



Department for
Business, Energy
& Industrial Strategy

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Net Zero, Energy and Transport Committee
Scottish Parliament
Room T3.40
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The Rt Hon Graham Stuart MP
Minister of State for Energy and Climate

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Dear Edward,

Thank you for the letter from the Committee dated 11 July following the appearance of the Rt Hon Greg Hands before the Committee on 11 May 2022. I apologise for the delayed response. Please find below the Government's response to your points.

Support with the cost of energy and cost of living

The Government is helping households across all parts of the UK with the cost of living.

Our Energy Price Guarantee will save a typical British household around £900 this winter, on top of the £400 reduction to electricity bills through the Energy Bill Support Scheme, meaning a typical household will save around £1,300. This support will continue to April 2024 so that a typical household energy bill will be brought down to £3,000 per year. A new approach to energy consumer protection will be developed and will apply from April 2024 onwards.

The Alternative Fuel Payment scheme will deliver a one-off payment of £200 to UK households who are not on the mains gas grid and use alternative fuels, such as heating oil or LPG. The Government's view is that the fuel oil and LPG supply markets are competitive and well-functioning and subject to general consumer law. We are supporting with the cost of these fuels, but a case for further regulation of this market has not been made.

In addition to specific help with the cost of energy, households on means tested benefits, including Universal Credit, Pension Credit and Tax Credits, are receiving payments totalling £650 this year, paid automatically in two instalments. Individuals on disability benefits also received a one-off £150 payment in September to help with extra costs, such as for specialist equipment or transport. In the recent Autumn Statement the Chancellor of the Exchequer announced that in 2023-24 an additional Cost of Living Payment of £900 will be provided to households on means-tested benefits, £300 to pensioner households, and £150 to individuals on disability benefits. The government will also raise benefits, including working age benefits and the State Pension, in line with inflation from April 2023, ensuring they increase by over 10%.

In the winter months pensioners can get between £100 and £300 to help pay heating bills. This winter, they will also receive an extra one-off £300 Pensioner Cost of Living Payment, which will be paid as an automatic top-up to the Winter Fuel Payment.

This is on top of the existing support such as the £150 Warm Home Discount bill rebate that eligible households will be getting over the coming months. The Government moved quickly to consult on and extend this scheme to 2026 and expand the scope of the scheme so that it reaches more people.

And for non-domestic customers in Great Britain the Energy Bills Relief Scheme will see discounts applied to energy usage initially between 1 October 2022 and 31 March 2023. A similar scheme is being established in Northern Ireland, providing a comparable level of support.

Prepayment meters and smart meters

Many customers prefer prepayment meters to help them budget and protect them from building up problem debt. Ofgem's License Conditions (SLC) provide robust protection for consumers. The SLC require suppliers to consider all options for appropriate debt management. This can include installing a prepayment meter, but suppliers have to consider whether this is safe and practicable, including whether a prepayment meter is appropriate for the specific customer. Ofgem rules restrict the force fitting a prepayment meter to repay debt, guidance says this should only be done as a last resort.

Ofgem's regulatory expectations letter states:

"Prepayment meters should not be installed or remotely switched without carrying out the appropriate safe and reasonably practicable assessment, including identifying any vulnerability. Prepayment meters should only be used where it is safe and reasonably practicable. Where it has been assessed that a prepayment meter is not safe or reasonably practicable, for example in cases where consumers need continuous energy supply, suppliers should take immediate steps to change the meter type and remove the risk of consumer harm."

The rules also require energy suppliers to offer emergency and additional support credit or provide alternative short-term support to help prepayment meter customers to stay on supply. Deciding which payment method is most suitable for each customer should be reached in consultation with the customer.

Turning to smart meters, the government wants as many homes and small businesses as possible to benefit from smart meters. These are the default form of energy metering in Great Britain, with over half of meters now smart.

Energy suppliers are obligated under their licence conditions to take all reasonable steps to install a smart meter where a meter is fitted for the first time or when an existing meter needs to be replaced. Each energy supplier has also been set a minimum annual installation target for smart meters, under the four-year Targets Framework for smart metering which commenced 1 January 2022, to further drive rollout momentum.

The smart prepayment meter rollout is making good progress, which has been achieved using an approach with consumer choice at its centre. Energy suppliers, Smart Energy GB and their partner organisations run targeted campaigns and tailored partnerships activities, highlighting the many benefits of smart prepayment services to consumers. The consumer choice approach to the smart meter rollout in Great Britain was informed by extensive research, which found the extent to which consumer benefits of the rollout were realised depended upon consumers engaging with their smart meters and energy consumption data.

Ofgem

Ofgem, as the independent regulator, are responsible for the entry and exit conditions on suppliers in the energy market and is directly accountable to the UK Parliament for its performance. Ofgem has undertaken a review of their approach to licensing suppliers so as to improve customer service standards and minimise the likelihood and impact of disorderly supplier failure. These provisions promote responsible risk management, improve governance, increase accountability, and enhance Ofgem's market oversight.

Our privatised system is regulated by Ofgem to ensure that energy consumers are protected. The Government and Ofgem have put in place a robust framework for consumer protection including the Supplier of Last Resort (SoLR) process. This is triggered by Ofgem when a supplier becomes insolvent and exits the market. The SoLR process provides a safety net ensuring customers are transferred to a new energy supplier with no disruption to their energy supply so keeping them on supply. Suppliers appointed as a SoLR agree to absorb the costs of the process and claim some of the remaining costs for any reasonable additional, otherwise unrecoverable, costs they incur, via an industry wide SoLR levy. It is therefore appropriate that such costs are passed on to all consumers.

Ofgem and Government work to ensure that consumers are treated fairly and can benefit from a strong and competitive energy supply market. Where there are problems and the consumer is not able to reach a solution with their energy supply, they can access an alternative dispute resolution scheme by the Ombudsman Service: Energy.

Energy Market Reform and electricity prices

The Review of Electricity Market Arrangements (REMA) is considering how the role of gas as a price setter for electricity could be reduced. This will include examining reforms for helping bring forward investment in low carbon generation, leading to less frequent use of gas so that it sets the price of electricity for shorter periods. It is also considering wholesale market reform options so that volatile gas prices do not set the price of cheaper renewables, to ensure that market arrangements deliver at lowest cost to the consumer.

REMA is being carried out alongside a refresh of our energy retail strategy. Both programmes are essential for delivering the right outcomes for consumers. We recognise that there are clear interdependencies between the two, and that the retail market should be a key enabler of the reforms that we will be exploring in REMA.

Whilst REMA is looking at making the market more cost reflective, how these prices are passed on to consumers will depend on the products and services developed by energy retailers.

As we move towards a more decentralised energy system with a greater number of assets joining at the local level, it is important that we consider whether a market approach which places a greater emphasis on the distribution network is needed.

The recent consultation outlined options which would build on the progress to-date at the local level and place a greater emphasis on optimisation at the distribution network. This could help effectively facilitate and utilise the growing volumes of distributed generation and demand and realise the associated benefits that they bring to the wider system.

We are committed to making the most of our abundant renewable resources, including in Scotland, and we will ensure that our final package of reforms continues to enable us to reach our 2035 commitment. We will explore the merits and demerits of the local options

and various locational pricing options highlighted in the consultation, as well as the full range of alternatives to locational pricing, as part of our next phase of work.

Yours ever,

THE RT HON GRAHAM STUART MP
Minister of State for Energy and Climate