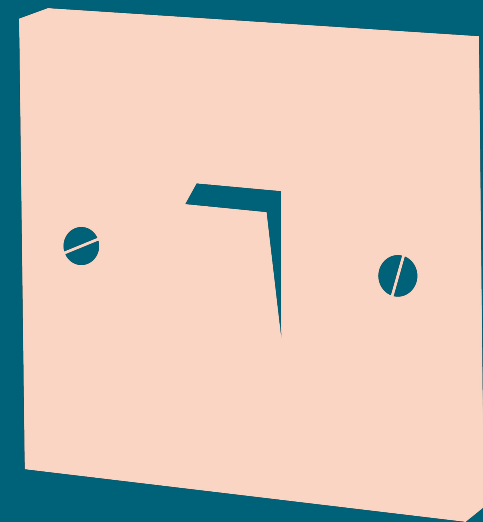


When the cap no longer fits

Discussion paper on protecting energy consumers
when the price cap ends



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Introduction

There are two price caps in place for domestic electricity and gas consumers

For the tariffs they apply to, they set limits on the unit rates that can be charged.

The first applies to around 4 million households with prepayment meters and was introduced in April 2017 following an in-depth investigation into the energy market by the Competition and Markets Authority.

The second applies to around 11 million households on default tariffs, which can be defined simply as any tariff that the consumer has not chosen to sign up to. This was introduced in January 2019 following the passage of The Domestic Gas and Electricity (Tariff Cap) Act 2018. In this document we will refer to these two caps as the PPM cap and the wider cap respectively.

Both caps are explicitly time limited. For the PPM cap this is by Order. For the wider cap it is by primary legislation.

Both caps could be removed as soon as the end of 2020¹.

Citizens Advice supports the caps being temporary. But we do not want them removed until we can be confident that the problems that led to their introduction will not simply re-emerge. We think that some form of enduring price protection is likely to be needed for vulnerable consumers after the wider cap is lifted.

Ofgem and BEIS have been jointly considering the future of the retail market. This includes giving consideration to what might succeed the price caps. As the statutory advocate for household and small business energy consumers we are frequently asked our views on what should come next.

Introduction

To help inform our decision-making, to foster debate within the sector, and to be transparent about our emerging thinking, we are publishing this discussion paper. It sets out our headline thoughts on various alternative policy models that could succeed the price cap. The range we explore reflects the principal ideas that have emerged in discussion with stakeholders. But it is not exhaustive. There may be other options not covered here that are worth exploring.

We do not provide a firm recommendation on what policy proposal should succeed the wider cap. We think it is too soon to reach a firm conclusion on this. There is considerable further design and assessment work needed before we can and will reach that position.

We also do not attempt to provide an impact assessment of the different options. And we do not provide any detailed description of scheme design beyond a very brief headline portrait of how they might work. This analysis will be needed when the range of options is much narrower and more manageable.

What this paper instead seeks to do is provide a brief outline of what we currently see as the key policy choices, and their main implications. The aim of this is to prompt debate and consideration of their practical implications, and to understand where there is or is not consensus among stakeholders.

We consider the arguments for providing protection to a narrow group of vulnerable consumers versus a broader group of disengaged consumers, and whether differential support for different groups may be merited.

We then provide a high level overview of the possible pros and cons of eight different models, many of which are not mutually exclusive and could be applied in combination.

But first, given that we are considering what should succeed the price cap, we provide some views on our experience of it to date.

Early experience

The wider price cap is still in its early days, so caution is needed when considering conclusions on its impacts. But from the experience so far, we have seen some trends.

Switching remains healthy

The switching rate for 2019 was at record levels, up 9% on the previous year². Initially we thought the increase might be short-lived, reflecting the large hike in the level of the cap announced in February. Price increases have often prompted consumers to shop around. But it increasingly looks as though it is the continuation of a longer-term trend of rising engagement, as higher switching rates have continued through the summer and into autumn. So for switching rates, the picture is positive.

Price spreads between the level of the cap and market leading deals remain wide

Price gap in £ between the average Big 6 standard variable tariff and the cheapest deal on the market³



This does not mean that consumers are not saving money through the cap. Ofgem estimates a consumer saving of ~£1.2bn this year⁴. Nevertheless, the existence of a big gap may erode confidence in the cap over time, if consumers perceive it as not offering protection.

