

Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

Dear Retail Policy Interventions Team and Medium-Term Price Cap Adaptation Team

I write in response to your consultation on 'Potential short-term interventions to address risks to consumers from market volatility' and your call for input on 'Adapting the price cap methodology for resilience in volatile markets.'

Comparison Technologies operates one of the UK's largest Confidence Code accredited price comparison services in the UK, empowering consumers through both our own energyhelpline brand and a range of strategic partnerships.

We continue to support the principle of protecting disengaged consumers through a temporary price cap that remains in place until effective competition exists within the market. Unfortunately, it is now clear that the price cap methodology as implemented is actively preventing the required level of competition from developing. The negative impacts of the price cap on the prevalence and efficacy of consumer engagement are now sustained and proven.

The combination of the price cap methodology and rising wholesale markets has been suppressing switching since December 2020. The impact has been most catastrophic in recent months with switching through price comparison websites – normally the largest engagement channel – falling to almost zero since September, but year on year switching has declined in 11 out of 12 months of 2021<sup>1</sup> despite consumer bills rising by £235 in slightly over six months<sup>2</sup>.

As early as August Ofgem's own 2021 review into whether conditions are in place for effective competition within the domestic market concluded that none of the three conditions have been met. Given that this review was conducted prior to the exit from the market of 24 suppliers<sup>3</sup>, the change in advice to recommend consumers do not switch and the inevitable reduction in focus and investment in consumer engagement, it is very hard to see how the current regulatory framework will yield better results in the future.

With the data we now have on the impact on consumer engagement, it is hard to see how the current methodology fulfils Ofgem's obligation to have regard for 'the need to maintain incentives for domestic customers to switch to different domestic supply contracts.' The price

---

<sup>1</sup> Ofgem data portal: Gas transfers have declined YoY in every month of 2021 up to September except for April, we forecast that switching will have also declined in October, November and December. Note - Electricity transfers also increased in March so for electricity this is 10 out of 12 months.

<sup>2</sup> Compares 31<sup>st</sup> Mar 2021 with 1<sup>st</sup> October 2021, winter 21/22 direct debit price cap is £235 higher than winter 20/21

<sup>3</sup> Ofgem website, 24 domestic suppliers have existed the market since 6<sup>th</sup> August 2021, this count includes Bulb.

cap's success in protecting disengaged consumers must not prevent us from recognising and addressing the damage to effective consumer engagement. If we are to deliver an engaged, sustainable, and affordable energy market, it is vital that price cap methodology is consistent with the dual objectives of empowering consumers to engage and protecting those who do not.

Below we explain and provide evidence for the current price cap's negative impact on competition and consumer engagement. We then respond to the specific proposals Ofgem outlines in its consultation and call for input.

We look forward to engaging with Ofgem further as you develop your thinking on the evolution of the price cap.

Yours sincerely



Julie Harris  
Chief Executive Officer  
Comparison Technologies (energyhelpline)

## 1. How the Current Price Cap Methodology Negatively Impacts Consumer Engagement

### 1.1. The impact of reduced savings in a rising wholesale market

In a rising wholesale market, the price cap methodology significantly reduces the savings available to consumers looking to reduce their energy bills. A supplier's standard variable tariff (SVT) will reflect wholesale costs during the observation period whereas their cheapest tariffs, targeted at acquiring customers, will reflect the wholesale market at the time the tariff is launched. In a rising market this means that energy bought for acquisition tariffs is more expensive than that previously bought for SVTs, reducing savings available to consumers.

The primary reason consumers give for selecting a supplier continues to be cost related<sup>4</sup>, this is particularly true of consumers who engage through price comparison websites (PCWs) such as ours. When savings are reduced or not available, consumers who visit our comparison services intending to reduce their energy bills are less likely to switch and less likely to engage again in the future. Figure 1 shows the relationship between average savings and a consumer's propensity to switch when they visit our website, available savings are a strong predictor for propensity to switch, especially at the lower end.

[Figure 1 redacted]

Given that consumers are more likely to engage in a rising market (when they see their bills rising), the likelihood of consumers experiencing positive outcomes is therefore lower at the times they are most likely to engage.

