



Domestic Gas and Electricity (Tariff Cap) Bill: Report

Citizens Advice helps people find a way forward.
We advocate for our clients and consumers on the issues that matter to them.

Overview

- Citizens Advice is the statutory consumer advocate for energy consumers.
- We agree that the price cap should be absolute, not relative.
- We share the cross-party desire to make sure people are protected from rip-off energy deals before next winter.
- Customers in vulnerable situations should continue to benefit from appropriate protections after the date of the sunset clause contained in the Bill.
- We will continue to work with the Government and with Ofgem to make sure that the appropriate protections for customers in vulnerable situations remain, or are put in place, after 2023.

Benefits of the absolute cap

We agree that the the best way of protecting consumers is through an absolute rather than a relative cap. The benefits of this are:

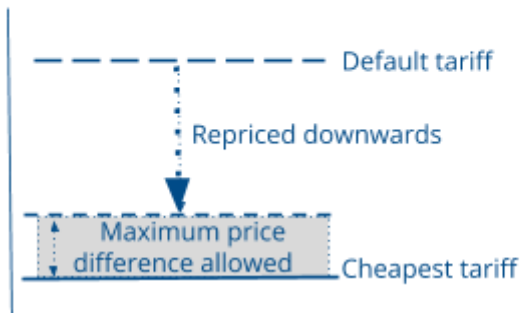
- **It puts a ceiling on prices to stop the exploitation of those who do not switch**, with the lowest prices still being set by the competitive market.
- **It squeezes excess profits and encourages greater efficiency.** The Competition and Markets Authority estimated that, of the £1.4 billion per year consumers are overpaying for energy, around £650 million is excess profit while the rest is lost to inefficiency. The cap should be set at a level that allows an efficient supplier to make a reasonable profit, while forcing inefficient suppliers to work harder to reduce their costs.
- **It leaves room for better deals below it.** Switching away from a default energy tariff would remain worthwhile, and suppliers would still have incentives and room to compete for new custom.
- **It will be revised at least once every 6 months by Ofgem to reflect changes in underlying costs, such as networks, wholesale prices and the costs of delivering Government policies.**

As an absolute price cap would set a 'price to beat', there would still be incentives for suppliers to serve default energy tariff customers more efficiently over time.

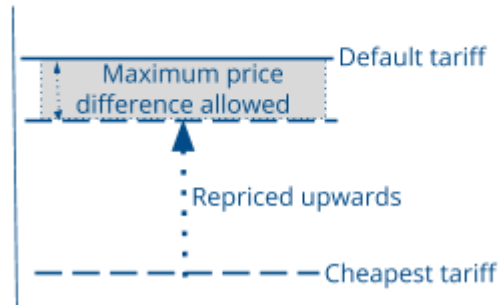
Risks of a relative cap

A relative cap would cap the maximum difference allowed between a supplier's cheapest tariff and their default tariff at a set amount or percentage. The theory is that this would force large suppliers to drive down the prices of their default tariffs to still offer attractive acquisition tariffs - scenario 1, below.

Scenario 1: Suppliers comply with the cap by dropping the price of their default tariff towards their cheapest tariff.



Scenario 2: Suppliers comply with the cap by hiking the price of their cheapest tariffs towards their default tariff.



- **Our concern is that the opposite may happen:** that if forced to choose between maintaining profit from default tariffs and exiting the acquisition market, suppliers would comply with the cap by removing their cheaper deals (scenario 2).
- **This would provide no relief** to consumers stuck on default tariffs. There would be a continuation of the status quo, where loyal customers subsidise savvy switchers.
- **There are also natural constraints on how far the 'Big 6' can lose customers if their default prices remain hugely uncompetitive** - because such a large proportion of the population is unable or unwilling to switch.

Both the Government and Ofgem have said that they favour an absolute cap over a relative cap and we agree with that choice. In the Public Bill Committee session, Dermot Nolan - CEO of Ofgem - said:



"I think that anything that involves telling a company it cannot charge a low price is not a great thing. Further, if I may say, it complicates the cap. We can figure out an absolute price cap. It will not be easy to set, but we will muster every fibre we have to set the right cap. To complexify it further with a relative price cap strikes me as undesirable."¹

An absolute cap would make sure that loyal customers are protected from rip-off energy deals next winter.

¹ Dermot Nolan, evidence to the Domestic Gas and Electricity (Tariff Cap) Public Bill Committee, 13 March 2018: <https://goo.gl/26bSQm>

Proposals after the sunset clause

Customers in vulnerable situations should continue to benefit from appropriate protections after the date of the sunset clause contained in the Bill.

We were reassured by the Government's report², by Rt Hon Claire Perry MP's comments as part of the pre-legislative process³, and by Ofgem's commitment during the Bill Committee stage⁴ that this is also the intention of both the Government and the regulator.

We will continue to work with the Government and with Ofgem to make sure that the appropriate protections for customers in vulnerable situations remain, or are put in place, after 2023.

For more information please contact Caroline Aliwell on caroline.aliwell@citizensadvice.org.uk or by calling 03000 231 881.

²Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill: Government Response to the Committee's Fourth Report: <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/865/865.pdf>

³ Oral evidence: Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill, HC 517: <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/865/865.pdf>

⁴ Dermot Nolan, Public Bill Committee:

[https://hansard.parliament.uk/Commons/2018-03-13/debates/b74f2d8c-34f4-4159-b6d5-99308f983172/DomesticGasAndElectricity\(TariffCap\)Bill\(FirstSitting\)](https://hansard.parliament.uk/Commons/2018-03-13/debates/b74f2d8c-34f4-4159-b6d5-99308f983172/DomesticGasAndElectricity(TariffCap)Bill(FirstSitting))