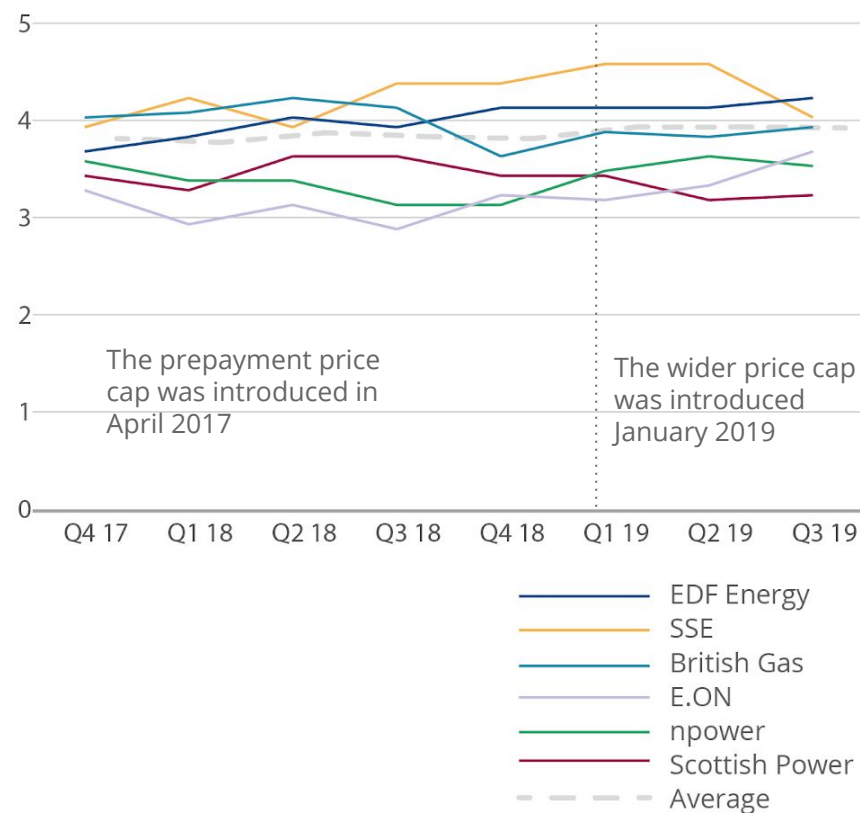
Early experience

Quality of service appears relatively unaffected

The former incumbent suppliers are the most financially exposed to the price cap as they have so many customers on default tariffs. If the price cap was to lead to a decline in customer service, we would expect to see this reflected in their performance in their Citizens Advice Star Ratings. These measure quality of customer service. However, to date, we aren't seeing a drop. Over the last eight quarters⁵, the average star rating of the largest 6 suppliers has essentially been flat. At the time of writing only three quarters of 2019 Star Rating data was available. We are aware that some cost cutting may be yet to come, or could take time to flow through to consumer outcomes, so we will continue to monitor the situation carefully.

Consistency in customer service since the price cap was introduced

Star Rating scores for the largest 6 suppliers, Q4 2017 to Q3 2019



Early experience

We are seeing signs of significant cost cutting and decreasing profitability or increasing losses

at the largest suppliers, based on their financial and other statements.

There is significant, and growing, smeared bad debt in the industry caused by supplier failure. 17 energy suppliers have gone bust in the last two years. We do not consider the price cap to have been a significant cause of this. Most failed suppliers had relatively few customers on default tariffs. But these failures have left behind a large amount of bad debt that is socialised within the sector. We calculate this to be at least £255m⁶. Suppliers chosen to act as a Supplier of Last Resort may also face additional costs associated with carrying out that role.

While the price cap is designed to include headroom, no specific allowance was made for supplier failure and these bailout costs are likely to be making it significantly more challenging.

Separately, we understand that some suppliers do not think that the cap makes sufficient allowance for the costs associated with smart meter rollout. We do not have the data to reach a view on how credible these arguments are.

There is limited public awareness of the cap and incomplete understanding of what it does

Despite its significance to the policy debate within industry, recent polling for Citizens Advice and Ofgem found that only 20% of customers had heard of the wider cap, and fewer (15%) had both heard of it and understood how it worked⁷.

What next?

We think that policymakers need to make two key decisions on what should follow the cap.

The first is on which, if any, consumers may need protection - how wide should any intervention be?

The second is on what form any future protections will take. A wide range of options are possible, from the light touch through to the highly interventionist, and there are pros and cons to each.

The remainder of this discussion paper seeks to explore these two key decisions, starting with the question of how wide any protections should be.

Key choice one

How wide should protection be?

Consumers differ widely both in how much they are engaged with the energy market, and in the consequences if they are disengaged

The arguments for intervening on behalf of engaged consumers are weak. Those who shop around are likely to be able to beat the price of any backstop protection.

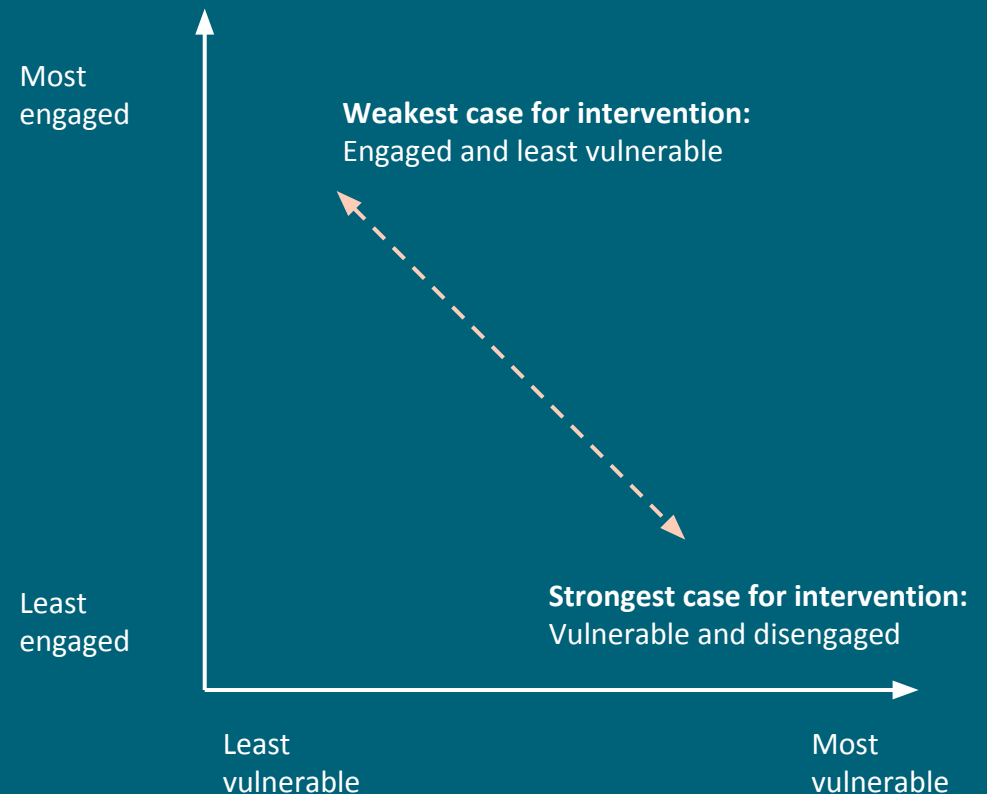
The consequences of disengagement are likely to hit the financially vulnerable far more heavily than they hit the affluent.

