front cost or access to credit to purchase technologies. In order for consumers to optimise engagement with more complex energy offerings such as time-of-use tariffs, assets such as micro-generation, heat pumps, electric vehicles or smart appliances are typically required. However, many consumers lack the upfront financial ability to invest in these assets. Increased energy prices will only compound this and increase the gap between the affluent with the ability to invest in low-carbon assets, who will then benefit from significant bill reductions, and those unable to and are stuck with conventional tariffs paying more. The size of this group is set to increase given expected energy price rises, with an extra 2 million households expected to be in fuel poverty from April 2022 without intervention, meaning over one in five households would be in fuel poverty.

To facilitate those on low-incomes moving up the engagement hierarchy to engage with smart energy services, policy makers should explore the future provision of grants for low income households, and more broadly ongoing financial incentives such as low-interest loans to cover upfront costs.¹¹ This would align with the commitments in the BEIS Smart Systems and Flexibility Plan 2021¹² to incorporate smart technologies in government fuel poverty strategy and policies, for example the Energy Company Obligation and use the findings of Project InvoLVE, which identified how innovation may help enable low income and vulnerable consumers to participate.

Two other key groups to consider the impact of the current market on their future ability to engage are renters and the digitally disengaged.

¹¹ [Future for All](#) (2019) Citizens Advice

¹² [Smart Systems and Flexibility Plan 2021](#) (2021) BEIS

People who rent their homes often face restricted choices, or having choices made for them by a landlord or managing agent. A recent survey¹³ for Citizens Advice revealed that 5% of those in the Private Rented Sector (PRS) had their landlord managing the energy and sending a bill or charging via a sub-meter, while an additional 9% of respondents said their landlord managed the energy and included it in their rent. Ofgem's most recent consumer engagement survey¹⁴ also shows 39% of renters had never switched supplier, compared to 22% for owner-occupiers. The fundamental inability of some renters to make substantive choices about their tariff or provider, or having a smart meter installed could spread in the future market, as services require more material changes in their home. This limits the ability of 4.5 million households to move up the engagement hierarchy. In the first instance, enabling renters to take control of their energy supply and access smart meters would be a positive first step, while longer-term exploring the potential for smart technology to be incorporated into assessment of minimum energy efficiency standards for the PRS could drive action.

Another group whose characteristics will place limits on their ability to move up the engagement hierarchy are the digitally disengaged. Ofcom recognises that even with the impact of the COVID pandemic acting as a catalyst for increased internet use, 6% of households still did not have access to the internet in March 2021¹⁵, with a wider group having only narrow digital skills. Around a third (32%) of those with internet access are "narrow users" as defined by Ofcom, undertaking less activities online. Groups least likely to have home internet access are those aged 65+ (18% without access), lower income households (11% without access), and the most financially vulnerable (10% without access), meaning groups at high risk of disengagement with the energy market correlate with those who face the greatest digital accessibility challenges. The wider cost of living squeeze also puts pressure on household budgets and their ability to maintain internet connectivity. Citizens Advice has consistently highlighted the need for energy sector participants to maintain an offline route of communication with only a minority of price comparison websites offering a phonenumber and some suppliers moving to online-only offerings, thereby limiting choice and building a presumption for staying with the default for those not online.

¹³ ICM Unlimited surveyed a representative sample of 6,001 adults living in the UK. The sample has been weighted to the profile of all adults aged 18+ in the UK and is weighted by age, gender, region, social grade, work status, and ethnicity. Fieldwork took place between 25 March and 9 April 2021

¹⁴ [Consumer Survey 2019](#) (2020) Ofgem

¹⁵ [Adult's Media Use and Attitudes report](#) (2021) Ofcom

As well as taking steps to enable engagement by these groups, we must also recognise that for many their movement up the hierarchy may be limited, and that many will continue to rely on switching to unlock savings. Ofgem and the government should set out a joint plan for how engagement, switching and the price cap work together to help all consumers achieve lower costs and make lower carbon choices. The updated future retail market strategy for the 2020s must also be clear on how competition will benefit the disengaged segment of consumers, including promoting engagement through opt-in switching or another appropriate mechanism.

How energy companies can help drive the private investment needed to achieve net zero

The primary route through which it is expected that energy companies will channel private investment to achieve net zero is through innovation - harnessing data and technology to create new consumer propositions that increase comfort, decrease costs and facilitate decarbonisation.

