

Sustainability First / Glen Dimplex Economy 7 Roundtable

13 January 23

This note captures the main feedback and discussions from the Sustainability First/Glen Dimplex Heating & Ventilation roundtable on Economy 7 (E7) customers held on 13th January 2023. It was agreed that this would be an unattributed note, with the exception of the invited key speakers, to allow for open and frank discussion. The roundtable was attended by 32 people including consumer representatives and advice agencies, Ofgem, energy suppliers, product manufacturers, a social housing provider and BEIS. It was chaired by Sustainability First Policy Director Zoe McLeod. A list of attendees is below.

Aims of the event

The roundtable aimed to:

- Share learning from Maxine Frerk's report – "It's a Lottery: how Ofgem's price cap fails Economy 7 customers", which was sponsored by Glen Dimplex Heating & Ventilation¹. Maxine is both a Sustainability First Associate and Director of Grid Edge Policy.
- Better understand the issues facing E7 customers including how they are treated under the energy price cap and Energy Price Guarantee
- Identify practical actions different parties can take to improve the experience Economy 7 customers.

Why it matters

While accurate figures are not publicly available, around 10% of customers (i.e. 3 million households) are on E7 or multi rate tariffs where they receive a cheaper amount of electricity at night compared to the day. Ofgem's customer archetypes suggest these consumers are disproportionately young professionals in rented accommodation, older people on low incomes with disability and many who are struggling with their bills. This makes it all the more important that they have a positive experience in the energy market and are treated fairly. Also, time of use tariffs, and storage heaters have an important and growing role to play in future energy markets and the transition to net zero.

Overview

Rowena Rodrigues from Glen Dimplex, explained that the company had commissioned Maxine Frerk to do the report on E7 customers. As a large storage heater manufacturer (with wider interests also in other forms of electric heating), Glen Dimplex said it was concerned about consumers using their products on multi-rate tariffs not getting a fair deal under the Ofgem price cap and the Energy Price Guarantee. Maxine Frerk then presented the findings of her research on Economy 7 and was followed by Dan Norton from Ofgem. The speaker slides have been circulated with this note. Participants then discussed the findings and shared their own insight and views followed by final reflections from all three speakers. The recommendations are at the end of this note.

¹ Maxine Frerk. Grid Edge Policy 'It's a Lottery: how Ofgem's price cap fails Economy 7 customers'. 22 December 2022.

Maxine Frerk's Economy 7 presentation

Key conclusions from her report:

- Economy 7 customers are not seeing the benefit of lower wholesale energy costs at night because of the way the price cap is calculated. They are potentially being overcharged by £100 a year based on October 2022 price cap calculations.
- Multi-rate customers such as Economy 7 customers are not protected in the same way as customers on single rate tariffs and can still experience bill increases given how the Energy Price Guarantee is linked to the price cap and because suppliers have discretion in how they set day and night rates.
- There is significant variation in E7 tariffs depending on supplier, region and payment method that look hard to justify, resulting in a lottery for customers.
- There is scope for suppliers gaming how relative day and night rates are set in order to benefit their commercial position. Given the Energy Price Guarantee this could also result in Government and therefore tax payers paying more than they should.
- While E7 with night storage heaters can be an affordable, convenient heating solution for those with significant energy use at night, we estimate that around 1.5 million customers are on a multi-rate tariff such as Economy 7 when a single rate tariff would cost them less and better meet their needs. Maxine Frerk flagged a case study of one young professional in rented accommodation who was unaware they were on E7 and due to their usage would be £990 pa better off on a smart, prepay single rate tariff.

She proposed a number of recommendations, including:

- Ofgem's upcoming work-programme on the price cap should include a review of Economy 7 arrangements to address the issues raised.
- The urgent need for improved communication with customers on E7 to ensure they are on the right tariff, and companies proactively identifying if customers are on the wrong tariff for their usage pattern and offering their best available deal.