Policymakers must therefore consider whether any intervention should be narrowly targeted on the most vulnerable disengaged consumers, or take broader effect, helping a wider group.

Blended options are possible, where both narrow and wide groups are targeted, but with different options. In effect, that was the position the CMA landed on, making a significant intervention (the PPM cap) to assist a narrow group and more limited interventions to help a wider group.

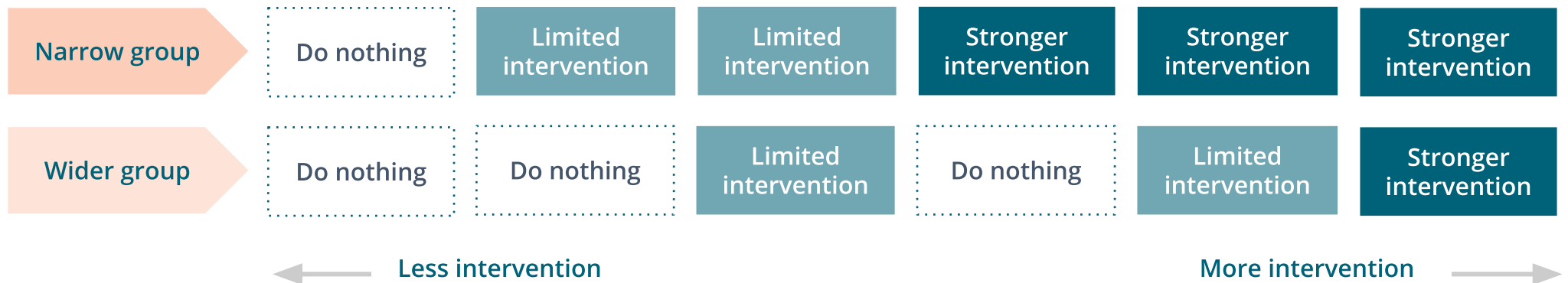
Policymakers should also consider whether they should do nothing.

How levels of engagement and vulnerability influence the case for intervention



How wide should protection be?

Sliding scale of the strength and breadth of policy choices



Considerations at different levels of intervention

It is important to be mindful of any potential for adverse unintended consequences on the engaged segment of the market that could result from intervention to protect or assist the disengaged. For example, if any price protections were so attractive that they punished engagement, it is unlikely that this would be acceptable to policymakers.

It should also be noted that the choice of whether to intervene narrowly or more broadly may affect whether the responsibility for delivering change lies with government or Ofgem. For example, while Ofgem has been clear that it considers that it could introduce some form of enduring protection for vulnerable consumers, it was equally clear that it considered that the introduction of the current wider cap was a matter for government and not something it could have delivered without explicit enabling legislation.

Some of the key arguments for wider and narrower intervention are summarised on the next page.

How wide should protection be?

The arguments for narrower vs wider intervention



Arguments for narrower intervention

There's a stronger moral case to defend those who can't afford to be ripped-off than those who can, and those who face personal barriers to engagement than those who choose not to engage.

Targeted intervention may be deeper, providing more assistance to those eligible than a mass market intervention.

Lower risks of unintended consequences. For example, of causing supplier failure or quality of service problems (because costs can be absorbed elsewhere).

More chance of getting industry buy-in(?), and therefore becoming a stable, enduring solution.

Can provide a test bed for intervention that could be later widened. ("If you're not sure if it will work, go narrow first.")



Arguments for wider intervention

Just because someone can afford to be ripped off, that doesn't make it right.

Narrower interventions may simply push detriment from the protected to the unprotected.

The statutory definition of vulnerability is a poor match for actual vulnerability - any narrower help may be badly targeted⁸.

Large suppliers have unilateral market power over their default tariff customers. Go narrow & you fail to address this.

We've spent 20 years trying to encourage people to switch, with limited success. It seems unlikely that relying on information or 'nudges' alone to help the majority will pay dividends.

Key choice two

What approach to take?

A range of possible successors to the price cap have been suggested.

