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**Giving Consumers
a Fairer Deal**

Policy Paper 140

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Executive Summary

The coronavirus crisis has highlighted the critical importance of utility companies and the infrastructures they operate to the daily lives of everyone in the UK. We have all seen how utilities keep the UK working, providing the essential services that businesses and households cannot do without.

Utilities will play a central part in achieving a long-term recovery from the crisis. They will also play a key role in delivering Liberal Democrats' long-term aims to build an economy that is more balanced across the UK, more environmentally sustainable and more resilient to future shocks. We will need to facilitate significant investment in upgrading infrastructure across the key regulated utilities sectors. The current regulatory system was, however, designed to set prices and promote competition rather than to deliver long-term, transformational change.

There is another major challenge. Liberalised utility markets and the regulation of network monopolies do not always work to the benefit of all consumers, particularly vulnerable and disadvantaged consumers.

Liberal Democrats would reform utility regulation to:

- Give consumers, especially vulnerable consumers, a fairer deal.
- Ensure that utilities contribute to Liberal Democrats' aims of establishing long-term growth across all the regions and nations of the UK and making the transition to net zero carbon by 2045 at the latest.

Giving consumers a fairer deal

Liberal Democrats want to give consumers a fairer deal. We also want to ensure that the costs of transformational investments do not fall unfairly on consumers, particularly those in vulnerable categories.

Creating fair retail markets for consumers

In the energy retail and telecoms markets, price discrimination – the ability of providers to charge higher prices to people who do not, or cannot, switch on a regular basis – has emerged as a major problem for consumers.

In **energy**, Liberal Democrats would:

- Enable disengaged customers to save money by bringing in collective opt-out switching.
- Protect consumers using energy management and ‘auto-switching’ services.
- Protect customers from company failures by ensuring that the customers given a new supplier under Supplier of Last Resort (SoLR) receive a competitive tariff.

In **telecoms**, we would:

- Prevent mobile operators from applying roaming charges for calls to and from EU countries.
- Require companies to inform customers of the cost when they attempt to access bundled services, so that they can end the call without charge.
- Require telecoms companies to continue to provide a webmail service at a regulated price to customers who switch provider.

Securing a better deal for consumers from network monopolies

Monopoly utilities present consumers with a number of challenges. Many people living in more remote areas, particularly in south west England, north Wales and the north of Scotland, pay significantly more for their electricity, even if they are nominally on the same tariff. Rail passengers have to deal with an over-complicated and expensive fares system. In fixed telecoms, a small number of national monopolies is gradually being replaced by a patchwork of local monopolies. In water and electricity distribution, past price controls have been criticised for allowing network companies to earn excess profits, at the expense of consumers.

Liberal Democrats would:

- Eliminate regional differentials on consumer **electricity** bills.
- Bring in a simpler fares structure for **rail** passengers.

In **telecoms**, we would move towards regulation of the service being provided, rather than regulating particular players in the market, as part of a package of measures to address the growing power of 'big tech' companies.

Past price controls may have allowed network companies to earn excess profits, at the expense of consumers.

Liberal Democrats would guide regulators to:

- Ensure that price reviews deliver a fair balance between promoting the interests of consumers, securing the investment needed to deliver net zero and resilient networks and making sure there is a reasonable return for shareholders.
- Introduce outperformance sharing mechanisms to allow consumers to share in the benefits that equity investors achieve from high gearing.

Protecting vulnerable consumers

Liberal Democrats are especially concerned with the difficulties faced by vulnerable consumers, including elderly people, disabled people and people on low incomes. In electricity and gas, consumers in the most vulnerable categories are the least likely to be on good deals and therefore pay more.

In water, a price regulated sector, 595,839 customers in vulnerable circumstances were registered for support in 2019-20, an increase of 42% on the previous year.

We would protect vulnerable consumers in the **energy** sector, by:

- Reforming the price cap, to target customers in vulnerable circumstances, rather than all customers, with a new capped tariff set lower than the existing price cap.
- Ensuring that the Warm Homes Discount (and any successor scheme) is available to all customers in vulnerable circumstances.
- Ensuring that prepayment customers pay for their energy on the same basis as credit customers.

We would protect vulnerable consumer in the **water** sector by:

- Asking Ofwat and the water companies to set minimum criteria for the value, scope and eligibility criteria for social tariff schemes across the country.
- Requiring water companies to put a share of their own profits into social tariffs.
- Encouraging water companies to work more collaboratively to raise awareness of priority services and to be more proactive in identifying customers in need of temporary support.
- Expanding opportunities for customers to reduce their water bills.

Reducing the digital divide

The coronavirus crisis has highlighted the 'digital divide' between different areas of the UK and different groups of the population, where good broadband and mobile phone coverage are still not available to everyone.

Liberal Democrats would ensure that regulation in the **telecoms** sector delivers:

- Telecoms services that are accessible to everyone, regardless of where they live or their socio-economic status, and remain available for as long as they are needed.
- Universal coverage and good performance of telecoms services to all consumers - our minimum standard will be access to broadband of at least 30Mbit/s downstream and 5Mbit/s upstream at an affordable price, and this will be reviewed as technology improves.

Strengthening consumer redress and advocacy

It is vital that consumers trust and have confidence in utility regulation. Consumers need to believe that the transition to net zero and the other transformations discussed in this paper are working for them. But current regulation and protection are not set up to build consumer trust.

Liberal Democrats would:

- Pursue a strategic redesign of regulation to coordinate advice, advocacy, redress and regulation.
- Promote improved coordination between the regulators, to develop common approaches on consumer protection.
- Give Citizens Advice the statutory role to represent and support consumers in telecoms, building on its knowledge and expertise in energy.

- Ensure that protection is extended to areas which are currently unregulated, such as electric vehicles, heat networks and heat pumps.

Utilities and the Post-COVID Economy

Liberal Democrats seek an economy that is more balanced across the UK, more resilient to future shocks and more environmentally sustainable. We want to establish long-term growth across all the regions and nations of the UK and make the transition to net zero carbon by 2045 at the latest.

Liberal Democrats would reform utility regulation, to facilitate a more strategic approach by government and regulators to investment, ensure that the regulated industries help to achieve our long-term policy aims and promote innovation. We would:

- Issue strategic policy statements for each of the regulated sectors, consistent with Liberal Democrats' longer-term objectives (as outlined above).
- Establish a new Railway Agency, responsible for the strategic management of the UK rail system and for planning new investments, working to a policy framework set by the government.
- Modernise the way price controls are conducted, to enable all stakeholders – government, regulators, companies, investors and consumers – to work more collaboratively, and to enable more competition in strategic investments.

Tackling the climate emergency

Liberal Democrats would ensure that regulators encourage companies and consumers to behave more consistently with the net zero target. We would:

- Give Ofgem, Ofwat, Ofcom and the new Railway Agency a primary duty to help deliver our net zero target and to assist in building network resilience.

- Require the regulators to show how their policies and decisions are aligned with, and promote the achievement of, our emissions targets and climate adaptation policies.

Making regulators more accountable

Our reforms would rebuild public and political trust by making utility regulators more accountable. We would:

- Ensure that Parliamentary Select Committees can scrutinise the regulators' performance in respect of their statutory duties and public policy aims, as set out in the strategic policy statements.
- IMPROVE MONITORING AND REPORTING, BY REQUIRING REGULATORS TO DEVELOP BETTER AND MORE ACCESSIBLE PERFORMANCE MEASURES COVERING INVESTMENT, QUALITY OF SERVICE, ENVIRONMENTAL PROTECTION AND RESILIENCE.

Public Benefit Companies

Our reforms to regulation and price controls may not always be sufficient to ensure good outcomes for consumers, or to deliver public policy objectives such as addressing the climate emergency.

