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Dear Sir/Madam,

This letter covers our initial thinking on potential longer term reforms to the default price cap, as outlined in your call for input. We agree with Ofgem that the price cap has provided protection for customers during this winter from the steep gas prices but this protection was not intentional and will only last for a short period if time, i.e. when the cap level is reviewed next. The price cap was originally introduced to protect customers from unfair pricing, which it is not doing right now. Instead, suppliers are severely penalised, especially those that run more efficient business models, as Ofgem and the Government had wanted them to. The current situation has not been modelled into the original default price cap methodology and resulted in a number of suppliers becoming unsustainable in the market.

The cap needs to be reformed to allow suppliers recover the costs in a volatile market and prevent any further supplier failures that could be detrimental to customers. However, the action needs to be proportionate to the risk and not just a reaction to events that have already happened and may not repeat themselves to the same severity in the time period the cap is meant to stay for.

The changes should also consider the impact they would have on customers and affordability. There is an imbalance between current costs to suppliers and what customers can afford to pay for a vital utility, especially those financially vulnerable. While we agree that the cap needs to be reformed and the cap is not the mechanism to protect the vulnerable, the changes have to come in conjunction with wider support being available for those not able to afford the change in price the reforms will bring, especially if the changes are implemented ahead of winter.

Current legislation states that the default price cap should remain in place until the end of 2023 at the latest, unless conditions of effective competition are met earlier. While BEIS has

already indicated that the cap period may be extended slightly, there has not been a confirmation of a change in policy to implement a permanent price cap. As a result, we believe the policy consultation Ofgem is looking to publish after this call for evidence should only deal with the current cap, i.e. the measures should only deal with potential market changes in the next two or so years. Longer pricing reform, if there is a need for it, should be a part of BEIS Retail Energy Market review as it will require further primary legislation.

In the medium term, we agree with Ofgem that reform of the default cap is needed to create a balance between suppliers recovering the costs and protecting consumers. The key to ensure the reforms do not have long unintended consequences is avoiding actions that could severely alter consumer behaviour. To ensure consumers remain engaged with the market, there still need to be clear disincentives to stay on a default tariff and customers should be able to switch freely. Therefore, we think tweaks to existing methodology are more proportionate at this point than a full scale reform of the cap.

Out of the proposed three options, the Fixed Term Default Tariff would likely be the most disruptive for a shorter period of time. If there is appetite in the industry to move towards such pricing structure, it should be part of broader retail market reforms, as consulted on by BEIS. Similarly, a quarterly cap would be costly to implement for a short period of time the cap is due to stay in the current form and, as Ofgem acknowledges in the call for inputs, does not actually address the issue of cost recovery - it just shortens the period.

Therefore, we believe the **proposed enhanced status quo would be the most proportionate solution given the current circumstances**, as:

- It would allow Ofgem to act in extreme circumstances
- It would maintain a system customers got accustomed to and provide them with some protection from high volatility
- It would give suppliers confidence they can recover costs when they become too extreme

However, to minimise uncertainty that a mid-term review could cause for suppliers and customers, we suggest the following additions to the proposals:

- Criteria for intervention have to be clear and concise. Ofgem should make the criteria public and leave little element of interpretation - prescriptive criteria would give the most certainty and limit the ability for suppliers to try and game the system.
- Only one mid-term review should be allowed per cap period. Allowing more than one review would reduce the effectiveness of the measure and create further costs to suppliers and uncertainty for customers. It would also become very difficult to decide when the intervention is needed.
- In case Ofgem does decide that a mid-term review is needed, the change in price cap should only come into effect at the mid-point of the cap period. This would give consumers more confidence and eliminate the potential for consecutive price changes in a very short period of time.

We hope our letter provides some valuable input to Ofgem's longer term thinking and are encouraged by Ofgem engaging with the industry on changes that will be so significant to customers. Such decisions should be very well thought out to limit unintended

consequences. Therefore, further engagement with a broader spectrum of industry stakeholders is needed. We look forward to engaging with Ofgem on these proposals further at the policy consultation stage.

Sincerely,

Justina Miltienyte

Policy Manager, Uswitch