

Written evidence submitted by uSwitch (DGEB11)

Submission to the Domestic Gas and Electricity (Tariff Cap) Bill Public Bill Committee

Introduction to uSwitch

uSwitch is an online and telephone price comparison and switching service, helping consumers get a better deal on gas, electricity, home phone, broadband, digital television, mobile phones and personal finance products including mortgages, credit cards, current accounts and insurance.

uSwitch is part of ZPG Plc (LSE:ZPG), owner of some of the UK's most trusted home-related digital platforms including Zoopla, PrimeLocation, Money.co.uk, Hometrack and Property Software Group.

Our view on the energy price cap

We are opposed to any form of broad regulatory intervention to cap prices in the retail energy market, including both an absolute and relative price cap. We believe competition is the best way to keep energy prices low and that regulatory intervention such as an absolute or relative cap would undermine competition in the market.

We believe an absolute cap risks leading to higher costs for consumers over the long term, and could also create a false sense of security and further reason for customers to disengage from the market as they perceive the Government will protect them from paying too much for their energy. We also believe a relative price cap would simultaneously remove the incentive for suppliers to offer attractive deals and place no constraint at all on the price of default tariffs, including Standard Variable Tariffs (SVTs), incentivising larger suppliers in particular to raise the prices of both their cheapest deals and their SVTs in tandem separated by whatever level the cap was set.

However we recognise there is cross-party support on the need for this legislation, and so want to help ensure that it is technically as effective as possible in achieving its objective.

Commentary on currently proposed amendments

With this in mind we believe it is crucial that Ofgem, as the independent economic regulator for the energy market, has the maximum flexibility in designing, administering, and assessing the impact of any energy price cap in order to avoid any unintended consequences the Government has stated it is against. We are concerned that amendments **1, 4, 7, 8, 9 and 10**, either intentionally or inadvertently, would constrain Ofgem's ability to do this.

Several amendments (**1, 8, 9, 10, and NC1**) specify criteria that should be used by Ofgem to assess whether the "conditions for effective competition" exist, when establishing and reviewing the cap. Again, we believe Ofgem as the independent economic regulator is best placed to determine these issues. Furthermore, should fears about the unintended negative consequences of the cap on competition come to fruition, we are concerned that requiring Ofgem to recommend lifting the cap only when effective competition has been achieved (as opposed to *the conditions for effective competition*) might create a situation where the cap remains in place because it itself is acting as a barrier for effective competition.

Proposed amendment

Other amendments identify specific groups that Ofgem should consider when exercising its duties in relation to the cap, including vulnerable and disabled consumers (**8, 9, 10, and NC1**) and rural customers (**NC2**). During pre-legislative scrutiny of the Bill Ofgem's Chief Executive Dermot Nolan told

the BEIS Select Committee there was “likely to always be a need to protect customers who would not be fully able to engage even in a digitised, more competitive market” (HC517, Q334).

We agree that some form of enduring, targeted protection for vulnerable consumers might be required, and are concerned that amending the Bill in this way might lead to a situation where effective competition was in place for the majority of energy consumers, but the cap could not be lifted because certain groups continued to face barriers to engaging in the market.

For this reason we propose that the Bill be amended as follows to make clear that Ofgem has the flexibility to introduce different tariff caps for different categories of consumers. This would allow Ofgem, for example, to provide greater savings to vulnerable and disabled customers facing the greatest level of detriment, or tailor the level of cap to meet the needs of consumers living in different parts of the country in line with varying underlying costs, should the evidence suggest this would lead to better consumer outcomes:

Clause 1, page 1, at the end of line 11 remove “but” and insert:

(b) may set different tariff cap conditions for different groups of domestic customers, and

In addition to these general points, we also have some specific feedback on the following amendments that have been proposed:

- **Amendment 3:** Ofgem must go through a statutory consultation process before introducing the cap. Specifying a date by which the cap must come into force increases the risk that the cap might be challenged in the courts if Ofgem is not allowed sufficient time to properly conduct its statutory consultation obligations.
- **Amendment 4:** Any cap must work for households with different levels of consumption. On the current wording of this amendment a household with energy costs of £100 would end up paying nothing. In any event Ofgem should have maximum flexibility in how it meets the objectives of the cap therefore it is not appropriate to pre-judge the specific level of the cap.
- **Amendment 6:** While Ofgem may decide to review the level of the cap every three months within the current drafting of the bill. for the reasons stated above we believe it is important to leave the decision on how frequently the cap should be reviewed to Ofgem.
- **Amendment 7:** Because we can not be certain what the energy market will look like several years hence, we do not believe it would be desirable to set out on the face of the Bill the criteria by which the cap’s impact should be reviewed. Instead, Ofgem should be left to set the criteria based its knowledge of the market at the time. We are also concerned that paragraph (h) sets District Network Operator costs and dividends out as criteria, this is not appropriate as a retail energy market cap is not a remedy for any issues in this part of the market.
- **NC4:** This clause would make Government regulation of prices through an effective relative price cap a permanent feature of the energy market, something contrary to the intentions of this Bill. An enduring relative price cap would act counter to effective competition which would then completely undo any progress achieved.

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