Our discussions with, and publications by, industry, government, Ofgem and other stakeholders suggest there are a wide range of ideas for what could succeed the price cap. We have grouped these into 8 archetypes.

These archetypes are explored in the following section.

1. Some form of continuing price cap
2. Mass opt-out collective switching
3. Setting up a backstop supplier offering fair prices, that disengaged consumers would be moved to
4. Opt-in collective switching, with much stronger nudges and/or support to try and improve take-up
5. Reforming the current universal supply obligation
6. The creation of a 'price to beat'
7. Social tariffs
8. Do nothing

What approach to take?

Timescales for implementation

Approaches will differ in how quickly they could be implemented

While some have been trialled (like opt-in collective switching) or are already live (like the cap itself), others would require further design and implementation work. This timeline suggests indicative dates for discussion of the earliest year in which any of the remedies could be in place, taking into account the extent to which the option has been trialled and the likely level of implementation difficulty. We include it in order to prompt debate and more detailed impact assessment would be required before reaching firmer timings.



What approach to take?

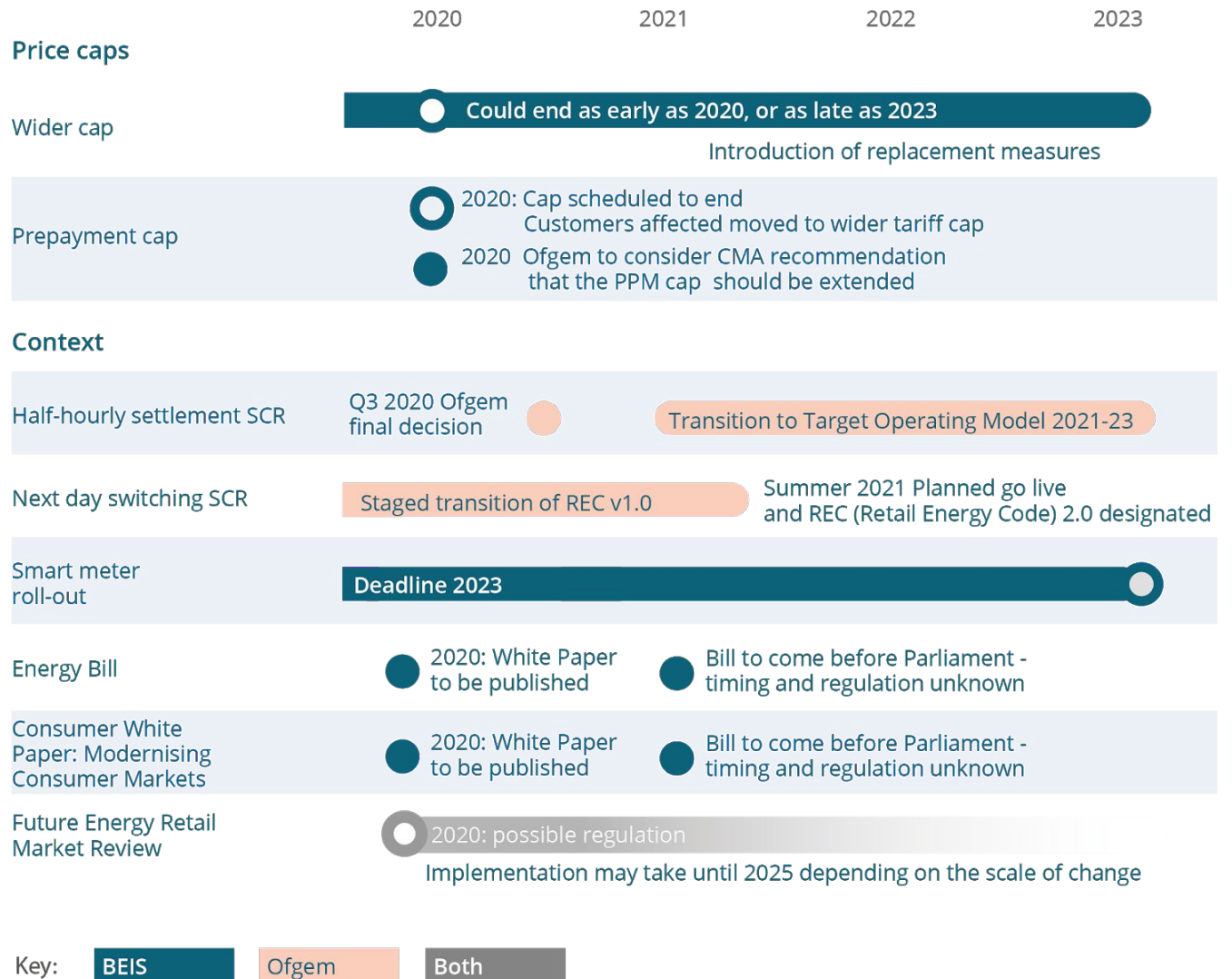
The wider context

There are an extremely broad range of wider industry reforms that may interact with the successor to the price cap.

These reforms will affect the deliverability and effectiveness of any successor arrangements. They could also change Ofgem and BEIS perceptions of whether action is still needed. In other words, of whether the market is competitive and any distortions have been removed.

Key related areas and their timelines are shown in the timeline on the right.

The wider landscape of retail market reform



What approach to take?