A price cap will always limit savings available to consumers by placing a ceiling on the price suppliers can charge consumers on SVTs. This is proportionate and currently necessary to protect disengaged consumers, but the imbalance the current methodology causes between savings available in falling, flat and rising wholesale markets is unnecessarily harming consumers who are choosing to engage in the competitive market.

### 1.2. The impact of the timing of cap announcements and implementation on the efficacy of consumer engagement

The lag between the announcement of a cap increase and its implementation – typically around 55 days – significantly reduces the likelihood of positive outcomes for consumers who are driven to engage by the news of higher energy costs.

Consumers who visit PCWs, following an announcement by Ofgem that the cap is increasing, are expecting to be able to compare the tariffs available to them against the cost they will pay if they remain on SVT. The comparison consumers receive on the day of the announcement or shortly after will not reflect the cap increase because suppliers do not publish updated rate cards until several weeks after the announcement.

---

<sup>4</sup> Ofgem: Household Consumer Perceptions of the energy market, quarter 2 2021

Figure 2 shows that the largest spikes in consumer engagement (traffic to our website) driven by media coverage of the cap increase announcement is several weeks before suppliers publish their increased tariffs.

[Figure 2 redacted]

Consumers assume their comparison will reflect the increase to the cap and when they then see a comparison with low or no savings available, they assume, incorrectly, that they cannot save money by switching.

Figure 3 shows that the largest spikes in traffic to our website come before the increase in savings (resulting from updated supplier rate cards) increase consumers' propensity to switch.

[Figure 3 redacted]

The consumer engagement triggered by the cap increase announcement, therefore, does not result in the positive consumer outcomes we would observe if the consumers' comparison were immediately reflective of the SVT cost increases, they will experience.

We are seeing suppliers publish their increased rates (always effective on the implementation date of the new cap level) later and later, we presume to reduce the proportion of consumers who switch away from them as much as possible. Figure 4 compares the lag between cap announcement and suppliers' increased rates being published on our platform following the February 21 and August 21 announcements.

Fig 4: Shift in Supplier Publication of New Tariff Rates Following Cap Adjustment					
	Date of tariff update on PCWs (summer 21)	Days after announcement (summer 21)	Date of tariff update on PCWs (winter 21/22)	Days after announcement (winter 21/22)	Variance
British Gas	16-Feb-21	11	03-Sep-21	28	17
E.ON	01-Mar-21	24	06-Sep-21	31	7
EDF Energy	18-Feb-21	13	17-Aug-21	11	-2
ScottishPower	01-Mar-21	24	06-Sep-21	31	7
SSE	23-Feb-21	18	24-Aug-21	18	0

In a rising market, where reduced savings already suppress positive outcomes that would normally result from consumer engagement, the lag between announcement and implementation of an increased cap level means spikes in consumer interest do not result in switches or savings and many consumers choose to remain on SVT.

### 1.3. The cap's impact on consumer perception of fair pricing

There is significant risk that the existence of the cap itself is having a dampening effect on consumers' perception of the benefits of engaging with the competitive market. To some extent this is an inevitability of any form of price cap, but the risk is exacerbated by the

methodology of an absolute cap with a significant lag between cap level announcement and implementation.

Given that large, legacy suppliers invariably price up to the cap (or very close to it), the perception that all suppliers are the same and there is no benefit in switching is not helped by the cap. Furthermore, the existence of a price set by the regulator gives the impression that suppliers pricing at that level are charging a ‘fair price.’

Suppliers now rarely announce increases to SVTs and, when they do issue press statements, they often infer that the change in price is a natural consequence of Ofgem’s decision rather than a cap that they could choose to price below.

*“Prices for customers on standard variable tariffs, which is a regulated tariff with a cap that is set by Ofgem, will be increasing from 1st October.” – British Gas*

Consequently, whilst Ofgem’s announcements receive some media coverage – driving consumer engagement – supplier announcements attract minimal interest, and neither is comparable to supplier-led price increases before the implementation of the cap. Figure 5 compares media coverage between the price rises in spring 2018 (before the implementation of the cap) and the cap increase in February 2021, the former drove more coverage over a longer period despite the consumer impact being significantly less<sup>5</sup>.

