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MoneySavingExpert.com

Written evidence to the House of Commons Public Bill Committee on the Domestic Gas and Electricity (Tariff Cap) Bill

MoneySavingExpert.com is pleased to submit written evidence to the House of Commons Public Bill Committee as it examines the Domestic Gas and Electricity (Tariff Cap) Bill.

Energy bills form a major part of consumers' outgoings each month so it is vital that any intervention in this market is carefully considered, to avoid unintended consequences and maximise the chance of achieving better outcomes for consumers.

Many assume that a competitive market, with consumers who switch, is best. In a competitive market, consumers need to be incentivised to switch by being able to save a significant amount of money. This means that meaningful price differentials have to exist, in order to motivate consumers to switch to cheaper deals.

The alternative to a competitive market with price differentials would be regulated prices, and which of those two options is chosen is a political decision. MoneySavingExpert.com does not have a view about which of these is preferred, but if it is to be a competitive market, it must be accepted that some people will pay more than others. A functioning competitive market cannot be achieved while telling firms what they can charge their customers: capping energy prices for all consumers works against the logic of a competitive market.

As MoneySavingExpert's founder Martin Lewis says, "Those who champion competition need to accept that, for it to work, some customers will inevitably have to pay substantially more than others for the same service. Therefore it is important to define who is an acceptable victim of competition and who is an unacceptable victim."

"At the extremes this is easy, if I, as a wealthy, web and financially savvy man, choose not to switch out of apathy, fair dos. Yet if an offline, worried, struggling 90-year-old gran with the start of onset dementia is too scared to switch, that is a problem."

Therefore targeted intervention to protect vulnerable consumers and consumers who it is felt are not able to engage with the competitive market is acceptable. For these consumers, it is reasonable to provide exceptional capped tariffs – on the rationale that this group is not able to switch to cheaper deals.

The proposed absolute cap on energy prices is a much broader move however, and means that those who do not switch would see their prices drop, while those who do usually switch to get the best deals could likely see prices rise.

Yet the key danger is that both narrowing the differential and the political 'boasting' of a market intervention will act as a disincentive for many to switch. The knowledge that their expensive tariff is becoming slightly cheaper may mean these consumers wrongly assume that they are on a good deal. In fact, they could make far larger savings by switching, but be put off from doing so.

This is illustrated by the 'safeguard tariff' in place for consumers who receive the Warm Home Discount. While this will save these consumers an average[1] of £66 per year from April, the amount saved by switching can be five times that.

Despite this, if an energy price cap is to be introduced, an absolute price cap is preferable to a relative price cap.

A relative price cap would see firms only able to set their most expensive price a set percentage above their cheapest. This would simply result in firms withdrawing their cheapest deals. It would create the worst of both worlds. Some consumers would still be paying more than they need to on expensive tariffs, while many firms would not offer prices as cheap as they currently do. Implementing a relative price cap would not see long standing customers save significant amounts of money, but would lead to the loss of the cheapest deals and therefore dis-incentivise switchers from continuing to do so, or being able to save as much as is currently possible.

Against the suggestion of a relative price cap, an absolute price cap is preferable. But better yet would be intervention targeted specifically at protecting only those consumers who aren't able to engage in the market and switch.

We hope that this evidence is a useful contribution, and would be available to provide further evidence if the Committee feels that this would be useful for its scrutiny of the Bill.

About Martin Lewis

Martin Lewis is the founder and executive chair of MoneySavingExpert.com. He has been a key voice communicating to consumers how the energy sector works, and encouraging them to switch in order to get the best deals.

Martin is also an unfailing consumer campaigner. Recent examples of successful campaigns in the energy sector include his call for better consumer protection when energy firms goes bust, against misleading methodologies of how much consumers can save by switching, and prompting the regulator to take action when exit fees were incorrectly communicated and applied. Other key campaigns include helping millions reclaim mis-sold PPI and bank charges, and against an unfair Government U-turn on student loan repayments.

About MoneySavingExpert.com

MoneySavingExpert.com is the UK's biggest consumer website dedicated to saving people money on anything and everything by finding the best deals, beating the system and campaigning for financial justice. It's based on detailed journalistic research and cutting edge tools, and has one of the UK's top 10 social networking communities.

During February 2018 MoneySavingExpert had 16.3 million users, visiting the site 28.7 million times, and looking at over 73.6 million pages. Over 13 million people have opted to receive our free weekly email, more than 1.7 million users have registered on the forum and over 3.2 million have joined our Cheap Energy Club.

[1] This is based on typical usage.

About Cheap Energy Club

Cheap Energy Club is part of MoneySavingExpert.com. Over 3.2 million consumers have signed up to Cheap Energy Club since its launch in February 2013. It is more than just a comparison site. Cheap rates normally only last 12 months or so before the price is increased. That means it is hard work to stick with the cheapest. Therefore, we do that work for consumers using a three step process:

- Step 1. We find consumers the cheapest deal. They register for the Club and we check they are on the cheapest deal. If they are, great – it's on to Step 2. If not, we do a full market comparison to find the cheapest (with lots of guidance). If the supplier works with us, we handle the switch, if not we link the user to the supplier's site directly. Plus there is up to £25 cashback if consumers switch via the Club, which is not available direct with suppliers.
- Step 2. In the background, each month we do a comparison for consumers. Energy prices change: if on a variable tariff it may be hiked, or, depending on the market, even cheaper fixes may be launched. So without consumers doing anything, whether they switched or not, from then on we do a comparison for them in the background each month to check they are still on the cheapest deal. Plus around 50 days before their fix ends, we will check their options so they can compare what they would pay if they do nothing versus switching again.
- Step 3. Alert consumers when it is worth switching again. Consumers tell us what 'worth it' means. If they tell us they want to save £150 per year, once they can we will email them; and without them entering new information (unless it's changed), will tell them what the cheapest deal is, and let them shift at speed.