1. Continuing price cap

How this would work

This approach would see the continuation of price caps in some form. This could take a broad form, similar to the current default tariff cap, or could be narrower with eligibility restricted to those who are vulnerable and/or disengaged.

Variants on this approach could see other filters used to increase or reduce the number of tariffs or suppliers who are subject to the cap. An example of the former could be to constrain caps to unusual legacy time of use tariffs that are only offered by one or two suppliers, or to tariffs for 'dumb' prepayment meters while the smart meter rollout remains incomplete. An example of the latter could be to only apply caps to legacy suppliers or those with a high percentage of disengaged consumers.

Strengths / opportunities

While it is still relatively early days for the current price cap it is nonetheless a more tried and tested approach than some of the other options on the table, and that early experience has suggested that engagement and quality of service have held up reasonably well.

The potential for consumer savings for eligible consumers is very significant: Ofgem estimates around £1.2bn/year from its current cap. This approach provides strong incentives to improve efficiency and to constrain excess profits, both of which are areas where the CMA had concerns.

It may be more realistic to try and constrain detriment in this fashion than by trying to encourage consumers to switch; we have never had majority engagement in the retail market and it is not clear that outcome is achievable.

A narrow cap may be capable of buy-in from large suppliers, though this may be because it can be funded through pushing costs onto their other disengaged consumers.

What approach to take?

1. Continuing price cap

⚠ Weaknesses / risks

It may be hard for regulators to set caps at the right level - too high and they will not protect consumers, too low and they may discourage investment or cause financial failure. These risks grow the longer any price cap is in place.

If a price cap is set only for a narrow group of consumers it may simply displace rather than reduce detriment, with costs pushed onto others.

While we do not believe this has been demonstrated during the first year of the wider cap, there are concerns that price caps may weaken engagement and reduce quality of service.

It is much easier to apply caps to a single rate tariff than to a multi rate one. Smart metering and smart homes are expected to open up a world of time of use pricing. There is some risk that consumers could be worse off under price capped time of use tariffs if they do not reflect their consumption patterns. There may be some risk that a price cap applied solely to simple (i.e. single rate, or conventional Economy 7) tariffs could discourage the take up of time of use tariffs.

The existing price cap is subject to an explicit sunset clause because parliamentarians were not willing to pass an enduring cap - an enduring cap may not be politically deliverable.

What approach to take?

2. Mass opt-out collective switching

How this would work

Mass opt-out collective switching would involve progressively auctioning off the accounts of disengaged consumers. Having been notified that they will be switched, the consumer can opt-out - but would have to take action to do so. If they ignored the communication, they would be switched to the successful supplier.

Strengths / opportunities

The major strength of this model is that it should deliver good price outcomes for eligible consumers. The large number of participants in the market should, subject to auction design, lead to a high degree of competition for new accounts, driving good prices.

The regulator (and government) does not need to understand suppliers' costs and therefore, in theory, prices can't be set "too high" or "too low". To those who favour pro-market solutions and do not like the government setting prices, this may feel like an attractive option.

While auctions are naturally price focussed, there is the potential to also have an incentive effect on quality of service (eg poorly performing suppliers could be excluded).

This model is potentially quite scalable. For example, you could initially start off by only auctioning the very long term disengaged, and then widen if early results are positive.

What approach to take?

2. Mass opt-out collective switching

ⓘ Weaknesses / risks

Without explicit consumer engagement you do not know what they want, and there may be legitimate good reasons why consumers are happy with their current supplier (because they receive the Warm Home Discount, because they have received good service in the past, etc).

Past research has suggested significant consumer concerns with this model, particularly from those in vulnerable circumstances⁹.

If these auctions deliver good prices, they may undermine incentives on consumers to shop around for themselves.

While prices would be market led, it does not follow that they will necessarily be sustainable as suppliers typically acquire customers at a loss.

There may be inefficiency costs associated with allowing incumbents to scale down very rapidly (eg customer service functions built for millions now only serving hundreds of thousands), or challenger brands scaling up very rapidly (eg they may be unable to cope, or to serve vulnerable consumers well).

There are duty of care issues that would need to be resolved in relation to transfers that fail, or if consumers are transferred to a supplier who cannot offer good service.

Some of these issues are potentially soluble, or mitigatable, through good auction design. For example, the duty of care issue could be mitigated through 'hand-holding' obligations (on auctioneer and/or auction winner), some of the quality of service issues could be addressed through eligibility criteria, or by restricting growth rates, the Warm Home Discount could be incorporated into any savings figure, and so on.

It could be argued that this approach is in effect far more interventionist than the price cap. Under the price cap suppliers profits are constrained but they keep the consumer. Under this model, they lose them, potentially forever. There may be limited political or regulatory appetite for this level of intervention.

What approach to take?

3. A backstop supplier

How this would work

Under this approach, the government would create, tender for, designate, or seek volunteers for a default supplier(s) for disengaged consumers. Consumers meeting the eligibility criteria, which could fall anywhere on a sliding scale from very narrow (long term disengaged and vulnerable) to very broad (all disengaged) would be moved from their current supplier to it.

The profit margin of the supplier could either be set by the market (if there is a liquid pool of bidders for the role), be set on a 'cost plus' basis, or be not-for-profit.

