

Social Market Foundation, Citizens Advice and Public First workshop

The future of energy price support policies after the price cap: Workshop 2

This workshop was the second of a series as part of a joint SMF, Citizens Advice and Public First project on the future of energy price support policies after the price cap. The workshop was hosted on Thursday 21 July and attended by energy stakeholders, including suppliers, charities, and academics. This note summarises key findings and observations from the discussion, which was held under the Chatham House rule.

The aim of the second workshop was to test the points of discussion and agreement raised in [Workshop 1](#) (Tuesday 19 July), and to question **how** energy price support may be funded (on bills, by suppliers, or through general taxation?).

Points of discussion and agreement:

Energy poverty is partly a symptom of wider poverty. Poverty is a societal challenge that affects households in all areas of their life and expenditure. Participants acknowledged that energy poverty partly stems from this challenge where household income is not high enough to afford bills. There are circumstances in which this is exacerbated and may result in higher energy usage (e.g. in poorly insulated homes or personal circumstances which require more heat). One participant suggested that the energy poverty challenge is not directly an energy supplier's issue, for the most part. This was not a rejection of market regulation or price support schemes, but a recognition that there is a limit to how far suppliers can treat the wider issue of poverty in society.

There was widespread agreement that measures to increase customer switching should not be the primary support mechanism. Previous price support policy was focused on reducing the loyalty penalty and encouraging billpayers to switch tariffs for more competitive prices. However, this was recognised as being an insufficient approach in the current market. Participants acknowledged that consumers are not entirely (in the classical economic sense) rational actors that shop around for the best prices – instead, there needs to be a safety net to protect the most vulnerable.

Existing price support schemes differ in their approach between income support and bill reduction. SMF's broad analysis of the principles which should underpin price support schemes identified two key variables: **who** (targeted vs universal support) and **where** (demand-side or supply-side intervention). Participants recognised that another key distinction is whether the support provided to households is aimed at raising their income to afford energy bills (such as the Winter Fuel Payment) or reducing the price of the bills they receive, delivered usually through the supplier (such as a social tariff). Participants favoured the reduction of bills over income support which can be defrayed over other essential or non-essential household costs, as evidenced in the [Hills Review of Fuel Poverty](#), 2012.

Price support schemes must be based on simplicity and awareness. Consumer awareness of existing price support schemes is low, even among those who are eligible. Participants highlighted the need to improve consumer awareness – one participant noted a French single-access portal that consumers could access to find out what retrofit schemes they were eligible for. The onus on the consumer of this eligibility and application process was

described as a burden by some, who instead called for automatic-enrolment provision. It was suggested that this could also save energy and debt advisors the administrative costs of dealing with applications. A limitation of this is that it would require a well-identified targeted list of households and could miss those in need.

Support must be consistent across the devolved nations. The devolution of the Warm Home Discount highlights gaps in data-sharing across the devolved nations. This has led to inefficiencies where suppliers are effectively delivering two different schemes based on different eligibility criteria in England and Scotland. As a result, vulnerable households in Scotland may miss out on support where the criteria are broader and the scheme is often oversubscribed.

Support must also be delivered fairly across tenure. In rented sectors, bill payers may not also be the energy account holder. This can add further complexity to delivering price support. As a result, the design of support policy should build in protections to ensure a package of support reaches and benefits bill-payers, and is not automatically granted to the account holder.

Social tariffs are the preferred mechanism for price support. Participants were largely in agreement that a social tariff would be the most suitable long-term price support mechanism for vulnerable households. Some participants called for a mandatory social tariff across all suppliers while others indicated it may be an evolution of the Warm Home Discount. The limitations of “cliff edge targeting” were raised by participants, whereby those just above the eligibility criteria who do not receive support may still have to contribute towards funding the mechanism and end up worse off. Those receiving support may also be disincentivised from improving their economic circumstances for fear of losing eligibility.

There is a consensus for funding a price support scheme through general taxation. There was broad agreement that funding price support policies through other consumers’ energy bills would be regressive and politically unfeasible. General taxation was believed to be a fairer and more effective method. It was also noted that there are political obstacles to funding such a scheme through general taxation. The Conservative leadership contest could have an important bearing on this issue. Elsewhere, however, there is openness to tax-funded social tariffs: [Peter Aldous MP](#) has backed National Energy Action and Fair by Design’s call for a mandatory social tariff across all suppliers funded through general taxation.

Further questions to be discussed in subsequent workshops.

- How would social tariffs differ in effect from the existing WHD? Would they be deeper (in £s), wider (in number receiving), different (in who receives them), fairer (in who pays for them)? etc. What is the change that social tariff advocates are actually seeking?
- How would a social tariff work in a market with or without a price cap? What is the distributional impact?
- How could we capitalise on the opportunity of cheap renewable energy prices (backed by Contracts for Difference) in designing an essential social tariff for vulnerable households?
- What should an approach to energy-efficiency look like? How might support differ in the private rented sector?

Our following workshops will focus on more detailed discussions of what sort of policy regime might command broad support, and how that policy could be targeted, implemented and delivered.

To learn more about this project, submit evidence or participate in future events, contact us at energy.bills@smf.co.uk.