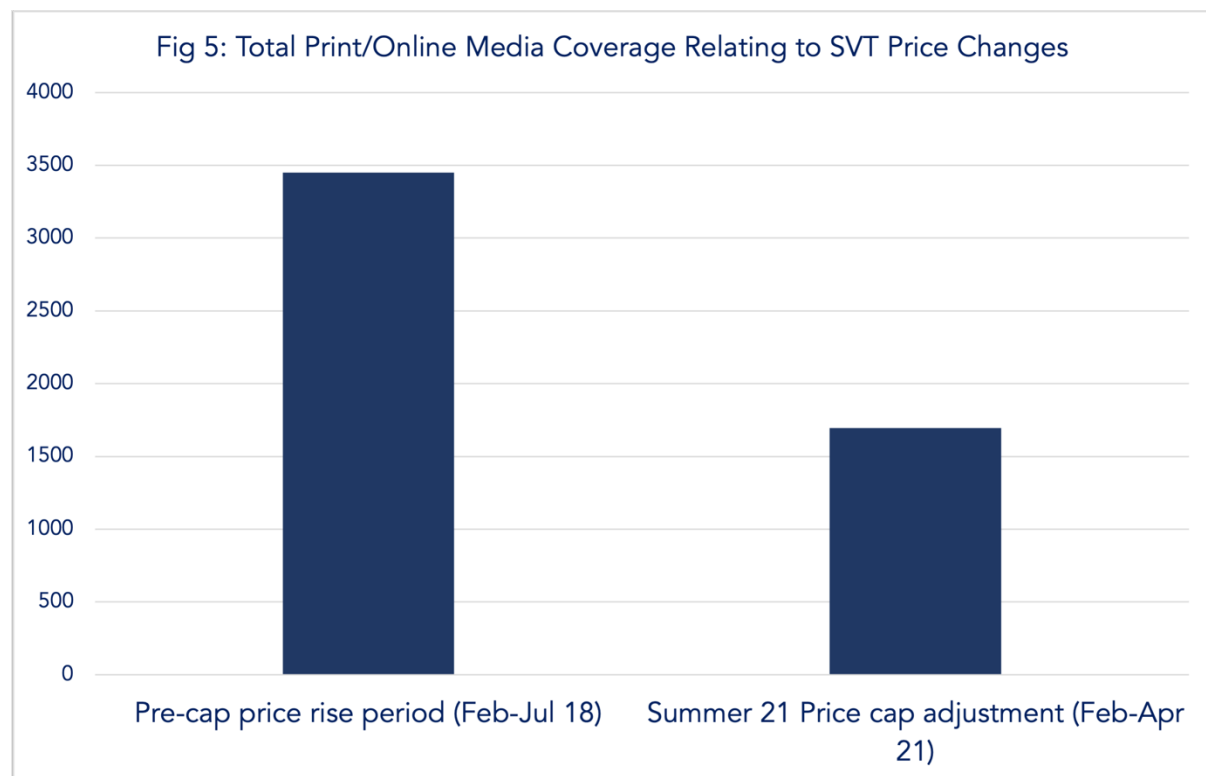


Chart shows count of print/online media articles relating to Ofgem’s cap adjustment and/or supplier price changes

<sup>5</sup> Ofgem price cap increase for summer 21 was £96 for direct debit, British Gas price rise announced on 10<sup>th</sup> April 2018 was £60 on average.

#### 1.4. The long-term impact of Winter 21

The unprecedented rise in wholesale rates through 2021, combined with the current price cap methodology, will have long term negative consequences for competition and consumer engagement.

Since September, the cap level has been far below the price at which suppliers can afford to acquire customers, consequently, no savings are available to consumers and by spring consumers will have been told by consumer groups, industry, and PCWs not to switch for six months. There is a risk that this will cause a long-term setback in the drive to empower consumers to engage with the competitive market and lower their energy bills. This is particularly concerning given that consumers' energy bills are likely to reach an all-time high after the price cap is increased in April.

Whether it is caused by the hedging strategies of the suppliers who have exited the market, an inevitable consequence of regulation, or a combination of the two, the positive reduction in market concentration – cited by Ofgem in its most recent review of competition – will likely have reversed to pre-2016 levels by the end of the crisis.