We would promote a public benefit company model for electricity distribution, gas distribution and water companies, so that particular economic and environmental policy objectives, such as those discussed in this paper, must be considered explicitly in the running of the companies.

1. Liberal Democrat Approach

1.1 Utilities, consumers and the post-COVID economy

1.1.1 The COVID-19 crisis has fundamentally changed the UK. The human and economic cost of the coronavirus has encouraged us all to think again about whether we wish to return to the way things were before March 2020. There is a strong appetite amongst the public to tackle economic imbalances and to address the climate and environmental emergency.

1.1.2 The crisis highlighted the critical importance of utility companies and the infrastructures they operate to the daily lives of everyone in the UK. We have all seen how utilities keep the UK working, providing the essential services that businesses and households cannot do without.

1.1.3 Over the past two decades, for example, mobile phones, supporting a plethora of applications and services and broadband data networks have become essential components of everyday life. The COVID-19 crisis has demonstrated the increasing reliance of businesses and households on these technologies, as more people than ever have worked, socialised and been educated online in their own homes. The coronavirus crisis has also highlighted the fact that good broadband and mobile phone coverage are still not available to everyone, creating a 'digital divide' between different areas of the UK and different groups of the population.

1.1.4 Utilities will play a central part in achieving a long-term recovery from the crisis. Liberal Democrats seek a post-COVID economy that is more balanced across the UK, more resilient to future shocks and more environmentally sustainable. We want to establish long-term growth across all the regions and nations. Economically regulated industries and the

infrastructure they provide will therefore play a central part in achieving our long-term aims.

1.1.5 We have, for example, ambitious targets for reducing UK greenhouse gas emissions, by 75 per cent by 2030 and to net zero by 2045 at the latest. If these goals are to be met, a radical transformation in the UK's power, heating, transport and industrial systems will be required. The climate emergency and population growth mean that there is a real and growing risk of water shortages, especially in the south east of England, over the next thirty years. Water infrastructure will need to be upgraded in order to mitigate these risks.

1.1.6 Similarly, improved rail services are essential to increase the UK's productivity performance and provide a sustainable solution to the regional divide. Rail is also a naturally low-carbon transport mode.

1.1.7 To address these multiple challenges, we will need to facilitate significant investment in upgrading infrastructure across the key regulated utilities sectors: energy, water, telecoms and rail. The regulated utilities will need to take a more strategic, innovative approach to investment than has generally been the case over the past thirty years. The current regulatory system was, however, designed to set prices and promote competition rather than deliver long-term, transformational change. Regulators have generally been slow to respond to evolving policy aims, particularly in relation to the climate emergency.

1.1.8 There is a further challenge: liberalised utility markets and the regulation of network monopolies do not always work to the benefit of all consumers. Liberal Democrats want to give consumers a fairer deal. We are especially concerned with the difficulties already faced by vulnerable consumers, including elderly people, disabled people and people on low incomes. We want to ensure that the costs of the transformational investments

discussed in this paper do not fall unfairly on consumers. In the net zero transition, for example, increased network costs and funding for clean energy may push gas and electricity prices up.

1.2 A return to public ownership?

1.2.1 Liberal Democrats are clear that returning all the utilities to state ownership would provide no solution to these challenges. State ownership in the past was too often characterised by chronic underinvestment and inefficiency. The issues identified in this paper would still exist if all the utilities were to be renationalised. It is hard to believe that the substantial investment needed in the utilities over the coming decades would be forthcoming at the scale and pace required from the public sector at a time of massive pressure on public finances following the COVID-19 economic crisis. Spending as much as £60bn to buy the water industry, or a similar amount for National Grid, cannot be justified in the current fiscal climate.

1.2.2 Complex decisions around decarbonisation and to balance efficiency against the needs of vulnerable consumers would still need to be made if the utilities were owned by the state. There would still be a requirement to balance the need for long-term, stable investment against shorter term pressures, and longer-term policy aims, such as Net Zero Carbon.

1.3 Reforming regulation

1.3.1 Liberal Democrats believe that a general policy of “competition where possible and regulation where it is not, or where competition is imperfect” remains preferable to simply taking all utilities back into state ownership. Decisions to balance decarbonisation, investment for the future and the needs of consumers should be taken in an open and transparent way.

1.3.2 We would reform utility regulation, to facilitate a more strategic approach by government and regulators to investment, align regulators' policies with our net zero targets and address the issues faced by vulnerable consumers. Our reforms would make regulators more accountable and help rebuild public and political trust. Our new Railway Agency would end the chaos faced by too many passengers and bring the running of services closer to local people.

1.3.3 Where an industry or part of an industry is subject to direct competition - for example, in electricity generation, electricity and gas supply and most of telecoms - it is appropriate for companies to remain in private ownership. We recognise, however, that in the energy retail and telecoms markets, price discrimination has emerged as a major challenge for consumers. We would take action to create fair retail markets– encouraging consumer switching, promoting competition and protecting consumers.

1.3.4 Where natural monopolies exist – for example, in water, gas and electricity distribution - we would ensure that future price reviews deliver a fair balance between promoting the long- and short-term interests of consumers and making sure there is a reasonable return for shareholders. We would allow consumers to share in the benefits that equity investors achieve from high gearing by introducing outperformance sharing mechanisms.

1.3.5 We would address challenges faced by consumers of particular monopoly utilities. For instance, Liberal Democrats would eliminate regional differentials on consumer electricity bills and simplify the rail fares structure.

1.3.6 Liberal Democrats would support our reforms to regulation by promoting a public benefit company model for electricity distribution, gas distribution and water, so that public policy objectives such as 'promoting the

development of a net zero energy system', must be explicitly considered in the running of the company.

1.3.7 In both liberalised and price-regulated sectors, we would address the difficulties faced by vulnerable consumers. In energy, we would target the price cap on vulnerable consumers, improve protections available for vulnerable and fuel poor consumers and help consumers to reduce their bills by expanding energy efficiency programmes. In water, we would expand social tariff schemes for vulnerable customers and promote water efficiency.

1.3.8 There will be an ongoing need to tackle the digital divide, as expectations of customers and the capabilities of telecoms networks in urban areas both continue to increase. Liberal Democrats would ensure that regulation in the telecoms sector delivers telecoms services that are accessible to everyone, regardless of where they live or their socio-economic status, and remain available for as long as they are needed and universal coverage and good performance of telecoms services to all consumers.

1.4 The future of rail

1.4.1 Where a company is a natural monopoly and reliant on public subsidy (for example, rail), and government is inextricably involved in decision making, then it should be the owner. The complicated and antagonistic relationships Railtrack had with Train Operating Companies, the regulators and government is one of the problems which faced Railtrack when it was originally privatised, and which subsequently led to it returning the public sector as Network Rail.

1.4.2 In the case of rail operating companies, which are also reliant on public subsidy, there is scope for greater diversity. Where services are regional, they should be commissioned by regional government or consortia of local authorities, as is already the case for Merseyrail and Nexus, the Tyne and Wear metro system. They would decide whether the services should be publicly

owned or contracted from private sector operators, which could be employee owned.

1.4.3 We consider that nationally rail services should, subject to being good value for money, be commissioned from private operators, with incentives built into their contract to maximise revenue growth.

1.5 Rebuilding trust

1.5.1 The shortcomings of the existing system of utility regulation have caused a loss in consumer and political trust in utility regulation. Trust and confidence must be rebuilt. Consumers need to believe that the transition to net zero and the other transformations discussed in this paper are working for them. If they do not, there may be a public backlash against the changes and investor confidence will also be at risk.

1.5.2 Liberal Democrats will rebuild trust by strengthening consumer redress and advocacy and our regulatory reforms would improve regulators' accountability to Parliament and the public.