Strengths / opportunities

This model could ensure fair prices for eligible consumers, providing the supplier is efficient. It might defuse public concern that these consumers are paying more than they should.

As the tendering party, the government should be able to set minimum standards of service that ensure all eligible consumers receive reasonable service.

From an advice provision or problem resolution perspective, dealing with a single supplier may be easier than dealing with many.

What approach to take?

3. A backstop supplier

ⓘ Weaknesses / risks

If applied most broadly, this approach could threaten the ongoing operation of the larger suppliers, perhaps forcing some out of business. This could leave a very limited pool of suppliers - perhaps principally just the backstop supplier - serving the most vulnerable consumers.

You may struggle to tender or re-tender given the scale of the service (or, ironically, find that only the large incumbents could bid). Defining an efficient cost base for the default supplier comes with all the problems of trying to define an efficient level for a price cap, and if you simply allow a guaranteed rate of return on its incurred costs then you are likely to lack efficiency incentives. Incentives on the backstop supplier to be innovative may be weak.

Decisions about the standard of service for these customers will have a big impact on cost and will be difficult for politicians/regulators to manage - for example, should it have a phone line, what hours should it be open, what's an acceptable wait time etc.

This supplier may have a disproportionately large number of high cost to serve customers, resulting in its offer to consumers being an expensive one. Depending on whether costs are smeared more widely or not, it could result in engaged consumers avoiding paying their share towards the social costs of 'hard to serve' customers, who may be disproportionately likely to end up with the backstop supplier.

What approach to take?

4. Opt-in engagement measures, with enhanced support

How this would work

This approach would build on Ofgem's trials with its disengaged customers database. Consumers who are disengaged would be approached with personalised offers, tailored through knowledge of their current tariff and consumption levels. These offers could be generated by collective switching, by highlighting best existing offers on the market, or both. Ofgem has also trialled appointing a third party to 'package' disengaged customers together, and run an auction to offer these customers better deals than those available in the wider market.

This could be coupled with enhanced 'hand-holding' to try and reassure consumers and make it as easy as possible for them to go through with the transaction. For example, Ofgem's trialling has found that the simple step of having a telephone number that the consumer can call to talk through the offer and process resulted in much higher take-up by pensioners than online only routes. It has also expressed an interest in trialling face to face support for the most vulnerable consumers.

While we had concerns at the time of the CMA investigation that this type of approach might be considered invasive by some consumers given the use of

their personal information without upfront consent to produce their personalised offer, Ofgem has implemented an opt-out step before this takes place and the trials suggest it has not prompted many complaints or concerns in practice.

Because you are trying to engage the deeply disengaged, it may not be likely that this model will develop naturally (eg price comparison websites may prefer to chase lower hanging fruit). There may be a case for creating a not-for-profit autoswitching service that could either switch consumers to a better existing tariff or run collective switches that have a specific focus on targeting disengaged and/or vulnerable consumers to try and fill this gap.

Strengths / opportunities

This approach has now been quite heavily trialled, and comes with low risks of unintended consequences. Trials have resulted in a significant uplift in switching rates, with up to 8 times as many households switching as in the control group. Data from the third party running the trial has demonstrated re-engagement in the following year of 38% following a new prompt¹⁰.

What approach to take?

4. Opt-in engagement measures, with enhanced support

It is very scalable and could be used simply to target the long term disengaged and vulnerable, or much broader cohorts.

Outgoing Ofgem CEO Dermot Nolan has commented in the past that some form of switching service may be needed to help vulnerable consumers; this approach may therefore be consistent with regulatory thinking.

The risk of losing customers through this mechanism should enhance incentives on suppliers to improve their engagement with their existing customers in order to avoid their selection for participation.

⚠ **Weaknesses / risks**

While the trialling of this approach has led to a significant increase in engagement levels compared to the general population, to date it has still only resulted in a minority of consumers switching. It may therefore be argued that while an improvement on the status quo, it does not solve the problem of majority disengagement.

In so far as disengaged consumers cross subsidise the engaged this approach may simply reallocate detriment, rather than reduce its overall scale.

Marketing rules may prevent consumers who have opted out from marketing from receiving these prompts. Supplier data shows that those who opt out of marketing are more likely to be disengaged, and if this problem is not fixed there could be incentives for suppliers to encourage customers to opt out of marketing. These issues may be difficult to overcome in the current data privacy framework - even through legislation. Data privacy rules also make it difficult to use communication methods other than letters to contact consumers, which may limit the effectiveness for some consumers.

What approach to take?

5. Reforming the current universal supply obligation

How this would work

In theory, suppliers are obligated to offer terms to all domestic consumers, and cannot disconnect customers at the end of a contract. Similarly supply to a home/premises continues even after a customer moves out, with the new tenant automatically having a 'deemed' contract with the existing supplier.

It is argued by some that this framework prevents specialisation. For example, even if a supplier wanted to be a prepayment specialist they would have to be able to offer credit payment terms. This requirement to be generalist may deter the creation of niche or genuinely innovative business models, to the detriment of consumers.

A hypothesis last summer's joint **BEIS/Ofgem paper** sought to test is whether consumer engagement and outcomes could be improved by removing the obligations on suppliers to serve all customers, and/or allowing some licence conditions to be switched off for some suppliers, in order to allow for specialisation.