We will be left with six large suppliers and very few challenger brands, a step backwards which will be felt most keenly by consumers who choose to engage with the competitive market. In recent years challenger brands have played an important role in encouraging consumers to engage, with positive outcomes. Figure 6, for example, shows a consumer who engaged just once to switch to Bulb would have saved £389 since the implementation of the price cap. It is likely, however, that some consumers who have engaged and seen their supplier collapse (despite the effective protections provided by SOLR) may be put off engaging again in the future.

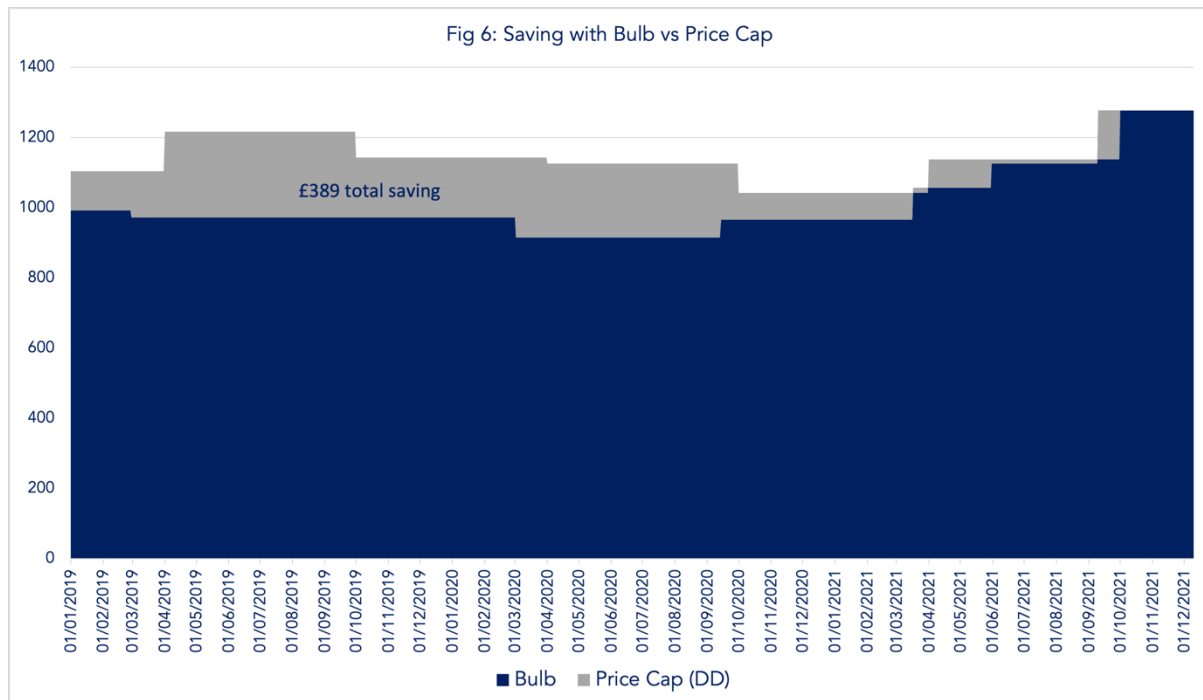


Chart shows the cost for a medium usage consumer, paying by direct debit, on a standard meter, averaged across all regions for Bulb vs an SVT tariff priced at the price cap.

## 2. Response to Ofgem's proposals in Call for Input: Adapting the Price Cap Methodology for Resilience in Volatile Markets

8 million consumers in the UK are long term disengaged<sup>6</sup> and risk being significantly overcharged for their energy. In time, the solution must be to empower more consumers to engage, driving down prices through effective competition. This is absolutely achievable and initiatives such as the Government's proposal to roll out opt-in switching will help enormously, but in the short-term we agree that disengaged consumers need additional protection. The existing price cap methodology, however, provides that protection at the expense of supporting the development of a widely utilised competitive market and we support Ofgem and government in urgently considering alternative methodologies.

Below we set out the impact of each of the options outlined in Ofgem's call for input on the prevalence and efficacy of consumer engagement.