2. Utilities and the Post-COVID Economy

2.1 Economic regulation: an assessment

2.1.1 The current system of economic regulation was put in place in the 1980s, when the utilities – electricity, gas, water, wired telecoms and (in the 90s) rail – were moved into the private sector. The intention was that, by introducing competition through privatisation and appropriate regulation, these industries would become more efficient, leading in the long term to lower prices for consumers. It was expected that removing the utilities from the public sector and associated expenditure constraints would enable much needed investment to take place. Where monopolies remained for essential services, a system of economic regulation was established to deliver stable investment, promote competition, protect consumers from high prices, and fulfil some public policy objectives.

2.1.2 This approach relies on independent regulators, who are tasked with balancing the needs of infrastructure owners and consumers. The regulators are independent: legally separate from government with their own statutory duties, responsibilities, and powers. These duties are set by Parliament, but the decisions they make and the tools they use are not subject to government or parliamentary approval. The regulatory model is intended to remove short-termism and allow regulators to make decisions in the interests of consumers and their respective industries, free from government interference and day-to-day political pressures.

2.1.3 Ofgem, Ofwat, the ORR and, to some extent, Ofcom, set the investment and revenues that companies can make, through regular, forward-looking price control reviews. The regulators make settlements based on the utility companies' plans and priorities for the period of the price control, and

determine their financial framework for the period, setting limits on the income companies can receive through charges to consumers.

2.1.4 The system was designed so that consumers would be protected from monopoly providers charging excessive prices, companies would be given incentives to become more efficient and make greater profits and, because the regulators are independent of government and revenues are fixed over multi-year periods, investors could rely on a stable return on their investments.

2.1.5 In these terms, the system of economic regulation has been broadly successful over the past thirty years. Since privatisation, the energy, water and telecoms industries have seen large and stable investment from the private sector, along with generally improved quality of services. Investors have benefited from predictable, independent regulation.

2.1.6 There have also been some significant problems. These include:

- A 'stop-start' approach to investment in some sectors, most notably rail, meaning that long-term planning regarding infrastructure is extremely difficult to undertake - especially for large, costly investments. The rail industry was hit heavily by the 2008 financial crash but benefitted from a surge in projects and funding under the Coalition government. Periods of increased investment have frequently seen cost and schedule overruns, resulting in scope reduction and the cancellation of projects later in the pipeline.
- Difficulty in delivering a fair balance between promoting the short-term interests of consumers in enjoying low prices, and securing the investment needed to deliver net zero and resilient networks.
- Regulators have been slow to respond to evolving economic, social and environmental policy aims. This is especially the case in relation to

dealing with the climate emergency (often as a result of inadequate powers to do so). The environmental performance of water and sewerage companies in England is deteriorating and the UK continues to lag behind other European countries on bathing water quality. Broadband and mobile phone networks have significant gaps in their coverage.

- The above problems have caused a loss in public and political trust in utility regulation, which could in turn harm investor confidence. Yet regulators are only accountable to the public indirectly, via Parliament and its Select Committees, the National Audit Office and statutory consumer advocates, such as Citizens Advice.
- Where a sector is still reliant on public subsidy (notably rail), there is a continued heavy dependence on government decision making, with the result that risks are still borne by the public but that profits are still taken by the private sector.

2.2 The need for more strategic investment

2.2.1 The post-Covid economy that Liberal Democrats envision requires a more strategic approach to investment than has been taken by the regulated utilities over the past thirty years.

2.2.2 Utilities will be critical to delivering our ambitious targets for reducing UK greenhouse gas emissions, by 75 per cent by 2030 and to net zero by 2045 at the latest. The next big challenges will be decarbonising heat and transport. As consumers switch from gas heating to electric heat pumps and oil-driven to electric vehicles, the power sector – using greater amounts of renewable electricity - will be the key enabler. This will require upgrades to the national grid, along with a significant increase in grid connections. Substantial extra investment will be needed in renewables generation, and electricity distribution networks to meet the increased demand.

2.2.3 A transformation of the way heat is produced and consumed will also be needed, with a transition to heat pumps and a potential conversion from natural gas to hydrogen where heat pumps are impractical. Some low carbon technologies, such as Carbon Capture Utilisation and Storage (CCUS) and hydrogen, will require substantial supporting infrastructure. Others, such as electric vehicles and heat pumps, will require expansion of the existing electricity distribution grid capacity to meet increased electricity demand. The growth in locally based renewable electricity generation will also mean networks will need to be designed differently.

2.2.4 The UK's infrastructure will need upgrading, to enhance its preparedness for climate and population risks. The NAO recently warned that if more concerted action is not taken now, parts of the south and south-east of England will run out of water within the next 20 years.

2.2.5 Improved rail services are essential to improving the UK's productivity performance. They provide a sustainable solution to the regional divide. Rail is a naturally low-carbon mode of transport, so there is big potential for reducing greenhouse emissions through a modal shift of freight transport from road to rail. But only 42% of track in the UK is electrified and 29% of Britain's current train fleet runs solely on diesel fuel.

2.2.6 Significant investment will be needed in all these sectors, to upgrade the UK's infrastructure and realise our long-term ambitions. The National Infrastructure Commission (NIC) estimates that:

- An additional £9 billion annual investment will be required in the power sector to meet the UK's existing net zero target for 2050.
- The telecommunications sector will require £33 billion investment to deliver full fibre across the UK (which consume substantially less

energy than copper) and £8 billion to upgrade existing infrastructure for nationwide 5G coverage.

- £930 million will be required per year on average between 2020 and 2050 to increase drought resilience.

2.2.7 The NIC concluded that the current arrangements for energy, water and telecoms leave strategic decisions primarily to infrastructure owners and providers, but they may not be best placed to assess the coming challenges, and do not have the right incentives to build the infrastructure to address them. The current regulatory process for monopoly providers in the energy and water sectors gives infrastructure owners incentives to propose new investment, the costs of which are recovered over time from consumers. The regulators decide whether these investments can go ahead, as they seek to protect consumers from unnecessary costs. As a result, regulators must be sceptical towards new investment proposals.

2.2.8 The shortcomings of the existing regulatory system do not mean that it should be abolished or replaced in every sector. A single 'multi-utility regulator', for example, would not be able to manage all the complex issues across the very different sectors. The independence of regulators is valued highly by investors and should be maintained.

2.2.9 Liberal Democrats would reform the way utilities are regulated. We would:

- Develop a more strategic approach by government and regulators to investment, to help us achieve our economic and social goals, tackle the climate emergency and provide investors with greater clarity (as set out in sections 2.3 and 2.4).
- Make regulators more accountable, to help rebuild public and political trust in utilities (as explained in section 2.5).

- Reform price controls, to provide regulators with more accurate and transparent sources of information and promote innovation, through competition (as set out in sections 2.6 and 2.7).
- Support these reforms by promoting new forms of ownership in some sectors. (These are discussed in section 3.3.9 below)
- Make significant changes in the regulatory structures for rail (see section 2.8).
- Update the regulatory approach for telecoms, to 'level the playing field' between 'big tech' companies and telecom operators and encourage competition. (see section 3.5.2).

2.3 Delivering strategic investment in utilities

2.3.1 Government should provide independent regulators with clear guiding strategies to promote major transformational changes and empower the regulators to support these strategic investments. On climate change, for example, ministers are better placed to consider the long-term needs of the public alongside the needs of today's consumers. They are accountable to the public for such decisions.

2.3.2 There are already mechanisms available for governments to facilitate strategic leadership and promote long-term investment plans and stable funding. Ministers can issue strategic statements to regulators. But these currently vary from sector to sector, and the Conservative Government has chosen not to issue any strategic policy statement to Ofgem.