It should be noted that despite existing universal supply obligations, we are seeing suppliers adopt models that exclude some consumers, for example through online-only customer service or requiring significant credit to be posted upfront when switching.

Strengths / opportunities

It may foster more innovation and specialisation. The removal of generalist obligations may reduce barriers to entry and costs to serve.

Weaknesses / risks

It may result in worse outcomes for 'hard to serve' consumers. They may find that they have fewer deals, less choice and higher prices. There is a risk that it may embed, rather than erode, disengagement. There is significant innovation in the market under current rules and it is not clear what might come forward that could not come forward already.

What approach to take?

6. A price to beat

How this would work

Under this approach, Ofgem would set, and periodically update, a 'price to beat' reflecting a fair price to supply energy. Suppliers would not be compelled to beat that price, however it would be used as a 'naming and shaming/faming' mechanism. By creating differential shame/fame, the intention would be to encourage consumers to punish high cost suppliers and reward low cost ones. This approach has been suggested by large suppliers.

Strengths / opportunities

From a government and regulatory perspective, this approach appears to be relatively light-touch and could be straightforward to implement and operate. If used in combination with other remedies, it could provide a focus for deciding where intervention should be focused (see 'Combining options' section below).

Weaknesses / risks

There is little reason to think this approach would work. Awareness of the right to switch is extremely high and consumers are already bombarded with messages that there are cheaper deals out there and they should switch, yet most do not. Relying solely on strong generic nudges on the benefits of switching is an approach that has been extensively tried in this sector, with limited success.

What approach to take?

7. Social tariffs

How this would work

Suppliers would provide social tariffs at or below cost to their vulnerable consumers. If below cost, the losses would be recovered from their other consumers. Eligibility criteria would need to be developed.

Self-regulated or mandated variations of this option are possible. Under a self-regulated model, the industry might choose to develop and offer commitments to provide social tariffs. It may be unlikely that industry would wish to do so if government or Ofgem were likely to implement alternative interventions, so this could take the form of a quid pro quo - i.e. industry agreeing to self-regulate providing no intervention is imposed on it, with government/Ofgem agreeing not to intervene provided self-regulation provided adequate protection.

A mandatory model would remove that discretion, with either Ofgem or BEIS prescribing the situations in which a social tariff should be offered and minimum requirements for how it should be applied and configured.

A model along these lines could build on or replace the Warm Home Discount, eg there might be no need for it if the social tariff contained an equivalent discount.

A variant of this model could see vulnerable consumers exempted from policy costs, with the costs associated with them borne by other consumers.

The social tariffs approach differs conceptually somewhat from many of the other options contained in this note in that its focus is on delivering an affordable price to recipients rather than an efficient price to them. It would more explicitly be a subsidy flowing from some customers to others.

Our wider work on social tariffs

The cost of essential services for consumers on a low income or in vulnerable circumstances is a significant driver of the cost of living crisis. 14% of the poorest households' incomes goes on their energy and water bills. The FCA found these consumers were paying more than they should for insurance. We want to find out if social tariffs could help to address this.

We are currently conducting a cross sector review of social tariffs, which we expect to complete in this spring.

What approach to take?

7. Social tariffs

✓ **Strengths / opportunities**

This approach could allow for deeper financial support for qualifying consumers than a price cap, as it could be designed as a subsidy (while price caps are intended to be challenging, they are not intended to set prices below efficient costs).

The voluntary version of this approach should be financially sustainable for suppliers and more likely to provide a basis for consensus than more interventionist options.

⚠ **Weaknesses / risks**

There may be inconsistencies in qualification criteria or price setting between suppliers, resulting in perceptions of unfairness.

This approach is only compatible with a narrow intervention, and would not help most consumers. It would be likely to increase prices for those consumers

who are disengaged but not vulnerable, as they would be contributing to the costs of providing the scheme while not receiving any benefit.

It could incentivise suppliers to avoid providing energy to eligible customers, whereas the current Warm Home Discount has some cost sharing mechanisms to account for different customer bases.

The self-regulated approach could lead to uncertainty on what (if anything) would be offered, whether it would be meaningful, and on whether these tariffs could be pulled at any time. The self-regulated approach has been tried before and its failings led in part to the introduction of the Warm Home Discount, which gives more certainty that vulnerable consumers will receive meaningful financial assistance.

What approach to take?

8. Do nothing

How this would work

When the PPM and wider caps end, nothing would be put in place to replace either.

It is possible, but far from guaranteed, that separate ongoing initiatives such as the introduction of quicker switching and half hourly settlement for domestic consumers may have impacted on underlying consumer engagement and/or the nature of competition, reducing or removing the need for other protections.

Strengths / opportunities

Extremely easy to implement.

May result in better customer service outcomes for consumers served by the largest suppliers than many of the other options, as they would be under less cost pressure.

Could reduce risks of supplier failure.

Weaknesses / risks

Reversion to something similar to the status quo prior to the introduction of the price caps is likely to result in similar outcomes. The CMA found that large suppliers were in a position of unilateral market power in relation to their disengaged consumers, who were paying £1.4bn/year more than they would be expected to in a well-functioning market.

While switching has been increasing in recent years, it remains the case that most consumers are disengaged - and that those in vulnerable situations are particularly disengaged. It is therefore likely that most consumers would be worse off under this model, with the vulnerable particularly exposed to detriment.