### 2.1. Option 1 – Enhanced Status Quo

The enhancements Ofgem proposes to the status quo under this option are positive measures and in isolation (i.e., without considering alternatives) we would support them. They are not sufficient, however, to address the core challenge of reduced savings in a rising wholesale market and we are concerned that if this were to be the limit of Ofgem's reforms, consumer engagement and the competitive market would continue to be eroded.

<sup>6</sup> 26% of electricity consumers have been on default tariffs for over 3 years (BEIS Analytical Research Paper) and there are 28,872,000 domestic electricity consumers (BEIS Quarterly domestic energy switching statistics)

### **2.1.1. Automatic circuit breaker**

As a short-term measure we support Ofgem's proposal to introduce an ability for it to amend the cap outside of the normal 6-month cycle. We would encourage Ofgem to consider agility when determining the process for such unscheduled amendments. For the powers to be useful it must be possible to implement changes to the cap within a matter of weeks not months.

We also support the stronger version where the criteria for a cap adjustment outside of the normal cycle would be based on predetermined criteria. These criteria should include substantial reductions in savings available to engaged consumers through switching.

Whilst this is a sensible power for Ofgem to have in the short term, it would not address the broader, fundamental issues with the price cap methodology.

### **2.1.2. Reduction in implementation gap**

In Ofgem's overview of option 1 in section 4 of the consultation, it proposes a further change to reduce the current two-month gap between the observation window closing and the price cap period starting.

As we outline in section 1.2, the long lag between a new cap level being announced and implemented causes a misalignment of media coverage, consumer interest, detail on the actual impact for consumers on SVT and clarity on savings available by switching.

Reducing this lag, whilst also forcing the alignment of cap announcement and supplier announcement of rate changes, would optimise the efficacy of consumer engagement spikes caused by Ofgem's announcement. The triggers for consumers worried about rising bills to engage will align with clarity over what price increases they will experience and savings being available through PCWs.

Specifically, we propose that Ofgem considers:

- a. Requiring that suppliers provide consumers on SVTs with a defined, minimum period of notice ahead of future price, for example three weeks.
- b. Reducing the gap between cap level announcement and implementation to the same three-week period
- c. Providing suppliers with the new price cap level, on a confidential basis, several days before the announcement to allow them to prepare new rates and communications to issue on the day of the announcement if they choose to. Thereby allowing them to provide the required period of notice in time to implement on the day the new cap level is effective.

This adjustment to communication and implementation timings would mean that when consumers visit PCWs (or any other channel), driven in high volumes by Ofgem's cap increase



announcement, they will see what the increase means for them and how much they can save by switching.

We agree that this change could be applied to several underlying methodologies and whilst it would certainly not be sufficient on its own to address the fundamental challenges with the existing methodology, it would be an improvement.