2.3.3 Liberal Democrats would issue strategic policy statements for each of the regulated sectors, to provide them a long-term strategic vision. Such statements would be consistent with our target of net zero carbon emissions by 2045 at the latest, and any other relevant commitments, for example,

converting the rail network to ultra-low-emission technology by 2035 and providing every property in the country with a minimum standard of broadband (see section 4.6). The strategic policy statements would aim to meet the country's long-term challenges and provide investors with greater clarity on the opportunities available.

2.4 Tackling the climate emergency

2.4.1 Regulators should provide the frameworks that encourage companies and consumers to behave more consistently with our net zero target. This means ensuring that climate objectives are prioritised equally alongside other objectives such as consumer protection and economic efficiency.

2.4.2 The government can shape regulators' approaches and decisions by setting and resetting their statutory duties. Regulators originally focussed on setting prices but over time, their duties have evolved and become more complex and inconsistent. In some cases, wider issues, such as protecting vulnerable consumers or ensuring security of supply in energy, have been added to regulators' statutory duties. Yet they vary considerably in relation to sustainable development and the environmental impact of regulatory decisions. None of the regulators has a direct duty to consider the UK's binding statutory targets to reduce greenhouse gases.

2.4.3 As a result, regulators have not given sufficient priority to promoting decarbonisation. Ofgem, for example, has faced criticisms that it has made financing long-term projects to mitigate climate change, such as providing electric vehicle charging infrastructure and decarbonising heat, more difficult. The energy regulator has been too slow in adapting to a decentralised energy model that will support grid flexibility.

2.4.4 In February 2020, Ofgem published a Decarbonisation Action Plan, setting out the actions it will take over the following eighteen months. Some

regulated sectors have recognised their critical roles in decarbonising the economy. For example, the water industry has recently published a sector-wide plan for achieving net zero by 2030. These initiatives are to be commended, but it is too early to assess their impact on investment strategies. More urgent action must be taken in the next ten years if our net zero target is to be achieved.

2.4.5 Liberal Democrats would:

- Ensure that Ofgem, Ofwat, Ofcom and the new Railway Agency (see 2.8) each have a primary duty to help deliver our net-zero target and to assist in building network resilience.
- Require the regulators to show how their policies and decisions are aligned with, and promote the achievement of, our emissions targets and climate adaptation policies.

2.4.6 Adding such a primary duty would enable the regulators to take the net-zero target and the need to build resilience into account when taking their investment decisions. Ofwat and the water industry would play their full roles in addressing the looming water crisis in the south east of England. Ofgem's price control settlements would support the necessary investments that will be required to modernise and complete the decarbonisation of the power sector. Ofcom and the telecoms sector would play a full part in achieving Lib Dem targets for reducing greenhouse gas emissions, including enabling the societal changes that might be required such as increased working from home. Similarly, imposing a primary duty on Ofcom to assist in building resilience would acknowledge that digital connectivity is becoming more central to everyday life. The new duties would help regulators to ensure that critical national infrastructure is secure and reliable.

2.5 Making Regulators More Accountable

2.5.1 Achieving the transformational changes that Liberal Democrats seek requires improved public confidence in regulation, and greater stability and certainty for investors.

2.5.2 Regulators are becoming more important in the delivery of public policy objectives; as discussed above, we expect this trend to increase. Providing the correct balance between independence and accountability will only become more important.

2.5.3 Liberal Democrats would make regulators more accountable to Parliament and the public by:

- Using strategic policy statements to provide clear guidance to all economic regulators on how to deliver their statutory duties and help to achieve public policy outcomes (see 2.3.6).
- Ensuring that Parliamentary Select Committees can scrutinise the regulators' performance in respect of their statutory duties and public policy aims, as set out in the strategic policy statements.
- Improve monitoring and reporting, by requiring regulators to develop better and more accessible performance measures covering investment, quality of service, environmental protection and resilience.

2.5.4 We would also reform consumer redress, representation and advocacy. (see section 3.7)

2.6 Reforming Price Controls

2.6.1 The recent debates over recent price control decisions in electricity transmission, gas distribution and water demonstrate the need to reconsider how best to meet the sectors' needs to invest in new infrastructure, whilst

acting in both the short- and long-term interests of consumers. Other approaches are available and should be examined further.-The Government has developed a scheme 'Building Digital UK' to support infrastructure investment in gigabit-capable broadband in more expensive to deploy rural areas, where the need is also greatest. In Scotland's water sector, regulators, companies and consumer bodies work together to agree how increased investment can secure service levels for future generations coupled with relative price stability.

2.6.2 When developing price controls, regulators are reliant on regulated companies to provide data on current costs and usage and predictions for the future demands of their networks. Regulators must therefore work with information asymmetries around the future cost and deployment of technologies, and likely consumer preferences.

2.6.3 Liberal Democrats would work with the regulators and their respective industries to identify more independent, transparent ways of arriving at assumptions about the future development of each of the regulated industries, including future technology costs and the deliverables required, upon which informed choices about investment priorities can be made. This way, all stakeholders in each sector will be able to work more collaboratively, using a common set of credible assumptions about the future.

2.6.4 Our proposals to deliver a fairer balance between promoting the interests of consumers, securing the investment needed to deliver net zero and resilient networks and making sure there is a reasonable return for shareholders are set out in section 3.3 below. Our proposals to protect customers in the energy sector from paying an unfair of the networks changes described above are set out in section 4.4.

2.7 Promoting Innovation

2.7.1 Building a more balanced, sustainable economy will rely on successful innovation. Innovation is a key driver of productivity and, with it, economic growth and higher standards of living. The transformational investments needed to deliver net zero alongside fair prices for consumers, such as decarbonising heat, redesigning electricity networks – including, for instance, energy storage and demand side response, and promoting water efficiency, will require innovative solutions.

2.7.2 One way to promote innovation in the regulated industries is to enable more competition, as shown by the use of Contracts for Difference (CfD) auctions in the offshore wind sector.

2.7.3 Regulators should be enabled to promote innovation in their sectors by encouraging competition in strategic investments and providing a wider range of opportunities for potential investors. Liberal Democrats would adopt the recommendation from the NIC to separate out major strategic investments from price controls for maintaining existing networks and then to open up to competition the investment in building, enhancing, owning and operating networks.

2.7.4 The sector regulators would decide whether an investment is strategic and should be opened to 'for the market' competition and set a bespoke price control agreement. If necessary, we would take advantage of low interest to borrow and support innovative and transformational infrastructure investment, in order to minimise the impacts on consumers.

2.7.5 The need for a more independent approach to price controls (see section 1.3) and to promote more competition and innovation may lead to further changes in the regulation and governance of individual sectors. In energy, for instance, we would review the roles of the system operators and

the Distribution Network Operators, to ensure that they have sufficient independence and impartiality to discharge effectively their roles in a more open and flexible system. If necessary, we would create a national system operator (NSO), with regional system operators (RSOs), all in the public sector, to take over from the regulated transmission and distribution companies the responsibilities to decide what network maintenance and improvements were required and to open up the various functions and enhancements to the networks to competitive auctions and, at the local level, invite bids for network enhancements, generation and storage, and demand-side response (DSR) from energy service companies.

2.8 Reforming rail regulation

2.8.1 The chaos of May 2018 showed that no one took charge when new timetables were implemented. Meanwhile, the Department for Transport (DfT) excessively micromanages other parts of the network. Such day-to-day government intervention, which is ineffective and inconsistent, needs to be stopped.

2.8.2 Liberal Democrats would establish a new Railway Agency, responsible for the strategic management of the UK rail system and for planning new investments, working to a policy framework set by the government. The Railway Agency would take responsibilities for economic regulation from the Office of Rail and Road (ORR), timetabling and other operational responsibilities from Network Rail, and responsibility for many detailed policy decisions from the DfT. The Railway Agency would work with the relevant devolved jurisdictions to develop local and regional railway strategies.

