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MoneySavingExpert

Response to Ofgem discussion paper:
Future of domestic price protection

MoneySavingExpert (MSE) welcomes the opportunity to respond to this discussion paper on future price protection for domestic electricity and gas customers.

The paper puts forward several potential options for the kinds of price protections that could exist under the current market conditions – which MSE has not yet analysed fully. As such, we would like to put forward a short summary of the issues and challenges MSE has raised with the current domestic default tariff price cap, with a view to informing Ofgem's considerations in this area. We agree that modernisation of the default tariff price cap is also necessary in anticipation of market-wide half-hourly settlement (MHHS).

MSE is also pleased to see that Ofgem and Government work in this area is intended to inform each other – as there needs to be a more holistic approach to default tariff price cap reform, as explained in this response.

The default tariff price cap is now more akin to price regulation

We have always been of the view that the default tariff price cap, while well-intentioned, is a "halfway house" between regulated prices and competition (where there are bigger price differentials stimulating lower prices for those who act). As far back as 2018 we have said that, if we are to stick with a competitive market, we need to decide who is and isn't an acceptable victim of competition – with the most vulnerable, who can't engage in the switching market, protected in a more discriminate way.[1]

Today, the cap, at best, regulates prices for almost all energy customers, and has been far too susceptible to shocks. This has necessitated multiple temporary and permanent changes to the price cap methodology to compensate for huge market swings, including the market exit of several firms and poor competition as a result. Consumers have shouldered the burden of lower competition through the price cap, including through the costs of the Supplier of Last Resort process.

The cap itself does not stimulate competition (and therefore lower prices)

Currently, most customers are left in a situation where they are unable to do much to save money on their energy costs and have very limited price certainty and budgeting power. Fewer providers inevitably means less competition and lower incentives to fight for business through pricing, but also through service – leaving the vast majority languishing on default tariffs with the same provider for years.

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[1] MoneySavingExpert.com, "Martin Lewis says price cap is 'a halfway house'", 26 February 2018. Available at: https://www.moneysavingexpert.com/pressoffice/2018/02/Martin-Lewis-says-energy-price-cap-is-a-halfway-house/

Lack of competition and limited money-saving potential has also left huge swathes of consumers with record levels of 'bad' energy debt, which suppliers are having to aggressively chase – risking people's mental wellbeing as well as their financial resilience. Further, the recoverable costs of 'bad debt' (for suppliers) are socialised across all customers through the price cap, and the allowance in the cap has been raised again from April 2024 – with little clear evidence that this is effective at tackling the problem itself.

Escalating standing charges leave consumers on the default tariff price cap now paying upwards of £300+ a year on typical use across all payment types, without using a single unit of energy. This disproportionately penalises those who can least afford to pay for the facility of simply having gas and electricity – and is a moral hazard, disincentivising lower energy usage more generally.

We have previously submitted evidence that daily standing charges on the default tariff need to be significantly reduced and some of the costs instead shifted to unit rates – with protections in place for vulnerable customers with high energy usage.

One way to achieve this is by building more flexibility into the price cap. For example, one solution would be to have two price caps: one where the recoverable costs for suppliers are distributed more onto the unit rate, and one where they are distributed more onto the standing charge.

In the meantime, to safely bring standing charges down, we would urge the Government to work closely with Ofgem and energy firms to ensure there is a safety net in place for higher-consuming vulnerable customers who have greater energy needs – see the next section for more.

We note and appreciate the challenges of those who would be negatively impacted by lowering standing charges. Yet, of over 11,000 responses[2] to an MSE poll, nine in 10 – an overwhelming majority – told us they think standing charges should be lowered or scrapped entirely, showing there's a clear appetite for change.

The cap does protect some, but it is indiscriminate and doesn't solve wider affordability problems

A default tariff cap is effective at protecting consumers who cannot (or choose not to) engage in the switching market – but who otherwise do not meet categories of vulnerability that make them eligible for additional support – from being charged disproportionately more than it costs to serve them efficiently.

However, this is a proportional protection, not a progressive one. While typical domestic energy prices have come down recently, they are still hundreds of pounds higher than they were in 2021, pre-crisis, with consumers still suffering the effects of very high general inflation over the past few years. As such, it's MSE's view (supported by many other consumer advocacy organisations) that any regulator-led price protection needs to come alongside government interventions, such as a 'social tariff'. This would provide a safety net for the most financially vulnerable and would act in the interest of public health and reducing poverty.