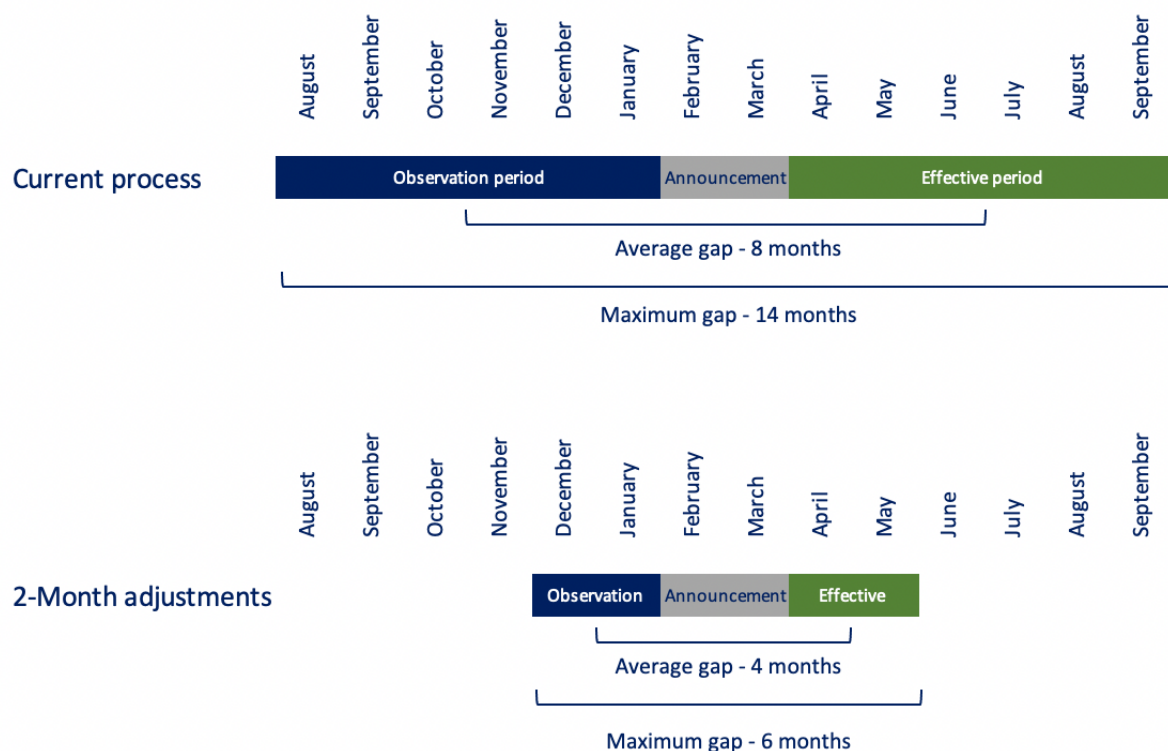
## 2.2. Option 2 - Quarterly Updates

As outlined in section 1.1, in a rising market the efficacy of consumer engagement is harmed by reduced savings caused by a significant lag between wholesale rates being observed to set the future cap level and acquisition tariffs being priced just before launch.

It is difficult for this problem to be completely solved within the cap's current framework, but the risk can be reduced by increasing the frequency of the cap adjustments and reducing the length of the observation period. Although it is not our ideal solution, we would therefore support a shift to more frequent updates as an alternative to the status quo.

Our preference would be for the cap to be adjusted every two months with two-month observation periods, the average gap between a cap observation and acquisition pricing would then be halved from eight to four months and the maximum gap would be reduced by 57% from 14 months to six. Figure 7 demonstrates this.

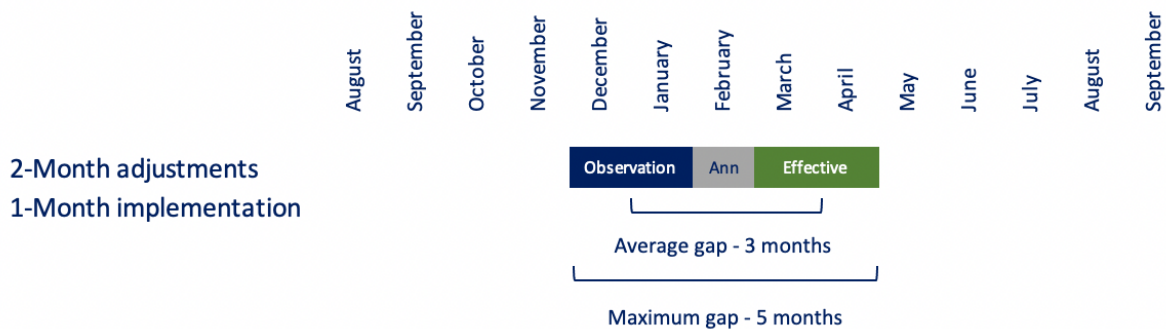
Figure 7: Current Process and Process with More Frequent Cap Adjustments



This would make it less likely that suppliers will be pricing acquisition tariffs in a significantly different wholesale market to when the cap was set for a sustained period. Not only will this increase the chances that consumers who decide to engage with the competitive market will be rewarded with savings, it will also mean that in a falling market the cap level more swiftly reflects the lower wholesale costs available, delivering stronger consumer outcomes for disengaged consumers.

Additionally, if this is also combined with the reduction in the lag between observation and implementation then the gap between cap observations and supplier acquisition pricing is further reduced. Figure 8 shows the combined impact of changes to frequency of cap adjustments and reduction in lag between announcement and implementation which reduces the average gap from eight to three months.