2.8.3 In the past, Whitehall decision-making on local and commuter services has often been detached from the needs and desires of local people. Liberal

Democrats would give budgetary and decision-making powers for local and regional rail services, in particular local and commuter services, to the most appropriate level of devolved or local government. We would give regional or local devolved governments the ability to invest in the rail projects they believe are most urgent.

3. Giving Consumers A Fairer Deal

3.1 Introduction

3.1.1 Liberalisation and the introduction of competition into the electricity and telecoms markets have, in general, delivered greater choice, better service and increased value for consumers.

3.1.2 Over the past ten years, a significant increase in energy suppliers has eroded the once dominant position of the former 'Big Six' energy companies. More consumers switch energy suppliers every year.

3.1.3 The telecommunications sector has been totally transformed over the last two decades. Mobile phones have changed from only providing voice calls to smartphones supporting a plethora of applications and services. Wired networks have also changed from providing analogue phone lines for voice services (with dial-up modems for data) to broadband data networks, with optical fibre progressively replacing copper cables. Both have become essential components of everyday life. Competition and new entrants to the market have been essential in driving these changes.

3.1.4 Despite the many failings of the privatised rail system, the number of rail journeys has more than doubled over the last twenty years and the volume of freight carried by rail has increased by 80% since the move to the private sector. These trends contrast with the long-term decline in usage during the three decades preceding privatisation and far outstrip the growth seen in France and Germany. The Covid-19 pandemic has had a significant impact on rail usage.

3.1.5 The regulated utilities do not, however, always serve consumers well:

- In energy and telecoms, firms charge higher prices to customers who have not recently switched provider, creating large gaps between the best and the worst deals received by consumers.
- Past decisions made by regulators have allowed energy and water monopoly network companies to earn significant profits over and above what was expected.
- Many people living in more remote areas, particularly in south west England, north Wales and the north of Scotland, pay significantly more for their electricity, even if they are nominally on the same tariff.
- Regulated rail fares have increased by twice as much as average weekly wages over the past ten years, largely because of reduced government subsidies.

3.2 Making retail markets work for consumers

3.2.1 Liberalisation and competition in retail markets have delivered greater choice, better service and increased value for consumers. The liberalised markets do not, however, always work for all consumers. In the energy retail and telecom markets, price discrimination– the ability of providers to charge higher prices to people who do not, or cannot, switch on a regular basis – has emerged as a major problem.

Energy

3.2.2 Despite being able to switch energy suppliers and get better deals, just over half of energy customers are still on more expensive default energy tariffs. These customers are simply not engaging in the energy market- they are disengaged from their energy tariff choices – and are hundreds of pounds a year worse off as a result. Many remain in this position for a long time.

3.2.3 The default price cap helps to address this loyalty penalty but is due to expire in 2023. A more durable solution that helps to promote competition is needed. In place of the existing measure, Liberal Democrats would target the price cap on the most vulnerable customers and enable other disengaged customers to save money by bringing in collective opt-out switching. Under our proposals, the accounts of customers who had been engaged for a period of time (say, three years) would be progressively put up for competitive tender, unless they expressly decided to opt out.

3.2.4 We would protect eligible customers during the process by ensuring that the winning supplier offers an 'enhanced' service for these customers in the short-term and making customer service a factor in awarding tenders, alongside price.

3.2.5 Other measures are needed to protect energy consumers. Energy management and 'auto-switching' services, where customers sign-up to a third party who switch them regularly, have appeared. These operate on a paid for subscription basis or a free service, where suppliers pay a commission. Such services are a welcome development, particularly where they encourage customers to switch suppliers. We would ensure that regulations protect consumers, by for example ensuring that they are informed as to what they are signing up for.

3.2.6 A total 24 UK companies that supply or sell electricity went bust in 2019, the highest number on record. Under the Supplier of Last Resort (SoLR), Ofgem appoints a new supplier to service such customers and protects their credit balances. All suppliers pay into the scheme to ensure balances can be protected, with the costs then passed onto consumers via their bills. Increasing

numbers of suppliers collapsing will, therefore, increase costs for all consumers.

3.2.7 Liberal Democrats would reform the SoLR process to make decision making more transparent and ensure that customers receive a competitive tariff rather than being placed on the default tariff (similar to the opt-out collective switch described above). We would also make the entry requirements for new suppliers more robust to ensure that they are able to pay their costs and provide good customer service, without making market entry unduly difficult.

Telecoms

3.2.8 In telecoms, barriers to switching have come down, between mobile and broadband providers, and commercial price comparison websites have made it easier for consumers to choose the best deal for them. There are, however, a number of consumer issues that still need to be addressed.

3.2.9 An important factor driving competition in the sector is the ability of customers to switch their telecoms provider, which is now very easy for a single service. However, this becomes more difficult with bundled services, which often have hidden barriers to switching – for example, if the customer’s email account is tied to the provider. Liberal Democrats would require telecoms companies to continue to provide a webmail service at a regulated price to customers who switch provider.

3.2.10 There is little competition in ‘out-of-bundle’ and premium rate services. Their price is not transparent and is often excessive. We would require companies to inform customers of the cost when they attempt to access such services, so that they can end the call without charge.

3.2.11 From 1st January 2021, the operators in EU countries are permitted to increase their 'mobile termination rates'. The cost to UK operators of mobile calls to the EU would increase, but the overall impact on them would be small. We would prevent mobile operators from applying roaming charges for calls to and from EU countries.

3.3 Consumers and network monopolies

3.3.1 For natural monopolies – the owners and operators of distribution and transmission networks in electricity and gas, water companies and train tracks – the sector regulators, Ofgem, Ofwat and the Office of Rail and Road (ORR), determine the investment required to meet the standards of performance expected in each price control period and the rate of return that companies can receive. (For further background information, see section 1.2)

Delivering a fair balance

3.3.2 Past price controls have allowed network companies to earn excess profits, at the expense of consumers. In its report *Energy Networks* (January 2020), the NAO concluded that “under Ofgem’s current regulatory framework, electricity network companies have provided a good service, but it has cost consumers more than it should have.”

3.3.3 There has been a trend, especially in the water sector, for companies to increase their gearing levels (debt to equity ratios) significantly, reducing their cost of capital but increasing the risk that companies may not be able to keep up with their obligations. In 2018, 14 out of the 17 water companies had higher gearing than the level of 62.5 per cent assumed by Ofwat in their 2014 price control determination, and eight had gearing ratios over 70 per cent.

3.3.4 In energy and water, many of the arguments between the regulators and network companies have focussed the cost of capital for these companies, which is heavily influenced by the assumed gearing ratio. The benefits of gearing higher than that assumed by the regulators in reducing companies' overall cost of finance have not been shared with consumers.

3.3.5 Ofgem's new price controls, covering 2021 to 2026 (RIIO2), have caused controversy by proposing a low cost of capital and pursuing demanding cost reductions for consumers. This leaves very little incentive for outperformance and has stripped out work from business plans which networks believe to be essential to sustained reliability as well as to their net zero transition.

3.3.6 In its latest price review, PR19, covering 2020 to 2025, Ofwat decided to make a significant reduction in allowed revenues, both from the previous price control period and from the business plans submitted by the water companies themselves. The regulator's final decision was challenged by four water companies, who accused Ofwat of taking a short-term approach that prioritises bill cuts over necessary investment. In September 2020, the Competition and Markets Authority ruled in their provisional findings that the rate of return had been set too low and adjusted the rate - although it is still at historic lows. Ofwat also raised the threshold at which water companies must share outperformance benefits with customers to 70 per cent.

3.3.7 Liberal Democrats will, using the strategic policy statements described in section 1.3.1, guide all regulators to:

- Ensure that future price reviews deliver a fair balance between promoting the interests of consumers, securing the investment needed to deliver net zero and resilient networks and making sure there is a reasonable return for shareholders.