To enable this innovation, energy companies need reasonable confidence they may see a return on investment, and some assurance over the future course of the regulatory and policy framework. This requires visibility over what Ofgem and BEIS will deliver and when, particularly on innovation in the retail space. Some changes have clear commitments and planned (if challenging) timelines, notably programmes like the switching programme, smart meter rollout and settlement reform, while other changes to network charging and digitalisation are taking place across more disparate, but connected, projects. Ofgem and BEIS have articulated the direction of travel in some of these areas through the smart systems and flexibility plan and Ofgem's strategic change programmes. We're aware that some stakeholders have called for further reform of pricing to deliver more locational price signals, and government should set out how this will be evaluated and taken forward.

However, changes to retail market regulation are unclear or have stalled. Previous initiatives such as supplier hub work in 2017/18¹⁶ and work on the ability of Ofgem to provide derogations to support retail innovation¹⁷ have asked important questions such

¹⁶ [Future of supply market arrangements – call for evidence](#) (2017) Ofgem

¹⁷ [Supporting retail innovation: Policy consultation on ability to provide derogations from certain standard licence conditions; and, granting supply licences for specific geographic areas or premises types](#) (2020) Ofgem

as what the role of a supplier is, but ultimately didn't translate into firm proposals or change. From stakeholder discussion and external research¹⁸ we understand that industry would particularly welcome direction on the extent to which they may be able to specialise rather than being obligated to offer default conventional energy supply. This could achieve benefits for some customers, but would also have significant implications for how the universal service is provided. We are already concerned that some companies are failing to offer the range of services they are required to under Ofgem's rules, leaving some customers with reduced choice. Any changes therefore need to be carefully considered.

The current BEIS retail market strategy set out that changes to the regulatory framework should only be considered in the late 2020s. As part of its refresh BEIS should consider if this timeline remains appropriate, or if such changes could be accelerated, balancing the possible consumer benefits with the implications such reforms could have for the investability of existing suppliers, and practical considerations around the timing of legislation that may be needed. If the timeline remains as currently articulated, BEIS should set out more detail on how it will assess the need for change in the coming years and what least-regrets steps could be taken under the current framework in the interim. This could then be integrated into Ofgem's own forthcoming retail strategy, which should set out how it will support innovation in a more consolidated market that places a higher priority on supplier resilience. This may require a more proactive approach than previously envisaged, including requirements on suppliers to support innovation trials or new models.

We have been concerned that some specialisation by suppliers has been enabled by Ofgem looking the other way when rules are broken, rather than by reassessing rules and changing them. Its retail strategy should include a clearer regulatory view on the extent to which specialisation is possible within the current rules, to ensure a level playing field for competition. It should also set out how it will identify barriers to specialisation that could deliver benefits to consumers, and consult openly on the case for changing these regulations where it thinks this is appropriate.

The Energy White Paper gave a commitment to consult in 2021 on a Strategy and Policy Statement (SPS) for the regulator, giving clarity on the strategic priorities of the government's energy policy, the outcomes it seek to achieve and the roles of government, Ofgem and other parties which are collectively responsible for delivering

¹⁸ [Consolidation in the domestic energy market](#) (2021) Cornwall Insight

these goals. The SPS could be a vehicle to clarify to the regulator what steps it should take to deliver the aims of BEIS's retail strategy, and drive investment confidence among industry.

How the retail market, its underpinning regulatory framework and the energy price cap, may need to evolve to enable a lowest-cost, flexible and resilient energy system that continues to protect consumers

A key element of the reform we continue to see as necessary to the underpinning regulatory framework of the retail energy market is for sectoral regulation by Ofgem to be extended beyond energy suppliers. We responded¹⁹ to the recent BEIS call for evidence on third-party intermediaries (TPIs) advocating for these organisations to be directly regulated given the significant role they play in how the majority of consumers engage with the energy market and the gap in protections that exists around such vital consumer protections as transparent information and access to redress. Reform could also ensure that progress continues in relation to smarter tariff comparison to enable engagement with new propositions, building on the work of BEIS's Smarter Tariffs - Smarter Comparisons project. This regulation should be proportionate to the risks associated with the service provided - we have previously suggested an authorisation regime could be appropriate, with the CMA making a similar recommendation in its Digital Comparison Tools study.

In particular, the extent of recent supplier failures has shone a spotlight²⁰ on auto-switching services that enabled companies to grow much more rapidly and at a relatively low cost. Our research showed that these services can be opaque, with users not knowing whether they're getting the best deal available and being unable to choose suppliers based on the quality of their customer service.

Our recent research²¹ on how to improve people's confidence in smart energy home technology such as offers that enable flexibility also reinforced the need for adequate protection to be in place to ensure consumer confidence is maintained. Priorities that

¹⁹ [Citizens Advice response to BEIS Call for Evidence on third-party intermediaries in the retail energy market](#) (2021) Citizens Advice

²⁰ [Market Meltdown](#) (2021) Citizens Advice

²¹ [Smartening Up](#) (2021) Citizens Advice

emerged were for consumers to feel confident about the contracts they sign up to know where to go for support and have control over their data.

