

After the Market Meltdown: how do we build a more resilient energy market



**citizens
advice**

What I plan to cover

- **The role of consumer advocacy in energy**
- **Setting the scene: why did so many suppliers fail in Autumn 2021?**
- **Initial thoughts on the government's interventions ahead of the April 2022 price rise**
- **Where do we go from here: how do we build a more resilient energy market that helps us achieve our net zero goals**

Energy consumer advocacy in Great Britain

2000 to 2008



2008 to 2014



2014 to present



Changes are coming in Scotland, with the soon to be established Consumer Scotland due to take over the majority of Citizens Advice Scotland's statutory roles and responsibilities from 1 April 2022

Our vision

A GB energy market that treats everyone fairly, now and in the future

Our mission

We are the official consumer body for energy

We use research and evidence from the people who contact our advice service every day to understand the problems facing energy consumers in Great Britain

We help solve these problems by engaging with industry, changing policy and supporting consumers to navigate the market

Our goals

- A seamless customer journey
- Control for consumers and citizens
- A fair way of paying for the energy system
- High standards of regulation and governance

Energy markets are always political

2008-2009

Ofgem Energy Supply Probe examines consumer experience of the retail market due to concerns about rising wholesale prices and weak competition

2010-2011

Ofgem Retail Market Review examines consumer experience of the retail market due to concerns about weak competition

2014-2016

CMA conducts a market inquiry into the state of competition in the retail market, proposing a series of remedies that includes a prepayment meter price cap

2014

Rising prices lead govt to offer a small rebate to bill payers, by reducing green levies on bills & deferring some network charges

2013-2014

Ofgem and OFT launch a joint market investigation into the state of competition in the retail market due to concerns about consumer experience. They refer the market to the CMA

2018

Concerns about the state of competition in the retail market leads the government to introduce a whole market price cap

2019

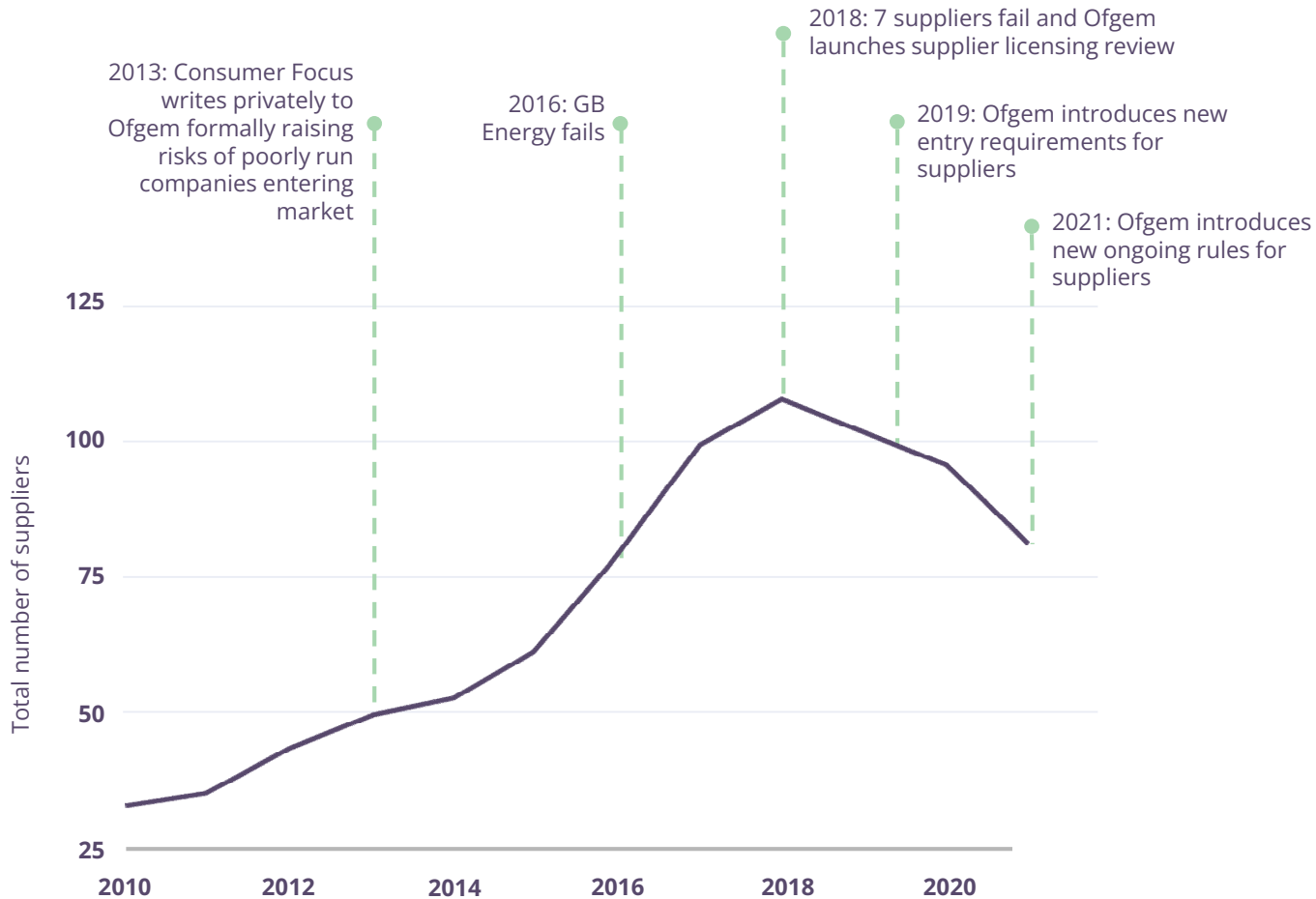
Ofgem introduces the whole market price cap