Dan Norton, Ofgem

Key points

- Welcomed the report and thanked Maxine and Glen Dimplex for encouraging them to consider ways of improving the price cap, including its interaction with the Energy Price Guarantee.
- Confirmed that, while the data is not published, the regulator does have E7 rate data as suppliers are obliged to provide details of their tariffs after each Price cap Review.
- Explained price cap is not just one model – three different models. Different price caps for gas and electricity (and within this – different for standard and multi rate meters). Price cap does have a bespoke calculation for Profile Class 1 and Profile Class 2 customers.
- For the first few years of the price cap, they saw relatively few changes in the day / night price differential. Since April 2022 price cap has increased, day and night differentials have too.
- Falling night rate between April and October 2022 (and rising day rates) – interesting potential consequence of way Energy Price Guarantee came in – would like to better understand this.
- E7 broadly a good thing for customers with night-storage heaters, but not for those without large over-night loads (i.e. they are on wrong tariff).

- Looking at range across suppliers – it has been relatively consistent. But as price cap has increased, range (especially for night rates) has increased. Dec 2022 rates not included yet – available at end of Jan 2023.
- E7 customers experienced 8% increase in average rate (Oct '22 to Jan '23), but no increase at all for other customers.
- Have looked at model to understand where this increase comes from:
 - Change from six monthly to quarterly price cap – seasonal heating demand, affects weighting.
 - Confident that moving into next Price cap period and completing transition to quarterly, this will resolve itself.
 - Economy 7 average rate was 8% below single rate in Q4 last year –E7 average rate still below single rate but only by 1% in Q1 2023.
 - Expect this to be a transitional issue – will return to normal (ie around 6% below single rate) in next cap period.
- Impact Assessment guidance indicates that Ofgem should look at electric-only archetypes. Agreed that Maxine was correct that price-cap Impact Assessment overlooks these and going forwards Ofgem will address this. Under the latest price cap review said dual fuel benefitted more than all electric.
- Previously focussed on dual fuel as that is what most customers have. In November communications, Ofgem also put out electricity only numbers.
- Ofgem making more conscious effort to communicate electricity only and Economy 7 information in its communications.
- Will continue to work with BEIS on price-cap and EPG interaction.

Discussion and feedback

General

- General feedback that this was an excellent and well-researched report which brings clarity on an issue which is 'opaque'.
- Acknowledgement that this group of consumers had been largely forgotten by decision makers and there is little reliable information publicly available on them – numbers, demographics, pricing etc. Greater focus is needed as significant minority. CitA last did research in 2018² and is considering future research.
- All agreed needs to be a priority in Ofgem price-cap work programme and the need for greater transparency by suppliers and the regulator.
- Maxine Frerk and another participant stressed again importance of addressing these many complex issues in Ofgem's review of price-cap programme of work. In particular, how far the model reflects night-time wholesale electricity cost-differentials.
- A number of participants queried if suppliers were in breach of the 'treating customers fairly' licence condition by not proactively offering customers a better deal when it was clear from their usage that Economy 7 wasn't the right tariff for them. Highlighted the need to engage the Ofgem compliance team to explore this issue not just the price cap team.
- General acknowledgement that when a customer has high night time usage and knows how to use their storage heaters E7 can be an affordable convenient heating solution (in fact some deals were said to be exceptional value). But that significant numbers (more than a million) were likely to be on a multi rate tariff, when they had little night usage and were therefore paying significantly more than they should be for their energy.

² <https://www.citizensadvice.org.uk/about-us/our-work/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/false-economy/>

- Maxine Frerk stressed there are some really good prices for customers with storage heaters if you happen to be on the right tariff in the right part of the country. But it is a lottery!
- Suggested may be helpful to see this as broadly two sets of E7 customers with slightly different issues: a) those who are on E7 and multi rate tariffs and it's the right tariff for them providing comfortable homes/affordable heat but who are being unfairly treated by the Ofgem price cap and not getting the same protection under the EPG. And b) those on multi rate tariffs who experience those problems but should not be on E7 given their usage pattern as have low night-time usage and should be moved onto a single rate tariff.
- Participants were surprised by the huge differences in payment methods including prepay as the cheapest. Agreement it was stark how big differences are in charging approaches for E7 – both across different payment methods and across regions. More work needed to understand this disparity as it is very significant. Would be helpful to have greater understanding as to what is driving differences i.e. is there an element of gaming? Appears that there is a significant commercial advantage to suppliers which is at odds with their duty to protect consumers.
- Agreement that getting this right is important for the success of net zero. There will be different types of all electric home in future –may have electric vehicles / air source heat pump etc. Important for people to be able to make informed decisions. Want them to be able to respond and behave differently. E7 is important as the forerunner to more complex time of use tariffs and storage heating has an important role to play in net zero future.