We also continue to strongly support aspects of the retail strategy related to market distortions, and the removal of thresholds for vital schemes supporting low income and vulnerable consumers like ECO and the Warm Home Discount. We also support reforms to the Renewables Obligation to reduce the risk of mutualisation, to incentivise prudent financial management and avoid costs being passed on to compliant suppliers, and similar reforms by Ofgem to limit inappropriate use of credit balances.

Another necessary evolution in the retail policy framework is energy code reform. We agreed with the BEIS and Ofgem joint consultation on the Design and Delivery of the Energy Code Reform²² that reducing the number of codes could deliver significant benefits by making them easier to engage with and facilitate coordinated change. The Retail Energy Code, while still at an early stage of operation, has demonstrated the benefit of a code manager-led approach in ensuring consumer interest is incorporated in the assessment of ongoing market performance and future changes. Any future code reform should ensure that change across all codes can progress faster, that processes are less time intensive to ensure cross-market engagement across participant sizes and that the codes can facilitate the entrance of new and innovative market participants.

In terms of the energy price cap, Citizens Advice welcomed in response to the original Energy Retail Market Strategy for the 2020s the confirmation that the price would be extended beyond its original 2023 sunset clause, representing as it does the best guarantee under current circumstances that consumers pay a fair price for their energy and won't face the loyalty penalty.

In response²³ to Ofgem's proposals for reform of the cap, we recognised there is a case for allowing the level of the default tariff cap to be amended more frequently than once every six months, in order to respond to conditions where underlying costs have increased or decreased significantly or rapidly. However, we oppose the intent to allow for ad hoc, effectively retrospective redetermination of the cap if a series of subjective criteria are met, which risks resulting in a reduction in certainty and stability. If the intent is to make the price cap more responsive to fluctuating wholesale costs, this

²² [Citizens Advice response to the BEIS and Ofgem joint consultation on the Design and Delivery of the Energy Code Reform](#) (2021) Citizens Advice

²³ [Response to Ofgem's consultation on the process for updating the default tariff cap methodology and setting maximum charges](#) (2021) Citizens Advice

would be best achieved by considering increasing the frequency of its recalculation, perhaps to quarterly. We are also concerned by the option of moving to fixed-term default contracts, with exit fees applicable, as these could act as a significant additional barrier to switching, especially for households on lower incomes.

There has also been some discussion in industry about a move from an absolute to relative tariff cap, although Ofgem has identified barriers to some approaches in the price cap legislation. We have some concerns over a relative price cap approach and the extent to which it would protect customers from unfair prices and drive the right incentives on suppliers. As BEIS is already seeking to amend price cap legislation to extend the duration of the cap, it could undertake its own assessment of whether a relative price cap approach may be beneficial in future and, if so, could make wider amendments to the legislation to enable Ofgem to consider this in future.

As set out above, the current crisis has put more focus on energy affordability, and there is a challenge in protecting customers in the short term. The revised strategy should set out how this may be achieved over the medium and long term. Currently, the combination of the price cap and Warm Home Discount provide energy below cost to recipients. We support this approach and have focused our attention on how this can better target households and continue to offer meaningful support as prices rise. However, we recognise that in future if the price cap is removed there may be more scope to introduce a capped tariff or energy product targeted at lower income and/or vulnerable households. Also, the Warm Home Discount is only scheduled to run until 2026, following which the government may wish to consider a different approach to providing support. Some have also suggested that the growth of low carbon technologies, with associated higher electricity usage for these households, may require changes to pricing to ensure households not using these technologies can continue to afford a basic level of energy for core uses, while recovering the cost of investments in the grid. The strategy should set out where these changes and risks are likely to materialise as technology take-up proceeds and reforms to settlement and network charging are introduced, and what options may need to be considered to ensure energy affordability. This may also be an area where a steer to Ofgem in the SPS could be beneficial, to help clarify the extent to which it should develop its own policies on affordability.

Since the Energy Market Retail Strategy for the 2020s was first published there has been increasing attention on the role of policy costs on energy bills in relation to incentivising

decarbonisation and also ensuring energy affordability. Decisions in this area will be fundamental to achieving the outcomes set out in the strategy. We considered the trade offs involved in a paper, *Rough Trade*, published last year²⁴, and look forward to sharing more detail in response to the forthcoming call for evidence on affordability and fairness. If the refreshed strategy is published in advance of that call for evidence then it may be beneficial to at least set out the aims it will seek to achieve, and some indication of how changes could be taken forward in an updated version of the strategy's indicative timeline, to understand how this could interact with other policies.

²⁴ [Rough trade? Balancing the winners and losers in energy policy](#) (2021) Citizens Advice

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