February 2022

Rising wholesale prices lead the government to introduce council tax rebates and future energy bill rebates. Further price rises are expected in October 2022.

Setting the scene

Total number of energy suppliers in market, 2010 - 2021



During this period dozens of energy companies entered the market with limited checks from Ofgem, despite repeated calls from consumer groups like Citizens Advice starting from 2013 calling for tougher licensing.

Ofgem allowed **unfit** and **unsustainable** energy companies to trade with **little penalty**. Despite knowing about **widespread problems** in the market, it **failed** to take **meaningful action**.



Almost **4 million households** have seen their supplier fail since August 2021 alone, with 28 failures this year.



Supplier failures since Aug 2021 will cost consumers **£2.6 billion** - around **£94** per customer from 2022.



Government has set aside a further **£1.7 billion** of taxpayer money for Bulb's failure.



Citizens Advice estimate that consumers whose supplier failed and were moved to a new supplier saw average price rises of **£30/month**.



Consumers of failed suppliers are also paying for energy market turbulence with **billing delays**, **confusion** and **lost debt protections**.



40% of people who've heard about supplier failures are less likely to switch supplier in future as a result.



Only **2 in 5** compliance and enforcement cases in the last 3 years focused on consumer experience rules.

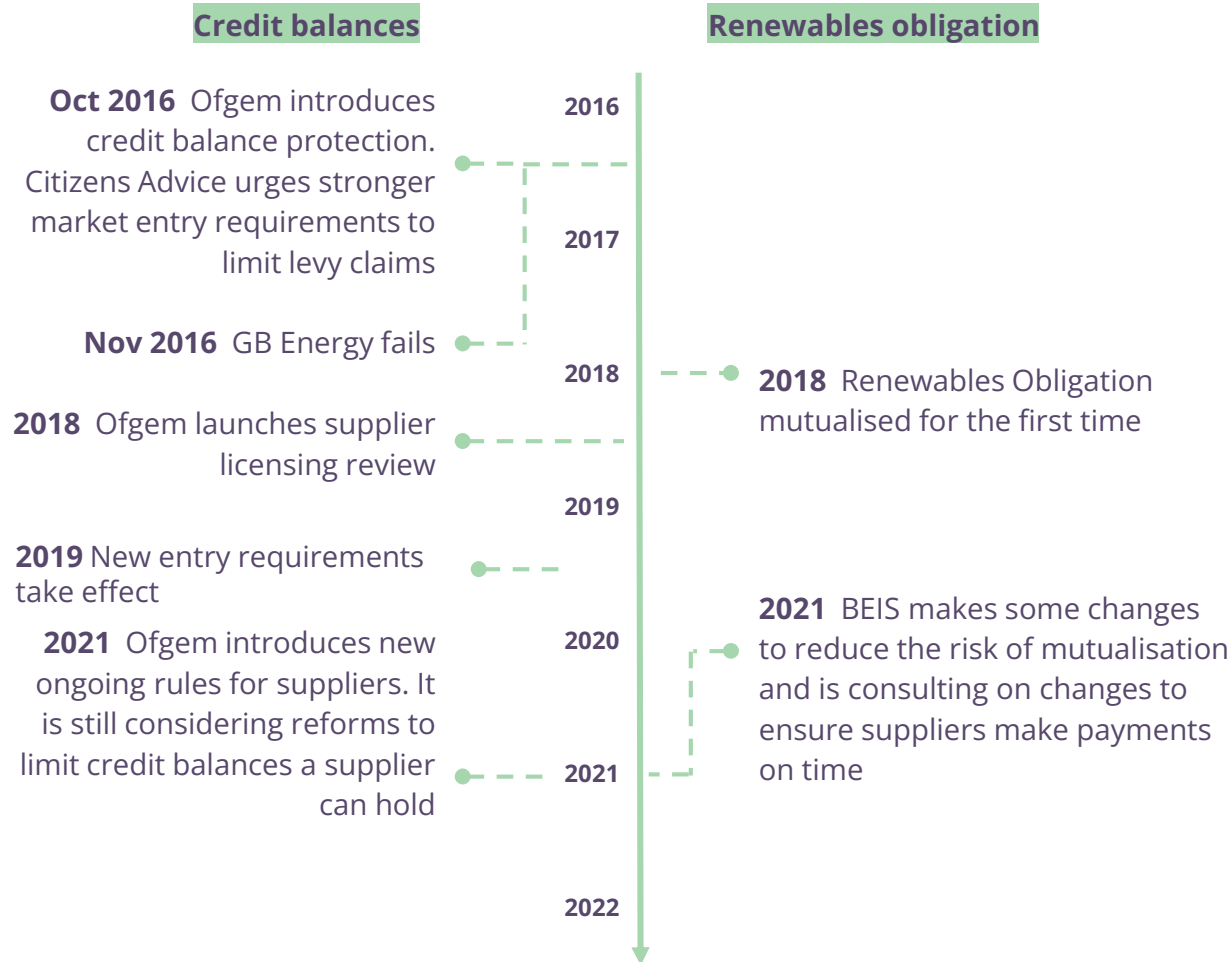


The number of Ofgem staff working on enforcement fell by **25%** between 2017/18 and 2020/21, despite record numbers of suppliers in the market.



Only **1 of the 20** suppliers that failed between August to mid November 2021 had a **'living will'** in place, a new requirement from Ofgem which would have protected customers when suppliers failed.

Rules ensuring companies were fit to trade came too late and didn't go far enough



Our recommendations

Ofgem and the Government must act to fix the problems that led us here and restore consumer confidence in the market

Services haven't been good enough and trust has been damaged

- There should be an independent review of the causes of the market turmoil which considers the role of delays in policy changes, Ofgem's approach to compliance and enforcement, and recommends improvements.
- Ofgem should introduce a new consumer duty, similar to that being introduced in financial services, which would put the onus on companies to ensure good consumer outcomes in future.