**Figure 8: Process with More Frequent Cap Adjustments and Reduced Implementation Lag**



In section 1.1 we outline how the considerable time difference between the price cap level being determined and suppliers pricing acquisition tariffs can decimate savings in a rising wholesale market. Of the options Ofgem outlines in the consultation, the course of action that goes furthest in addressing this problem – reducing the average lag by 63% – is a combination of more frequent scheduled cap adjustments (option 2) and a reduction in implementation gap (referenced in option 1).

### 2.3. Option 3 - Fixed Term Default Tariff

We strongly oppose this proposal; its implementation would make engagement with the competitive market more complex and less beneficial for consumers.

A system where consumers are automatically placed on fixed term contracts which they must pay to get out of, where the price they pay depends on when they first moved onto an SVT, and where their exit fee changes over time depending on where in their 6-month cycle they are, will be unnecessarily complex and confusing for the consumer.

It would also be complex for anyone (for example a PCW) who was trying to support a consumer who wanted to reduce their bills, as it would be impossible to provide an accurate comparison unless the consumer knew the date that their current fixed term contract started.

Given that disengaged consumers are already almost twice as likely to consider switching too much hassle<sup>7</sup> this can only reduce consumer engagement.

More concerningly, the introduction of exit fees would create disincentives for consumers to switch. There is a serious risk that the competitive market would be reduced to narrow switching windows where the exit fees would not apply. Worse still, for consumers who do overcome all the new and existing barriers to engagement, exit fees would make switching less beneficial.

Exit fees that consumers voluntarily agree to when switching to a fixed term contract represent a fair trade off with the improved prices, security, or service they then receive. Imposing exit fees on consumers already on the most expensive tariffs in the market, requiring them to compensate their current supplier if they wish to reduce their bills would be regressive, inappropriate, and unfair.

#### **2.4. Preferred option – Reconsider a Relative Price Cap Methodology**

We urge Ofgem to reconsider moving to a relative price cap methodology.

Options 1 and 2 represent adjustments to frequency and timing but do not change the core existing methodology. Both modifications will help reduce the risk to consumer engagement, but neither will eliminate the risk. Even with updates every two months and a reduction in implementation gap, there is still an average three-month lag between the price cap level being set and suppliers pricing acquisition tariffs. There remains a significant risk that savings for consumers who are driven to engage by concerns about rising bills (possibly for the first time), may only be able to achieve small savings or none at all.

Given the significant harm to consumer engagement throughout 2021 caused by the cap methodology in a rising wholesale market, combined with an upwards shift in market concentration and damaging consumer messaging, it is now the right time for government and Ofgem to reconsider a relative price cap methodology.

Controlling prices by capping the maximum differential between a supplier's SVT and the cheapest tariffs means the competitive market delivers fair prices for disengaged consumers and ensures savings for those who engage. Suppliers maintain control over their hedging strategies for both SVT and acquisition pricing with the agility to respond to changing wholesale markets. The competitive market then drives suppliers who need to sustain and grow their customer bases to utilise efficiencies, margin reduction and customer lifetime value to offer savings to engaged consumers. Since SVT prices are linked to competitive tariffs, the competitive market also controls prices for disengaged consumers.

---

<sup>7</sup> Ofgem Consumer Engagement Survey 2020 – 37% of disengaged consumers said that 'switching is a hassle that I've not got time for' compared with 19% of engaged consumers

Additionally, a relative price cap would refocus media coverage and consumer engagement around supplier price changes, aligning consumer engagement with efficacy of engagement. It would also provide a regulatory framework that encourages innovative, efficient challenger brands to enter (or re-enter) the market, reducing market concentration. Finally, a relative cap facilitates greater tariff innovation whilst increasing the incentive for suppliers to drive greater efficiencies as customer growth will be dependent on lowering SVT pricing.

Whilst we understand the concern that the shift to a relative cap would remove the absolute limit set by the current cap methodology, SVT prices would be constrained by linking prices for disengaged consumers to prices offered to engaged consumers.