Consumer reps/customer facing organisations

Communications and advice

- Stressed the importance of better communications by all parties to E7 customers. Evident that much consumer confusion.
- Advisors reported how hard it was to give advice given lack of information available and how hard it was to work out if customers were on the best deal for them (i.e. needed to know different day and night rates and how much they used typically during the day and night).
- Communications need to be clear, but also accessible as some people don't have access to digital tools, apps etc. (or access to data allowance to access the information).
- Need to make sure everyone gets clear information so they can act on it.
- Advice agencies said they had received many queries from E7 customers when price cap information came out. They had no E7 tariff information available other than the EDF schedule. One participant said they had to develop their own rough spreadsheet to work out basic advice to give – otherwise unable to respond. Sometimes don't know what to advise.
- Advisors would like to have access to information i.e. what tariffs are going to be, what information should be shared with consumers, why price differences exist etc.
- Shocked by findings of report. Would expect that this scale of problem would result in change but isn't always the case.

Scotland and regional variation

- A particular issue in Scotland is that many will be forced to move from Total Heat Total Control (THTC) to E7 shortly – huge uncertainty, not great transparency on what impact will be. Not clear how these customers will be protected.

- In Scotland there many customers in rural areas. Anecdotally they are hearing that customers (due to lack of information) are actually scared to use storage heating because it seems expensive, so they turn to more expensive (and dirtier) fuels i.e. coal. Time of use tariffs were introduced in recognition of the challenges in areas across GB where choice was limited, cost differentials were great, overnight energy was low cost. Also metering restricts choice and we still have about only 50% of GB without fully operational smart meters and not evenly distributed across regions. The market is unfair for those in areas where renewable generation is high yet we still see higher than average charges in those areas where there is excess generation.

Transparency and competition

- One organisation said they were aware that customers (especially more vulnerable groups) were impacted by the treatment of E7 in the price cap and energy price guarantee but lacked the detail by which to make the case. This is a very important issue and Maxine's report provides the necessary evidence.
- For transparency, need openness of information – consulting with consumer groups etc.
- Recognition that it wasn't the intention of decision-makers to be deliberately opaque but need transparency to be able to make good regulatory decisions and to facilitate good advice. Need to keep working with BEIS and Ofgem on this.
- A number of people highlighted that there has never been any real competition for E7 – need to consider this. Before energy crisis when there was switching, there still wasn't really switching (i.e. choice) for E7 customers. Little transparency around different multi-rate deals. E7 not supported by switching sites.
- Pre energy crisis there wasn't real choice for Economy 7 or 10 clients when switching. The situation has got worse and in the absence of choice and an ability to switch, the regulator needs to step in. We've spoken to a number of clients who are struggling to understand the price cap changes and how they translate to day / night rates. It's no surprise that our advisors are struggling to articulate the issues.

Ofgem and suppliers' role and wider issues

- E7 not referenced on Ofgem price cap Programme of work consultation. Hopeful that Maxine's report gives sufficient evidence to now include E7 in price-cap workplan – needs detailed analytical attention.
- Legacy E7 customers (who no longer have storage) is a major issue. Energy suppliers are able to identify E7 customers with low night-usage – and can therefore also identify consumers on E7 tariffs who shouldn't be. Supplier best practice should be to be proactive on this. Suppliers could definitely do more in terms of monitoring usage data, providing advice on tariff offerings etc. Ofgem and Government could do more to drive improvements.
- One charity highlighted that intuitively, there is something not reflecting through on day vs night costs. History of E7 was about taking advantage of low overnight wholesale electricity costs. Looking to the future, REMA reforms designed to send strong wholesale price signals to retailers - including, for example, the price benefits of excess wind at night.
- Smaller commercial customers on E7 tariffs (Load Profile 4) need consideration. Elexon data show there are just below 0.5 million LP 4 meters. Might LP 4 customers also be at risk of over-paying if they do not have a high overnight load?