- Introduce outperformance sharing mechanisms to allow consumers to share in the benefits that equity investors achieve from high gearing, where companies have gearing levels which significantly exceed the level assumed by the regulators.

3.3.8 Our proposals for a more independent, transparent approach to price reviews are set out in section 2.6 above.

A new ownership model

3.3.9 Reforms to regulation and price controls may not always be sufficient to ensure good outcomes for consumers, or to deliver public policy objectives such as addressing the climate emergency. Liberal Democrats would promote a public benefit company model for electricity distribution, gas distribution and water, so that public policy benefits must be considered explicitly in the running of the companies.

3.3.10 A public benefit company would write into the company articles of association that their organisational purpose is to pursue particular environmental, social or public objectives. Each sector regulator would oblige the utility company, as part of the regular price review to incorporate as a public benefit company (PBC), declaring that its purpose is to promote a specific public purpose while seeking to make no more than a reasonable rate of return necessary to support its ongoing operations, as determined by the relevant regulator. The purpose could be, say, 'to promote responsible water stewardship', or 'to promote the development of a net-zero energy system'. Additional requirements could be placed upon the public benefit company – for example, to be domiciled and to pay tax in the UK.

3.3.11 This model is preferable to part government ownership, where government - and hence the public - share in any upside of trading and could influence company policies. Under that model, the directors of the company, whether nominated by the government or not, would have a primary responsibility to act in the best interests of the company and hence the extent to which they would be able to take other factors into account would be limited.

Reducing costs for consumers

3.3.12 Liberal Democrats will protect energy consumers from significant extra costs by developing smart grids, demand technology and demand response. We will help regulators and investors to clarify future network requirements by bringing forward more robust policies for decarbonising heat and transport, and for managing water resources more effectively. [For further details, see Policy Paper 139, *Tackling the Climate Emergency* and section 4.4.10 below.]

3.4 Promoting fairness between all parts of the UK

3.4.1 Around one quarter of a consumer's energy bill goes towards 'network costs'. These include the costs of building, maintaining and operating the gas pipes and electricity cables run by the network companies who transport energy to consumers' homes. Network companies charge suppliers for these costs, who pass them on to their customers. Ofgem regulates network costs through price controls, as consumers can't normally choose which network company they use.

3.4.2 The cost of transmitting and distributing electricity varies across the country, leading to fourteen different electricity prices for one tariff across the UK. As a result many people living in more remote areas, particularly in south west England, north Wales and the north of Scotland, pay significantly more

for their electricity, even if they are nominally on the same tariff. Customers in the Scottish islands pay an additional surcharge for electricity distribution. In both Germany and Italy, distribution charges are harmonised, ensuring that those in remote areas pay the same for their energy.

3.4.3 Suppliers use the regional differences as a way to acquire customers at the expense of their 'loyal' base who are often on their more expensive deals. They often have a significant proportion of their customers in certain regions, and regional pricing allows them to structure tariffs to acquire customers in some regions while failing to offer a competitive tariff in others.

3.4.4 Liberal Democrats would eliminate the regional differences on consumer bills for electricity. Under our proposals, all the transmission and distribution companies would pay into an equalisation pool, administered by Ofgem. If a network company saw a shortfall due to the cost of supplying a certain area being higher, then that network company could charge the equalisation pool the amount it needs to make up the shortfall. The scope for gaming the market would be reduced, and no company would lose out due to the higher costs of servicing specific areas.

3.4.5 As in Germany and Italy, this harmonisation process would ensure that the networks do not lose out and it is only the customers who see the difference. Liberal Democrats would ensure that networks can continue to operate as before, for example being able to install new network connections without being hindered by this process.

3.5 Telecoms monopolies

3.5.1 BT is currently seen as the incumbent in fixed telecoms. Openreach (a functionally separate division of BT) is required to offer access to other service

providers, but this is seen as resulting in unequal competition. In some areas, 'challenger' companies have already deployed fibre networks, especially when this has been supported by Government subsidy. We would target these subsidies more effectively, and make it easier for local communities and SMEs to apply for them.

3.5.2 BT plans to start switching off its legacy copper network within five years, and it will then become the 'challenger' in areas where other companies have deployed the only fibre network. The regulatory regime will therefore need to evolve from addressing a small number of national monopolies to a patchwork of local monopolies.

3.5.3 Much of the innovation in digital applications is led by US-based 'over-the-top' providers (Apple, Google, Amazon, Facebook etc.), many of which are effectively monopolies, and whose margins are far higher than telecoms operators. They are increasingly moving into the market sectors of telecoms operators but are generally not subject to the same regulation or caps on market share. Liberal Democrats would move towards regulation of the service being provided, rather than regulating particular players in the market. This shift, which would help to 'level the playing field', and encourage competition, forms part of our broader strategy for responding to the growing power of the big tech corporations. We would develop a mechanism to allow the public to share in profits made by tech companies in the use of their data and improve Digital Sales Tax to ensure tech giants pay their fair share. [See our 2019 General Election Manifesto, *Stop Brexit, Build a Brighter Future.*]

3.6 Towards simpler rail fares

3.6.1 The biggest challenge facing rail passengers is the over-complicated and expensive fares system.

3.6.2 The Covid-19 pandemic has had a significant impact on passenger numbers. In future, many more people may choose to work from home. Liberal Democrats advocate increased investment in the railways to encourage a modal shift away from cars and onto public transport, aiming to increase rail journeys above their pre-COVID-19 levels. The case for fares reform is now stronger than ever.

3.6.3 Liberal Democrats propose a much simpler fares structure. We advocate:

- Making tickets more flexible, with more widespread use of 'carnets' or books of tickets, to spread out the morning peak and bring in early bird fares.
- Enabling more people to use travelcards and contactless cards and the cheapest fares appropriate for their journey, with discounts based on people commuting regularly doing the same or similar journeys.
- Ensuring that part time and flexible workers don't lose out on season ticket discounts, and those who travel regularly do not pay more than necessary, by adapting season tickets and bringing in a weekly, monthly, and annual cap, based on the number of days travelled.
- Eliminating perverse features in the fare structure for example 'split ticketing', where it can be cheaper to split the same journey over two tickets rather than one; and some return tickets cost either the same or slightly more than a single.

3.6.4 Our new Railway Agency would be charged with delivering on this agenda and provided with a strategic policy statement. The Railway Agency would include passenger representatives on the agency board, to ensure that consumer voices can be heard.

3.6.5 Our proposals to devolve budgetary and decision-making powers for local and regional rail services would bring the running of these services much closer to local people.

3.6.6 The Williams Review proposes the replacement of rail franchising with management contracts, which would be tendered by the Railway Agency under our proposals. The Agency would also set fares. Passengers would, however, no longer need to be protected from franchises increasing ticket prices or operating multiple routes to the same destination. The role of regulated fares would, therefore, need to be reviewed or the distinction between regulated and unregulated fares abolished altogether.

3.7 Strengthening consumer redress and advocacy

3.7.1 There are exciting new opportunities ahead for consumers. The transition to net zero, with the huge changes in demand and the infrastructure required, means that utilities markets are moving from commodities to services with a range of new products, services and business models. Trust and confidence however are vital. Consumers need to believe that the transition to net zero and the other transformations discussed in this paper are working for them.

3.7.2 Current regulation and protection are not set up to build consumer trust, for a number of reasons. New products and services, such as electric vehicles, heat networks and heat pumps, do not fall under the remit of existing energy sector protection and regulation. What protection there is tends to be disjointed, patchwork in nature and misses the opportunities to spot the big picture on risks to consumers. Traditional boundaries on markets and regulators are blurring too, so it is unclear where responsibilities sit.

