

DOMESTIC GAS AND ELECTRICITY (TARIFF CAP) BILL

EXPLANATORY NOTES ON LORDS AMENDMENT

What these notes do

- 1 These Explanatory Notes relate to the Lords Amendment to the Domestic Gas and Electricity (Tariff Cap) Bill as brought from the House of Lords on 4 July 2018.
- 2 These Explanatory Notes have been prepared by the Department for Business, Energy & Industrial Strategy (BEIS) in order to assist the reader of the Bill and the Lords amendment, and to help inform debate on the Lords amendment. They do not form part of the Bill and have not been endorsed by Parliament.
- 3 These Explanatory Notes, like the Lords amendment itself, refer to HL Bill 100, the Bill as first printed for the Lords.
- 4 These Explanatory Notes need to be read in conjunction with the Lords amendment and the text of the Bill. They are not, and are not meant to be, a comprehensive description of the Lords amendment.
- 5 Lords Amendment 1 was tabled by Lord Grantchester and was opposed by the Government.

Commentary on Lords amendment

New Amendment creating new Clause 9: Ongoing relative tariff differential

- 6 Amendment 1 inserts a new Clause 9 into the Bill which places a duty upon Ofgem ("the Authority") to prepare a relative tariff differential for implementation when the tariff cap conditions (the "price cap") cease to have effect. A relative tariff differential places a limit on the difference on amounts that can be charged by a supplier between its cheapest advertised tariff and its most expensive standard variable or default tariff. The allowable difference will be set as a proportion of the cheapest tariff. The relative tariff differential must take effect when the price cap ceases to have effect.
- 7 The action imposed by clause 9 is not time limited.

Financial Effects of Lords Amendments

- 8 Amendment 1 inserts a new Clause 9 and has little direct financial implications for

Government, but costs do fall upon Ofgem who are funded primarily by licence.

- 9 It will be for the regulator, Ofgem, to determine how it implements the relative tariff differential and assess the financial implication of its approach.
- 10 The CMA suggested that the cost to Ofgem of implementing the pre-payment meter cap, under the 2016 CMA Order, would be approximately £1 million. It can be inferred that the cost of setting a price control could be in the region of £1 million, however, as Ofgem would be required to work on the consultation and implementation of the relative tariff differential while maintaining then removing the wider cap, additional resources will be required to do the necessary work.
- 11 The relative tariff differential will be permanent and, as a result, Ofgem will incur some ongoing costs in relation to it. Those costs are difficult to estimate.

These Explanatory Notes relate to the Lords Amendment to the Domestic Gas and Electricity
(Tariff Cap) Bill as brought from the House of Lords on 4 July 2018 [Bill 244]

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