Industry

Fairness and importance for net zero

- One participant highlighted that they thought that an uninformed observer would be shocked by the unfairness of this – often most vulnerable are paying more due to lack of access to information. This needs to be reviewed as part of EPG.
- Agreement that this type of ‘issue’ will also have a prejudicial reputational effect and will hinder the uptake of flexible tariffs which are needed for net zero. Risk that off-peak / flexible tariffs seen as ‘tainted’.
- Also, discourages uptake of ‘energy smart appliances’.
- A couple of organisations raised concerns that they are seeing displacement of storage heaters by direct electric heat. This has knock-on impacts for networks if existing over-night heat loads move to peak times. Encouragement needed to retain storage heaters and / or to upgrade them else it will end up costing all customers more.
- Over the past year, more customers have left E7 – which potentially disengages customers at a time when also trying to offer solutions which offer grid decarbonisation and cost savings.
- One participant highlighted that the current asset base of storage heating installed in UK (which is being eroded) is more than the capacity of the two new sites being built at Hinkley Point. Storage heaters need to be seen as ‘thermal batteries’ to support management of the future system.
- Another participant said that it was an ‘anathema’ to them that when so much is being spent creating flexible heating systems, storage and smart systems, we are letting the flexibility that storage heaters and hot-water give us fall into disarray. Totally back the need to get this sorted and it would be great to link it into how all future flexibility is appropriately rewarded.

Supplier considerations

- One company highlighted the need to be aware that sometimes conflate day / night prices. Suppliers in general were facing high risks around wholesale prices (particularly during day) and this was reflected in the daytime prices. Most suppliers increased day rates – this showed in increasing differential (mainly due to increase in day rates rather than decrease in night rates).
- Thanks to Maxine for pointing out smart meter reference in example letter about switching tariffs – there has always been difficulty encouraging E7 customers to switch to smart meters.
- Suppliers keen to provide customers with access to lower cost service and important to get right for the future. With EV charging, most suppliers have an offering which reflects lower rates for overnight consumption.
- Need to make sure that customers don’t need to make excessive efforts to switch from E7 to a single-rate tariff. E.g. British Gas work closely with energy supply team to make this work. The text in the British Gas letter attempts to make clear to customers that they would be better off on a single-rate tariff.

Dan Norton (Ofgem)

- Responded that on Energy Price Guarantee, the time available to implement the EPG was an issue; some suppliers had to generate day/night rates within a week of EPG coming into

place. Working within tight timelines, maybe rushed. However, notwithstanding, recognised Ofgem still needed to investigate why night rates have evolved in this way.

- Highlighted supplier issues for consideration:
 - Speed of EPG implementation
 - E7 competition levels
 - Readiness to facilitate E7 customers if on 'wrong tariff' to switch to SVTs (or to drive this automatically / proactively – a possible compliance issue?).
 - Communication – Ofgem has stepped-up direct advice / key messages to consumers this winter. In particular, Ofgem would find it helpful to know what more information they can give on E7 to advice agencies.
- If price-cap continues beyond 2023, more customers (EVs, HPs) will take up ToU tariffs. Will need trust and wider diversity in available ToU tariffs.
- With regards to E7 and price-cap forward work programme – Ofgem will consider consultation responses.
- Agreed to pass load profile 4 query over to appropriate team in terms of commercial customers.
- In terms of wholesale costs expect to pick this up as part of work looking at “shaping” costs. MF noted that the issue is wider than this.

Round-up

- MF said she was glad to hear that by shining a light on E7 treatment in the price cap we are already making an impact. She reported that she had already spoken to BEIS and they are aware that interaction of E7 with EPG is important and in need of consideration. Appreciate strong endorsement from all consumers groups that this is crucial issue.
- Rowena Rodrigues thanked all for participation and excellent discussion. Special thanks to Dan Norton, Ofgem for his active engagement and transparency. Encouraged participants to reach out to keep up momentum on this important issue.