In its 2022 Autumn Statement policy paper, the Treasury committed to "work with consumer groups and industry to consider the best approach, including options such as social tariffs" in its plans to

[2] MoneySavingExpert.com, "Should energy standing charges be lowered and unit rates increased instead?", June 2023. Available at: https://www.moneysavingexpert.com/poll/2023/energy-standing-charges/

develop new consumer protections in energy markets.[3] At the time, Martin Lewis re-iterated his public support for the introduction of a social tariff, as something he has long endorsed.[4]

There is widespread support for this move. Ninety-five charities and non-profit organisations signed an open letter in January 2023 calling for the Government to consider introducing a social tariff.[5] Ofgem chief executive Jonathan Brearley has too spoken out on the regulator's support for exploring a social tariff: "We think there's a case to examine with urgency a social tariff that limits the impact of extremely high prices, which reduces the volatility for a defined set of vulnerable groups."[6]

The timeframe promised by the Government has long passed and no such consultation has been published. MSE, and many other campaigners, continue to be concerned about this lack of action. We hope that this consultation will trigger greater engagement on this issue between government and regulator, as a means of addressing affordability in the market until such a time as lower prices and energy security is achieved.

The cap creates comparison challenges in the current market

MSE has a number of services that hope to assist those who want to consider other tariff options that may help make cost savings, and/or those who want more insight into what they will pay on the default tariff over a year.

These include consumer help guides and comparison tools (where consumers can input personal usage and tariff rates); plus, we have recently reopened a simplified version of our whole of market price comparison service, Cheap Energy Club.

We have on a number of occasions highlighted challenges in decoding the price cap – when looking at readily available tariffs across the market, but also in order to provide consumers with the best possible personalised guidance and analysis of their options.

Given the quarterly update schedule of the price cap, annual comparisons become more challenging, as accurate price cap forecasting is less likely when looking two or three quarters ahead. This is not helped by the fact that the regulator does not have its own forward pricing forecast, meaning we have to rely on external analysts' interpretations – which have varying degrees of accuracy. MSE is of the view that a regulatory forecast would be beneficial.

Further, in our content and tools we are navigating around regulatory requirements by using these forecasts to help consumers to make a more informed choice. We have previously flagged to Ofgem that some suppliers marketing new fixed-term or fixed-price tariffs show consumers the savings vs the *current* default tariff, if it *didn't* change throughout the year – even where the next price cap rates are known and/or where a future price cap level is fairly certain. In short, this means that consumers are shown cost savings that are over or under stated.

By contrast, MSE attempts to analyse tariff options in the market by using external forecasts of the price cap rates over a year and we are upfront that the results are a 'ballpark' analysis, but more

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[3] HM Treasury, "Policy paper: Autumn Statement 2022", 17 November 2022. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible__1_.pdf
[4] https://twitter.com/MartinSLewis/status/1593216897147109377
[5] National Energy Action, "Ninety-five organisations call for the introduction of a social tariff", 17 January 2023. Available at: https://www.nea.org.uk/news/ninety-five-organisations-call-for-the-introduction-of-a-social-tariff/
[6] Sky News, "Cost of living: Social energy tariff needed for families that can't pay bills even with government help, Ofgem says", 23 January 2023. Available at: https://news.sky.com/story/cost-of-living-social-energy-tariff-needed-for-families-that-cant-pay-bills-even-with-government-help-ofgem-says-12793579

accurate nonetheless. Still, when consumers input their own usage and tariff rates offered, we are only able to show them whether a deal is worth considering, based on our own assessment of savings vs the current price cap. The current situation means consumers have to rely on services like ours to decipher their options, and are unlikely to be able to make an informed choice alone. This is not in the spirit of an open, competitive market and supports a landscape in which the majority are 'sticky' on the default tariff, over-relying on the regulator's price cap to shield them from disproportionate costs.

About MoneySavingExpert.com (MSE)

MoneySavingExpert (MSE) MoneySavingExpert.com, founded and Chaired by Martin Lewis, is dedicated to cutting consumers' bills and fighting their corner. It is the UK's biggest and most trusted consumer website. For 20 years, campaigning journalism has been at the heart of MSE's mission. The site is behind many notable campaigns, including student finance reform, reducing energy bills, mortgage help, scam ads regulation and helping consumers reclaim an estimated £1bn in bank charges and £12bn in PPI payouts.

With millions subscribing to receive the weekly MSE's Money Tips email and visiting the site monthly, MSE ranks as YouGov's most recommended brand (all sectors) in the UK. It is also, according to Press Gazette, the UK's largest specialist online news publication, with more traffic than many national newspaper sites. In September 2012, the site joined the MoneySupermarket.com Group PLC (now MONY Group PLC).