Consumers need to be protected from the costs of failure

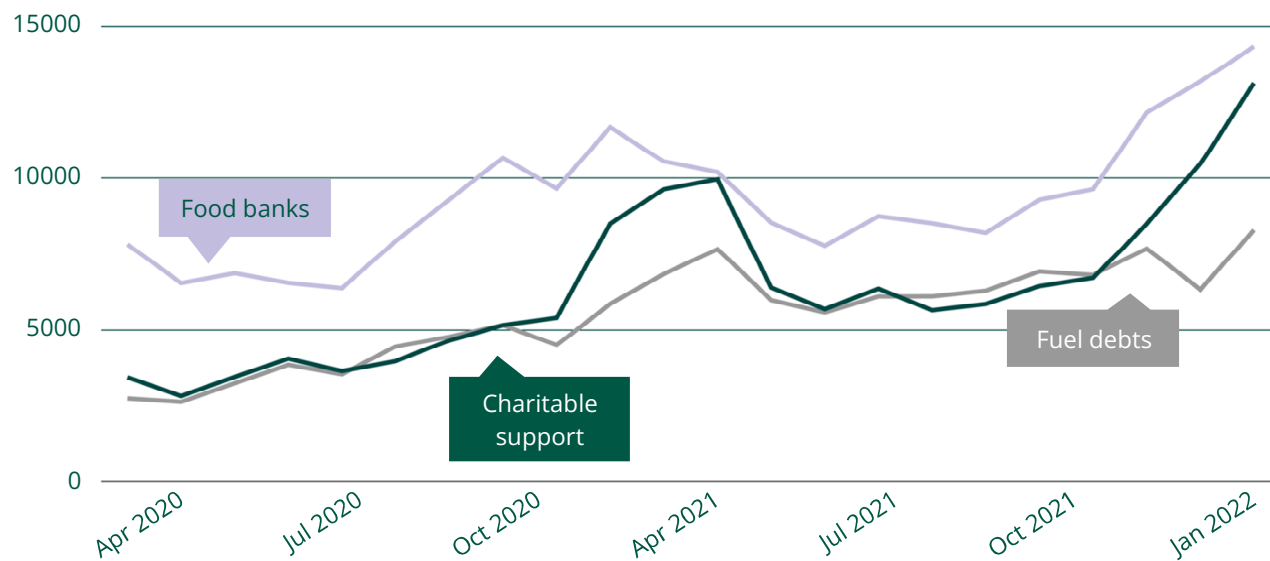
- Consumers should be protected from immediate bill hikes resulting from recent supplier failures
- Ofgem and the Government should implement reforms, including prudential regulation, to tackle risky business practices
- Ofgem and the Government should improve the supplier failure process so consumers are better protected



Demand for Citizens Advice's services is at its peak since the start of the pandemic

As inflation hits the highest point in 30 years, household budgets are already facing enormous pressure. The worst is yet to come, with Ofgem announcing a more than 50% increase in the energy price cap from April, just as other price rises hit households.¹