What approach to take?

Combining options

Few if any of the options listed above are individually discrete, and they could be used in combination. Different options could be applied to different groups of consumers. For example, if one were of the view that there is a much stronger argument for protecting vulnerable consumers you could choose a relatively interventionist option for that segment of society, such as a price cap, while choosing a more limited intervention for other disengaged consumers, such as opt-in collective switching or a price to beat (or, do nothing).

Equally, some of these approaches could be regarded as complementary, and applied in combination to the same group of consumers. For example, you could implement a price to beat alongside opt-in collective switching for the same group of customers, with the former providing a nudge that they are being paying too much, and the latter providing a route for them to act on that nudge.

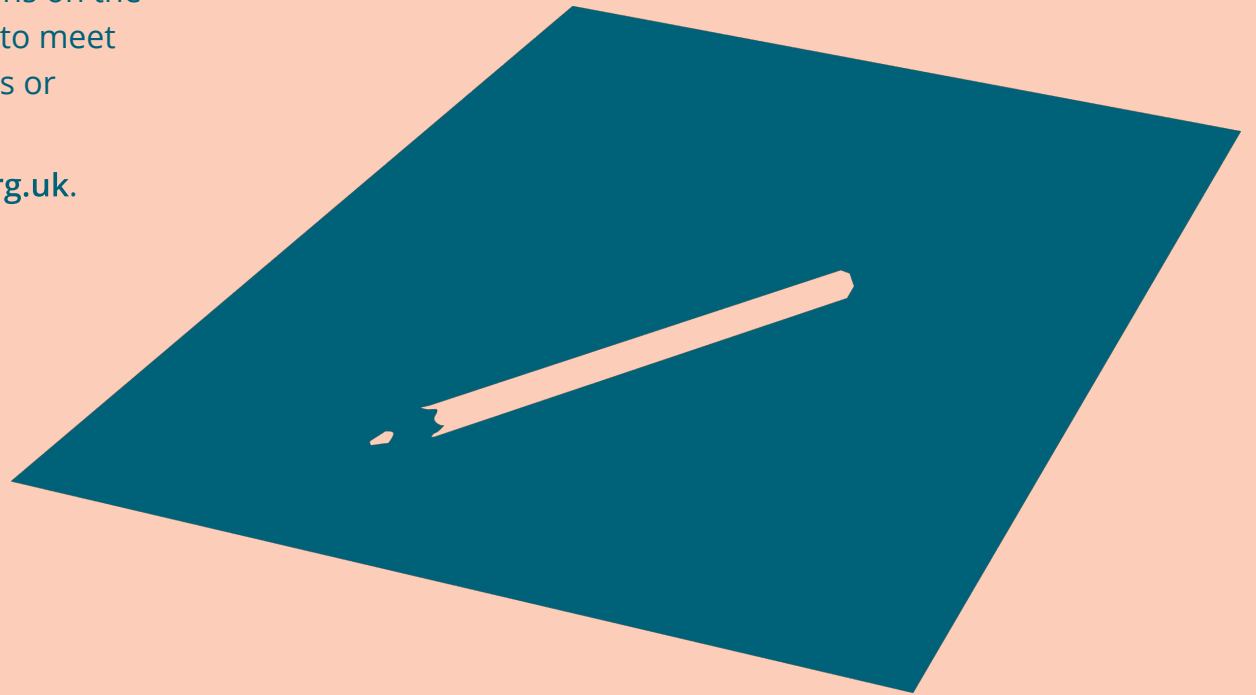
What's next?

Your views

This paper is intended to prompt discussion - your views are very important to us. To gather stakeholder feedback, it is our intention to hold a roundtable event in March 2020. We will publish a note of the event afterwards to help those who cannot attend to understand the discussion.

We would also welcome any written submissions on the issues raised in this paper, or would be happy to meet bilaterally, or set up a call, to discuss your ideas or feedback.

Please contact: richard.hall@citizensadvice.org.uk.



References

1. The Conservative manifesto contained a commitment to 'keep our existing energy cap.' Our working assumption is that this means that existing legislation enacting the price cap will remain unchanged. That legislation contains sunset provisions that mean the cap is explicitly time-limited, and can be removed no earlier than December 2020 and no later than December 2023.
2. Energy UK (2020) Press release: **Record 6.4 million customers switch in 2019**
3. For a dual fuel consumer at TDCV consumption levels paying by direct debit.
4. Ofgem (2019) **Consumer impact report: financial year 2018-19**
5. The current methodology for the Star Rating was introduced in Q4 2017.
6. Citizens Advice (2019) Press release: **Failed energy suppliers cost consumers £255m since 2018**
7. Accent Research, for Ofgem and Citizens Advice (2019) **Household consumer perceptions of the energy market: Wave 4 July 2019**
8. The Electricity and Gas Acts set out specific categories of consumers that the Secretary of State and Ofgem need to have regard to when making decisions. These relate to individuals who are:
disabled or chronically sick; of pensionable age; with low incomes; or residing in rural areas.
9. Ofgem (2019) **Pioneering policy making**
10. energyhelpline (2019) **A roadmap to engage with eight million disengaged energy consumers**
11. BEIS (2019) **Flexible and responsive energy retail markets: consultation**

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