3.7.3 Liberal Democrats propose a strategic re-design of regulation with the objective of building consumer trust and confidence to coordinate advice, advocacy, redress and regulation. Such a redesign would involve a systemic, preventative, data led approach to identify and tackle risk, and, together with utility businesses, building capability and more competitive markets that work for consumers by learning where consumer harm happens. We want to see clarity and coordination around roles, remits and responsibilities of regulators, consumer advocates and consumer redress in terms of ADR and ombudsman protection. We would promote improved coordination between the regulators, to develop common approaches on consumer protection. We would give Citizens Advice the statutory role to represent and support consumers in telecoms, building on its knowledge and expertise in energy.

3.7.4 Liberal Democrats would extend consumer protection to reflect and anticipate changes in customer journeys in existing markets so that areas such as price comparison websites, bundled products and services and green claims are covered. We would also ensure that protection is extended to areas which are currently unregulated but that are key to creating new markets such as electric vehicles, heat networks and heat pumps.

3.8 Minimising disruption from street works

3.8.1 Street works by utilities can cause major disruption to local residents and businesses, especially when several utilities dig up the same road in succession. Liberal Democrats would give increased powers to local authorities to incentivise, and if necessary, mandate, utility companies to coordinate their programmes of planned street works.

4. Protecting vulnerable consumers

4.1 Introduction

4.1.1 Too many consumers cannot afford the essentials: at the end of 2019-20, almost 900,000 low-income households in England and Wales relied on reduced water bills.

4.1.2 In the energy market, consumers in the most vulnerable categories are the least likely to be on good deals and therefore pay more. In 2018, the total number of energy customers in arrears or repaying a debt was 1,309,768 for electricity and 1,048,834 for gas, an increase of 4.2 per cent from the previous year. These figures should be seen in context: latest government statistics indicate that around 2.4 million households in England (10.3 per cent) were in fuel poverty in Over the past four years, fuel poverty rates have remained in the 10-12 per cent range.

4.1.3 The trends in water, a price-regulated market, are hardly more encouraging. In 2019, the Consumer Council for Water reported that three million households in England and Wales were struggling to afford their water bills. In 2019-20, 595,839 customers in vulnerable circumstances were registered for support, an increase of 42% on the previous year.

4.1.4 Access to the internet is now essential for modern life, but 20% of rural households still do not have access to superfast broadband services, and elsewhere the quality of broadband is highly variable.

4.2 Reforming regulation for vulnerable consumers

4.2.1 The causes of these challenges are complex and some tools for addressing them are outside the remit of economic regulation. The main drivers of fuel poverty, for example, are income, energy efficiency and fuel prices. Relevant Government policies include the Warm Home Discount, the Home Upgrade Grant, the Green Homes Grant, the Winter Fuel Payment (WFD) and the ECO, the supplier obligation for the delivery of energy efficiency measures in homes, administered by Ofgem. Ofgem does not, however, regulate the energy efficiency of housing or household appliances. Government departments, rather than Ofgem or energy companies, are more likely to have accurate information on low income and vulnerable households.

4.2.2 Ministers and not utility regulators are and should remain directly accountable to the public for decisions that affect their sectors. The independence of regulators is crucial for ensuring continued investment in the regulated sectors. There are, however, areas of overlap between political and regulatory decisions and some of the latter will impact some groups of consumers more than others.

4.2.3 Successive Governments have recognised that ministers should provide guidance on how regulators should approach such choices. The quality of this guidance has, however, been inconsistent and, as noted above, the Conservative Government has chosen not to issue any strategic policy statement to Ofgem.

4.2.4 In issuing strategic policy statements for each of the regulated sectors. Liberal Democrats and ensure that they provide regulators with sufficient guidance to address the issues faced by vulnerable consumers. (Examples are provided in sections 4.3 and 4.4 below).

4.2.5 We would also encourage regulators to publish an analysis of the distributional consequences for consumers and businesses of their proposals, and of the impact of possible mitigations for significant adverse effects, and to seek explicit guidance from ministers on strategic policy direction and distributional choices, as recommended by the National Infrastructure Commission.

4.2.6 Specific solutions for individual specific sectors are discussed below.

4.3 Energy

4.3.1 Liberal Democrats would make the energy market work for the most vulnerable consumers. Ofgem implemented in 2019 a temporary, absolute cap on the price of standard variable and default tariffs, as required under legislation. Under current legislation, the default price cap will continue until 2023. The current price cap is currently set at a high rate, mainly to protect those who don't switch suppliers from significant price increases. Those who choose to switch can save substantial amounts. Ofgem research has shown that vulnerable customers, who are more likely to have difficulty paying their energy bills are often less likely than other customers to switch in the energy market.

4.3.2 We would reform the price cap to target customers in vulnerable circumstances rather than all customers by bringing in a capped tariff, set lower than the existing price cap. Other consumers would still have an incentive to switch. Disengaged customers not in vulnerable categories would be entered into a collective opt-out switch process, discussed above (see section 3.2.3). We would ensure that Ofgem continues to work with suppliers, distribution companies and as well as local authorities to identify those who should be protected with this reformed price cap.

4.3.3 Our proposals to promote customer switching in the energy market are set out in section 3.2 above.

4.3.4 Liberal Democrats would improve protections available for vulnerable and fuel poor consumers. The Warm Home Discount (WHD), partly administered by Ofgem, helps people who are living in fuel poverty or a fuel poverty risk group to reduce energy bills. Some customers are automatically given the Warm Home Discount, but others have to apply, with many suppliers capping the number of applications. The WHD is also only available from some suppliers, creating a potential barrier to switching. We would ensure that WHD (and any successor scheme) is available to all customers in vulnerable circumstances. Any new suppliers would have to contribute to the costs of the WHD (or similar schemes) immediately. The new requirements would phase in for existing suppliers, to help them cope with any added costs.

4.3.5 Around 4 million people pay for their energy with prepayment meters. PPM customers are more likely to be in vulnerable situations such as having existing physical and mental health issues, or in living in fuel poverty. PPM customers face particular barriers to accessing better deals such as fewer competitive tariffs, installation, removal and warrant charges and upfront security deposits.

4.3.6 The rollout of smart meters for these consumers has helped by, for example, making it easier to transfer customers to non-prepayment meter tariffs, which are often cheaper, and facilitating the introduction of new, lower cost prepayment tariffs introduced.

4.3.7 Liberal Democrats believe prepayment customers should pay the same for their energy as credit customers. Prepayment customers would be protected by our reformed price cap. To start, we would prioritise prepayment

customers in the smart meter rollout, to ensure that any customers who should not be on prepayment meters have their meters changed into credit mode. Anyone wishing to continue to pay by cash or cheque can do so without being on a prepayment meter tariff.

4.3.8 We would give consumers more opportunities to reduce their energy bills. Our key proposals include: implementing an emergency ten-year programme to reduce energy consumption from all buildings; providing free retrofits for low-income homes; piloting a new subsidised Energy-Saving Homes scheme; graduating Stamp Duty Land Tax by the energy rating of the property; reducing VAT on home insulation; requiring all new homes and non-domestic buildings to be built to a zero-carbon standard; increasing minimum energy efficiency standards for privately rented properties and remove the cost cap on improvements; and adopting a Zero Carbon Heat Strategy. (Further details are set out in Policy Paper 139, *Tackling the Climate Emergency*).

4.3.9 The need to protect vulnerable customers becomes even more important under the transition to a net zero economy. Over the coming years, increased network costs and funding for clean energy may push gas and electricity prices up. At the moment, the costs of policies to promote clean energy fall disproportionately on vulnerable consumers. The members of the Climate Assembly UK identified “fairness within the UK, including for the most vulnerable” as one of the two principles that should guide decisions around net zero. Liberal Democrats are determined to deliver a Just Transition, where consumers can be confident that everyone is paying their fair share of the costs and where energy bills are affordable as the UK decarbonises, especially for the most vulnerable households.

