

## Social Market Foundation, Citizens Advice and Public First workshop

### The future of energy price support policies after the price cap: Workshop 3

This workshop was the third 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 Monday 25 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 first two workshops ([Tuesday 19 July](#) and [Thursday 21 July](#)) reached a general consensus based on first principles that long-term price support should be provided through a targeted social tariff funded through general taxation. The aim of the third workshop was to test how the design of a social tariff would embody these principles.

Compared to the first two workshops, there were fewer points of consensus emerging from the third workshop.

Points of discussion and agreement:

**The majority of participants agreed a new targeted social tariff would be a more effective price support mechanism than a boosted Warm Homes Discount (WHD).** This is due to the way in which the policy is designed. A social tariff provides a discount on the unit price of energy, meaning that it subsidises households' usage per kWh. In comparison, the WHD is a fixed amount payment that is applied to energy bills. The primary difference is that a unit price reduction could better support households who may have higher energy usage such as those with poor energy efficiency, large families and the elderly. Some participants raised concerns about how this may inadvertently incentivise higher energy use when policymakers should also be supporting demand reduction measures. One participant favoured a boosted WHD funded through general taxation with expanded eligibility and increased payments to households.

**A social tariff may be more politically appealing than payments.** One participant indicated that the Government has effectively set a precedent for what is an acceptable price for households to pay for energy, by way of its fiscal package of support in the Spring Statement 2022. As prices continue to rise, there is likely to be an expectation that the Chancellor should announce additional spending through payments to maintain this price precedent. A social tariff, by contrast, could automate this process by applying a per unit percentage-based discount.

**A social tariff should be delivered in conjunction with the price cap.** There were mixed views across the group of participants on how to deliver a social tariff in the context of other existing policy mechanisms. Participants did not agree on the future of the WHD – some believed a social tariff should be introduced in addition to the WHD. Others believed that layering policies would add complexity, and instead a social tariff should replace the WHD, ensuring households did not lose support when migrating between policies. All participants agreed that the price cap should stay in place as a regulatory backstop to provide universal support for all households during prolonged high prices, which could last the decade.

**Lessons can be learnt from social tariffs in the early 2000s and Warm Homes Discount (WHD) to design a new social tariff.** Participants agreed that previous market iterations of voluntary social tariffs had limited success due to poor targeting and variable support across suppliers. At the time, WHD was seen to be a better-targeted rebate that benefited consumers and kept them in the competitive market. It was agreed that these principles should underpin the design of a price support policy.

**There is an inherent tension between maintaining a competitive market for low-income and vulnerable households, and ensuring a fair social tariff for all who may need it.** Some participants believe a social tariff should be mandatory across all suppliers, which could be set at a flat rate. Other participants were opposed to this suggesting that it could set a ceiling on prices and would not drive suppliers to offer better solutions to vulnerable consumers. This is despite the previously reached consensus that suppliers are less effective at identifying and providing support for these customers than the state. Similarly, participants warned that while funding a social tariff through general taxation would be fairer and more progressive, this should not act as a disincentive for retailers to channel their own revenue into assisting and supporting vulnerable customers.

**Belgium's model of social tariffs provides both emergency support and long-term sustainable market reform.** This model calculates a social tariff every six months on the basis of the lowest commercial tariff offered by energy suppliers during the month preceding the quarter, therefore it is reflective of what is available in the market. This mechanism sits alongside existing interventions and was expanded during the pandemic to support households experiencing financial difficulties, including pensioners and single-parent families. Additionally, unlike the WHD, the social tariff is automatically applied to a targeted list, so the onus is not on customers to apply for it. As well as this, there is no limit to enrolment so long as the customer is eligible, whereas WHD is often oversubscribed, and customers are denied support.

**Participants agreed that eligibility for a social tariff should be based on low income and vulnerability.** Although targeting of means-tested benefits is imperfect, participants agreed it is the best method of identifying and reaching those on low incomes. Participants were less clear on how vulnerability should be defined, although many agreed customers on pre-payment meters should be included as they are at risk of self-disconnection.

**The discussion raised further questions about the role of progressive tariffs.** Participants were in agreement that the design of eligibility for a social tariff must not create a cliff-edge of support. As such, there may be a potential role for relative or progressive tariffs to be explored in this research project.

**Currently, there is limited evidence on the costing of these proposals.** There is a need for further timely analysis on costing.

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