Recommendations and next steps

1. **All parties** should work together to:
 - Improve advice to E7 customers and those on multi rate tariffs. This includes those customers who will be forced to move from Total Heat Total Control (THTC) to E7 shortly.
 - Further understand how many E7 and multi rate customers there are, their demographics, distribution, and experience in the energy market.
2. **Ofgem** include Economy 7 and multi-rate tariffs in forward work plan. In particular:
 - Address the overcharging of E7 and multi rate tariffs in the price cap calculations, especially to ensure the model reflects lower night-time electricity wholesale cost.
 - Consider ways of improving the price cap interaction with the price guarantee
 - Better understand what is really driving E7 day and night price differentials in the market.
 - Explore if suppliers are in breach of licence conditions, including SLC 0 Treating Customers Fairly and SLC 31F on Encouraging and Enabling Engagement, including reviewing practices and communications.
 - Review how can deliver more effective competition in the E7 and multi-rate tariff market including information provision, a review of communications and ensuring there are no barriers to changing from multi-rate to single rate tariffs for those with low night usage.

- Wider review of the lessons that can be learned from Economy 7 for future smart, flexible energy markets and transition to net zero.
- Consider if smaller commercial customers on E7 tariffs (Load Profile 4) of which there may be around 0.5 million are also at risk of overpaying.

3. Energy UK and suppliers should:

- Following EDF and Octopus good practice, publish tariff rates and work with all parties to develop better advice for E7 customers.
- Proactively review customer usage and contact customers to put them onto a better deal where appropriate.

Work with switching sites to improve tariff transparency for time of use customers to support current and future competition in the market.

4. Consumer groups and advice agencies

- Share data and learning to support Ofgem review.

5. BEIS and Scottish and Welsh Governments

- Work with Ofgem on the price cap, Energy Price Guarantee interaction to ensure it is fair for E7 and multi rate customers.
- Consider E7 and multi rate customers in future decision making on energy price support.
- Work with Ofgem to ensure value of storage heaters, which are thermal batteries which can support the management of the future energy system, is properly understood, safeguarded, and reflected in government and regulatory policy making. BEIS have acknowledged the role storage heaters can play as a flexible source of heat in their recent consultation on Delivering a Smart and Secure Electricity System. But to play that role effectively there have to be suitable tariffs.

Close

Zoe McLeod from Sustainability First thanked all for their participation. She said Sustainability First would share the slides and an unattributed note and would be in touch with attendees about how we can work together to improve the experience of E7 and multi rate households. Sustainability First has a particular focus on lesser heard groups and a fair and sustainable net zero transition. This is not the end of the journey. It's time to give this neglected group of customers the focus they deserve.



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Participants

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4. Shaun Hurworth (Glen Dimplex)
5. Judith Ward (Sustainability First)
6. Maxine Frerk (Sustainability First)

7. Muiris Flynn (Glen Dimplex)
8. Frazer Scott (Energy Action Scotland)
9. Alastair Wilcox (Consumer Scotland)
10. Chris Stammers (BEAMA)
11. Hazel Knowles (Advice Direct Scotland)
12. Mary Spence (Scottish Government)
13. Daniel Jones (BEIS)
14. Maria Avgerinou (Scottish Government)
15. Dan Norton (Ofgem)
16. Christopher Soper (Midland Heart Housing)
17. Paul Mcclochrie – (BEIS Energy Supply - Energy Affordability)
18. Lisa Bunting (British Gas)
19. Daisy Cross (Energy UK)
20. Charlie Williams (BEIS Energy Supply - Energy Affordability)
21. Matt Copeland (NEA)
22. Stewart Reid (SSEN)
23. Ian Preston (Centre for Sustainable Energy)
24. Joe De Vries Robbe
25. Matt Bilski (BEIS)
26. Dr Elizabeth Blakelock (Citizens Advice)
27. John Evans (British Gas)
28. Evelyn Heylen (British Gas)
29. Christopher McDermott (Ofgem)
30. Kelly Butler (BEAMA)
31. Steve Pick (Centrica)
32. Jack Crowther (BEIS Energy Supply - Energy Affordability)