People seeking crisis support and help with fuel debts since April 2020



In January 2022 **more than 270,000 people sought advice** from Citizens Advice, higher than at any point since the pandemic began.²



In the same month, a staggering **24,000 people helped by the charity required some type of crisis support** such as food bank vouchers and charitable support. This is the highest on record for the charity, passing the previous peak only set in December 2021.³



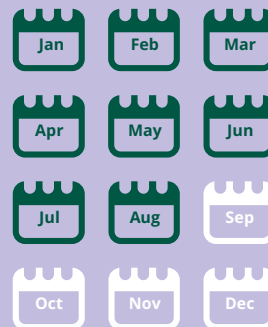
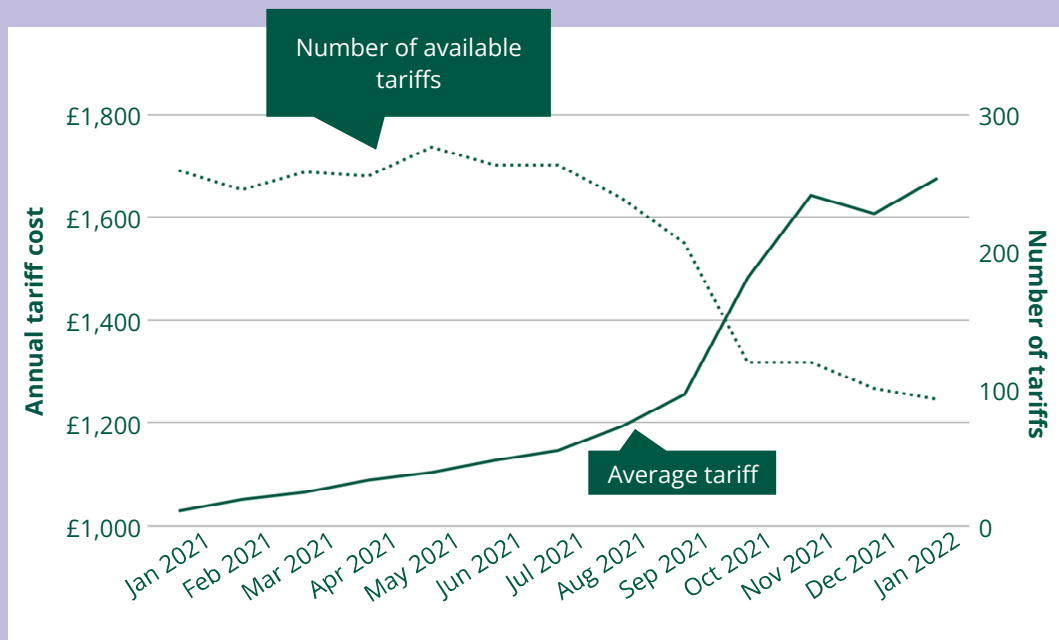
The number of people **supported with energy debts hit more than 8,000, the highest on record**. And debts are rising too, with the average energy debt now standing at £1,450, up from £1,330 in 2020.⁴

