



Retail Policy Interventions  
Ofgem  
10 South Colonnade  
Canary Wharf  
London E14 4PU

By email: [retailpolicyinterventions@ofgem.gov.uk](mailto:retailpolicyinterventions@ofgem.gov.uk)

14 January 2022

Dear Neil,

Thank you for the opportunity to comment on the proposals for potential intervention to address short term volatility in the retail energy market.

The market is going through a seismic change that has the potential to alter consumer behaviour for a period outlasting the current volatility. The current gas crisis has resulted in consumer interest in the market being at an all time high while actual activity in the market (i.e. switching) is at its lowest while suppliers are unable to offer competitive tariffs.

Given the importance of the energy market in delivering Net Zero, it is crucial that consumer behaviour and engagement with the market remains unaffected long term by this temporary situation the retail energy market is undergoing. Any regulatory interventions therefore should specifically consider the long term impact on consumer behaviour. Intervention of the kind considered should only be made where absolutely necessary and where required the structure of the remedy should minimise the risk for long lasting undesirable consequences to be realised.

### **The impact of gas crisis on suppliers**

As a result of regulatory design and ongoing gas crisis, energy suppliers have incurred significant losses, especially supplying customers on default tariffs. The energy price cap prevented suppliers from charging customers what their energy actually costs. It is reasonable that suppliers have to have a way to rectify this imbalance, notwithstanding the significant consumer cost of living challenges that must separately be addressed by the Government.

We are expecting the energy price cap to rise significantly in April 2022, giving suppliers the opportunity to reflect the cost of supplying energy to customers on default tariffs more accurately. With gas prices still volatile, it is unlikely that many suppliers will be in a position to offer customers competitive tariffs as an alternative any time soon.

Therefore, we agree with Ofgem that the measures outlined in the consultation are unlikely to be needed, as it is highly unlikely material customer switching will return in the next cap period, allowing suppliers to recover some of the losses made this winter.

## **Impact of regulatory intervention on consumers**

Should intervention still be considered, impact on customers should be Ofgem's primary consideration. We do not agree that the proposed measures are aimed specifically at protecting customers - their primary focus is to ensure suppliers recover their costs and therefore further supplier failures are prevented.

Discouraging switching in the short term would no doubt help suppliers in the unlikely event that the wholesale market made cheaper tariffs possible. However this would put consumers in an even more precarious situation, when most will not be able to afford the new costs. In a well-functioning market, customers would be able to shop around to get the best deal possible. If consumers are to be discouraged from switching to help manage their costs, other measures have to be taken to ensure we do not end up with an even deeper fuel poverty crisis. More targeted support for those most financially vulnerable is needed, at least until the market becomes more competitive and consumers can get more affordable deals.

Aside from immediate customer support, Ofgem has to also ensure that any regulatory interventions will not harm consumer confidence in the market any further or risk altering consumer behaviour long term. We do not think this has been properly considered when proposing these short-term measures. Even a six month change, on top of preceding six month of negligible customer movement, could have a significant impact on customer behaviour long term, especially given the implementation timeframes considered.

Most consumers are still expecting to switch when their prices go up and there will be pent up demand in the market for new deals after this winter when the default cap rises. If consumers are discouraged from switching at that time, it could further disengage a large proportion of the market that may not be willing to come back once suppliers recover, potentially requiring further regulation to ensure competition resumes. Even a short term intervention to how customers perceive SVTs would have a longer term impact, as the perception of barriers to switch from SVTs would likely linger well beyond the period defined by Ofgem. While the impact on switching in the next period would not be affected (as we do not think many suppliers will be offering attractive tariffs, so switching will remain low), if customers come to believe that switching from SVT is difficult, it will be challenging to get these customers to return at the later date once the market recovers. Ofgem's modelling does not seem to account for these long-term losses in consumer engagement.

To be clear, our concern is not just arising from a risk from the proposals that consumers will in future be less likely to access competitive tariffs as they become available, it is that consumer engagement in energy in general is required for households to make decisions that will support household transition towards Net Zero.

## **Preferred measure**

Therefore, if market dynamics change and any regulatory intervention is deemed to be needed, it should not impact consumers directly - in the aim to avoid any persistent long term unintended consequences on customer behaviour.

While we do not consider the current wholesale market dynamics justifies short-term intervention at all, out of the three options presented by Ofgem, we believe introduction of

**Market Stabilisation Charge would least likely impact consumer behaviour long term while still achieving Ofgem's objective.** We agree that it would reduce competition in the short term when consumers cannot see savings despite falling prices, but this can be attributed to market dynamics as the charge becomes a cost input suppliers have to consider.

Applying the charge to the whole market would prevent a "race to the bottom" among suppliers and would be easiest to remove without impacting consumer behaviour or requiring consumer information remedies alongside removal. While there may be some administrative costs incurred by suppliers to facilitate this change short term, there would be no consumer communications costs unlike the other remedies and in any event the net benefit to suppliers should be greater.

Sincerely,

Richard Neudegg

Head of Regulation, Uswitch