

# The future of energy deserves public discussion

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Last year's question was who would be left standing in the UK retail energy market. This year's are who should pay for market upheaval and how regulation needs to change. Next year, and the year after, and the year after that? More of the same. Bad news if you're not an energy regulation fan.

The pressing issue is the unfairness of the government's proposals to help households cope with a 54 per cent jump in energy bills to £1,971 come April. These are oddly designed and insufficiently targeted at those who need help most.

That headline rise does not tell the whole story. The cap is not a limit on

how much customers can spend on energy. Instead, it sets a maximum for what suppliers can charge per unit of energy, and on the daily standing charge for connecting a home to the grid.

The latter is an old bone of contention. Former Ofgem economist David Osmon has argued for years that the original price cap methodology set the standing charge well above the cost of hooking a household up to the system. He says that created an incentive for new entrants, which Ofgem acknowledges were not properly vetted, to chase customers with loss-leader tariffs.

Higher fixed costs penalise those who tend to use less energy, notably low income households and (entirely less sympathetically) the owners of second homes. There is also evidence that low income households were more likely to be on default tariffs, and less likely to have saved money by switching suppliers before this crisis hit.

Which brings us to the £693 rise in the price cap, based on a typical household.

The bulk of the rise reflects higher wholesale gas prices. Suppliers can choose how they structure their tariffs between fixed and variable elements. But Osmon argues the standing charge rose about £75 in that; households unable to pay by direct debit, which tend to be in a more precarious financial position, will be paying more than £300 a year including VAT before they have even switched on a light.

The generally impenetrable material from Ofgem is tough to navigate. But most of the rise in the standing charge was down to the costs of failed suppliers, or put differently the costs of failed regulation. And this is being distributed across the market in an apparently regressive way that disproportionately hits lower usage households.

It could have been worse. A recent change meant these charges for failure were passed on mainly through higher unit costs for gas, which also vary more from household to household. (That at least means when you're cuddling your

pet for warmth to save on gas central heating it makes a more meaningful difference to the bill). But this is firefighting for the current crisis, as with several other regulatory changes proposed.

The problem is that the broader issue of fixed costs in the energy system is looming ever larger. So-called policy costs are rising as previous subsidies hit

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bills, and the demands of transitioning away from a fossil fuel-based energy system will require a network that is much more sophisticated and more expensive to run.

Considerations of fairness should be central. If not, as we see now, transition sceptics will seize on rising costs to procrastinate. Nor are there easy answers.

Sure, recovering more costs through charges on energy usage encourages efficiency.

But should those who can afford to insulate their homes or switch gas boilers for heat pumps benefit while the increasing costs of running the system are shared with those who can't?

Such questions cannot necessarily be answered in the context of the current system.

Laura Sandys, author of the 'ReCosting Energy' report, argues a total overhaul will be needed, severing the link between commodities prices and domestic tariffs as low-cost renewables become a bigger part of the system and charging customers, such as in the broadband market, based on whether they're taking a basic, essential service or one with more bells and whistles.

We need a conversation about what fairness looks like in energy. This crisis is just the warm up for what is ahead.

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