The current state of the energy market means people have run out of options

In April, the energy price cap rises by 54%, from £1,277 to £1,971 for an average household.

22 million households - nearly 80% of the national market - are on the price cap, which is now effectively the cheapest tariff available.

Analysis of average number and price of publicly available tariffs in the market Jan 2021 - 22⁶



An average household that has been on the default variable tariff throughout 2021 and 2022 will have spent £1,153 by August 16th 2022, the same amount as for the whole of 2021.⁷

Our recommendations

Provide targeted support to low income households in April 2022 via an 'Energy Support Grant' through the benefit system. Winter Fuel Payments are already paid to pensioners each year - an equivalent payment could be paid to all Universal Credit and legacy benefits claimants.

Increase benefits by the Bank of England forecast inflation rate of 6% for April, rather than the planned September rate of 3.1%.

Spread the cost of energy supplier failures over a longer period (at least 2-3 years) rather than current plans (recovering the majority in 2022/3).

Recognise the crisis will stretch through to next winter and temporarily extend the Warm Homes Discount. This means increasing the level of the rebate, expanding the number of eligible households and increasing provision for energy companies to provide extra financial assistance next winter.

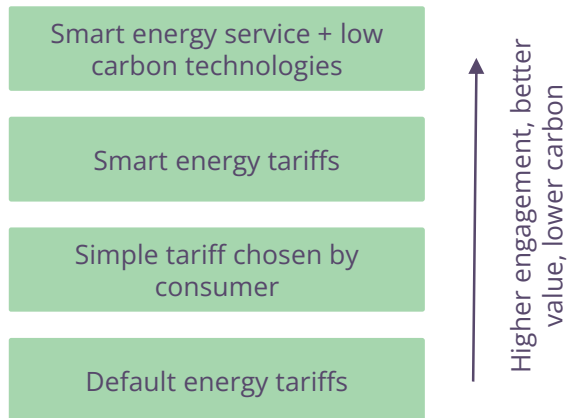
Where do we go from here: how to build a more resilient net zero retail market

2021 White Paper Objectives

The retail market should:

- sustainably deliver services that make it easy for consumers to engage and adapt their usage to achieve net zero and
- consumers should pay fair prices for their energy, no matter how they engage

Engagement outcomes in a future market



Our recommendations

Ofgem and the Government must act to fix the problems that led us here and restore consumer confidence in the market

Rebuilding a market that works for consumers and net zero

- ⊙ Ofgem and the Government should develop clear strategies for the retail market and its role in supporting decarbonisation.
- ⊙ These should consider how to enable consumer engagement and innovation in a more consolidated market.

Next steps

In the next phase of work, Ofgem and the Government need to focus on the role of **engagement, innovation and specialisation** in the future retail market

How a future energy market should feel for consumers

The future energy market is:

inclusive by design and recognises the essential nature of energy supply. It should facilitate and encourage innovation, be accessible by all and treat everybody fairly, regardless of their circumstances

This means it delivers:

A seamless consumer journey

Control for consumers and citizens

A fair way of paying for the energy system

High standards of regulation and governance

What it means for people

- Companies provide transparent, comparable and simple information about products and services
- People can access advice and support to make the right decisions
- There are robust regulations for new business models that ensure consumers are not asked to pay the costs - or carry the risks - of a company failing
- Products and services are inclusive by design
- Protections are consistent across markets
- Products and services are interoperable and data is easily portable
- There are independent advice and redress options

Free, confidential advice. Whoever you are.

We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.



Find out more about our work at
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