4.3.10 Our proposals to reform the way price controls are conducted and to strike a fairer balance between promoting the interests of consumers, securing the investment needed to deliver net zero and resilient networks and making

sure there is a reasonable return for shareholders, are set out in sections 2.6 and 3.3 above. Our forthcoming policy paper on carbon pricing will contain proposals to ensure that all consumers are given clear incentives to reduce their carbon footprints. If needed, we will bring forward further proposals to ensure that the costs of delivering net zero are allocated fairly between domestic consumers. Liberal Democrats are also committed to the principle of a Universal Basic Income. Our detailed policy proposals, currently under development, will protect the most vulnerable consumers.

4.3.11 We recognise that placing the full costs of the transition, in particular the substantial investment required in upgrading the national grid and other networks, on to consumers' bills would be likely to impose unacceptable burdens on vulnerable consumers which could not be mitigated fully by reforms to energy pricing and taxation. Liberal Democrats would therefore be prepared to ensure significant government support for the infrastructure changes needed to deliver Net Zero, either through underwriting corporate borrowing or by direct subsidies. Such support would be initially funded by public borrowing at low rates of interest and ultimately through a fair taxation system. Liberal Democrats have proposed an investment of £150 billion of the next three years to fund a green recovery from the coronavirus crisis. Our last election manifesto set out a £130 billion package of infrastructure investment, and we will set out a new costed package nearer to the next general election.

4.4 Water

4.4.1 All water companies in England and Wales provide social tariffs which can reduce the bills of households on a low income. At the end of 2019/20 almost three quarters of a million households in England and Wales – an increase of 35% from the previous year - were receiving help through these schemes.

4.4.2 However, the schemes rely on cross subsidies agreed with customers and at the moment, these will not be sufficient to fully eradicate water poverty. The support available varies from water company to water company because customers in different parts of England and Wales have indicated quite different levels of willingness to fund social tariff schemes. As a result, companies have developed schemes which vary considerably in terms of who is eligible for support, the value of the assistance provided, and how many households can be potentially helped each year before customer funding is exhausted.

4.4.3 The WaterSure scheme, which is statutory for water companies in England but offered by companies voluntarily in Wales, limits the level of metered bills for benefit recipients with high essential water usage needs due to family size or medical conditions.

4.4.4 Other support from water companies to meet the needs of financially vulnerable households includes flexible payment arrangements, payment breaks, charitable trust payments, payment matching schemes to clear arrears, water efficiency audits and bill guarantees to encourage customers to switch to a meter to save money. But not every company offers all of these support options. The Covid-19 pandemic is likely to result in increased pressure on existing schemes and available funding.

4.4.5 Water companies also face challenges in ensuring that the hardest to reach households are aware of and take up the support they offer. For example, only 42% of customers are aware of the additional support provided by a company's priority services.

4.4.6 Liberal Democrats would help vulnerable customers and people suffering from water poverty by:

- Asking Ofwat and the water companies to set minimum criteria for the value, scope and eligibility criteria for social tariff schemes across the country.
- Requiring water companies to put a share of their own profits into social tariffs.
- Encouraging water companies to work more collaboratively to raise awareness of priority services and to be more proactive in identifying customers in need of temporary support.

4.4.7 Social tariff measures may not be sufficient to eradicate water poverty. There is a limit to the extent to which water customers are prepared to fund such measures. Our detailed policy proposals for a Universal Basic Income, currently under development, will help to protect the most vulnerable water customers. If necessary, we will bring forward further proposals to ensure that the costs of social tariff measures are fairly allocated between all domestic consumers and this may entail further changes in government spending and taxation.

4.4.8 We note also that the Consumer Council for Water is conducting an independent review of affordability support for financially vulnerable water customers in England and Wales. Its findings may influence our further proposals.

4.4.9 Liberal Democrats would encourage and enable customers to reduce water bills – and the need for future investment in infrastructure. We would:

- Require Ofwat and the water companies to deliver a more efficient management of water resources and to promote water efficiency.

- Work with Ofwat and the water companies to promote more effectively the case for water efficiency more coherently.
- Introduce a mandatory water efficiency label and minimum standards for water using products.
- Establish a national minimum water efficiency standard for new buildings.
- Enable the roll-out of smart water meters, subject to compensatory mechanisms being in place for the vulnerable and poorer customers.
- Ask Ofwat to review the business retail market to identify barriers to achieving improvements in water efficiency and how to overcome them.

4.5 Tackling the digital divide

4.5.1 Good broadband and mobile phone coverage are still not available to everyone, creating a 'digital divide' between different areas of the UK and different groups of the population. In 2018 London had the lowest proportion of internet non-users (7.0%) while Northern Ireland continued to have the highest proportion (14.2%), followed by the North East of England (12.1%).

4.5.2 In contrast to the water and electricity sectors, disadvantage in the telecoms sector is usually due to where the customer lives. The coronavirus crisis, in which people have become more dependent on broadband and digital services, has underlined the urgent need to address the digital divide.

4.5.3 There is greater competition in telecommunications than for other utilities. The four mobile operators have their own networks, and most households have a choice of broadband network provider (BT, Virgin Media and/or 'challenger' operators deploying fibre-to-the-home or fixed wireless access). In addition, mobile virtual network operators and internet service providers purchase wholesale capacity from these operators and retail it to

customers. However, this competition has mainly been in urban areas and for high value customers, and as a result has not delivered universal broadband or acceptable mobile coverage in rural areas.

4.5.4 Across the UK, little more than a quarter of customers have access to gigabit-capable broadband using new networks, which is less than most other developed countries. This is in part because of the good availability of superfast broadband in urban areas using existing phone lines, but deployment has also been hampered by successive Governments announcing grandiose schemes with insufficient and too short-term funding to deliver them.

4.5.5 The technology for telecoms equipment and applications is evolving very rapidly. As new services are launched, legacy services are wound down. For example, BT has announced that it will stop supporting analogue phone lines (PSTN) by 2026 and will migrate all of its customers to digital IP technology. Mobile operators are likely to start to switch off their 2G (GSM) and 3G networks within a few years. There is a risk that customers who cannot access or adapt to the new technologies will get left behind. This includes tenants and residents of leasehold properties, who can find it impossible to get fibre connections installed.

4.5.6 Liberal Democrats are committed to a programme of installing hyper-fast, broadband across the UK – with a particular focus on connecting rural areas, and to reform building standards to ensure that all new homes built from 2022 have full connectivity to ultra-fast broadband. We would ensure that every residential or business property in the country has access to a minimum standard of broadband of at least 30Mbit/s downstream and 5Mbit/s upstream at an affordable price. (Please note: these figures are for 2021, and would be reviewed regularly to reflect technology developments and consumer need).

4.5.7 Ofcom and Government face a complex and rapidly changing landscape in regulating the telecoms sector. Our strategic policy statement for telecoms would ensure that regulation in the sector delivers:

- Telecoms services that are accessible to everyone, regardless of where they live or their socio-economic status, and remain available for as long as they are needed.
- Universal coverage and good performance of telecoms services to all consumers ahead of ever-increasing headline performance for the lucky few in easy-to-serve locations.

4.5.8 We would also request the telecoms consumer advocate (see 3.7 above) to develop a standard methodology for comparing contracts for telecoms services, similar to the APR for loans.

Giving Consumers a Better Deal

Policy Paper 140

This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 8.4 of the Federal Constitution.

Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom.

The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas.

The Party in England has chosen to pass up policymaking to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.

Working Group on Utilities

Note: Membership of the working group should not be taken to indicate that every member necessarily agrees with every statement of every proposal in this paper.

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