The competitive market has proved highly effective in driving down prices for consumers who choose to engage with it and a relative cap ties a supplier's ability to compete in the competitive market to the price they choose to charge disengaged consumers. A supplier who chooses to overcharge their SVT customers, removing their ability to price to acquire new consumers, would be punished by a rapidly declining customer base.

Critically, a relative cap would align the success of the cap in protecting disengaged consumers with the industry's success in building a widely utilised, competitive, and engaged market which no longer needs such protection.

We understand Ofgem's concerns that a within-supplier relative cap (our preferred option) would be a shift from the policy when the price cap was originally implemented. However, the Government will need to pass new legislation to extend the price cap past 2023, and this presents an excellent opportunity for Ofgem, the Government and industry to reconsider whether a relative price cap could provide protection for disengaged consumers in a way that is supportive of growing consumer engagement.

## **2.5. Conclusion**

Consumer engagement is in decline at a time when energy bills are at an all-time high and set to increase much further, whilst increased engagement will be critical to support the drive to net-zero and the adoption of smart technology. The setback in market concentration and regressive consumer messaging will only compound the issue.

We recognise that Ofgem's priority must be to ensure the sustainability of the industry but when reviewing the price cap methodology, it is critical that Ofgem and Government also prioritise policy decisions that will encourage and reward consumer engagement. The development of a widely utilised competitive market must be a central consideration in all policy considerations.

Fixed term contracts for SVT consumers will seriously harm consumer engagement, whilst increased frequency of cap adjustments, combined with a reduced lag between observation and implementation, will reduce but not alleviate the negative impact of the existing methodology.

By reconsidering a relative cap methodology, Ofgem can protect disengaged consumers in a way that supports the growth of consumer engagement and the competitive market. This is the only option that severs the link between rising wholesale markets and SVT prices, driving consumer engagement, and the reduction in savings, removing the reward for them to do so.

### **3. Response to Ofgem's Statutory Consultation on potential short-term interventions to address risks to consumers from market volatility**

We understand that Ofgem's priority is to ensure that the retail market survives the extraordinary market conditions we have experienced throughout the autumn and winter. We also welcome Ofgem's commitment to the benefits of competition and agree that the bar for changes that place even modest constraints on switching must be high.

We urge Ofgem not to implement any of the short-term measures outlined in the consultation unless absolutely necessary and where full consideration has been given to the impact on consumer engagement. With that in mind, we have provided below our views on the impact the three options Ofgem has proposed will have on the competitive market.

#### **3.1. Option 1 – Requiring suppliers to make all new tariffs available to existing customers**

In a market where savings available for consumers who do engage have been constrained throughout 2021, we are very concerned about a proposal that is designed to place further pressures on savings offered to consumers.

The impact on the competitive market, when it does return, from the sharp increase in market concentration is yet unquantified. It is concerning therefore that regulatory changes might be imposed, albeit short-term, that might further dampen the appetite of the suppliers who remain to compete for customers.

Under Ofgem's impact analysis, the benefit to both consumers and suppliers materialises only in a falling market, yet unlike option 3, there is no mechanism to ensure that the changes would only take effect in a falling market. Given the current volatility of the wholesale market, we would be concerned that we may end up with this change in a flat or rising market where we have suppressive impact on competition but no benefit to consumers or sustainability.

#### **3.2. Option 2 – Allowing suppliers to charge exit fees on some Standard Variable Tariffs**

We are strongly opposed to this option, even as a short-term measure. In section 2.3 we outline our concerns around complexity for consumers, impact on consumer propensity to engage and impact on benefit for consumers who do engage, all of which are equally concerning in relation to a temporary measure.

For six months consumers have been told not to switch, that there are no savings available, and they are better off staying where they are. When the competitive market does return there will be a one-time opportunity for the industry to engage or re-engage consumers. If this change in messaging coincides with suppliers writing to all consumers on SVTs to tell

them that they will now be charged exit fees if they choose to leave, there is a serious risk that it will significantly dampen engagement and reduce trust for a significant period.

Furthermore, although Ofgem would implement this as a short-term measure, the consumer perception that switching away from an SVT requires paying an exit fee is likely to remain long past the reversion of the change. At a time when consumer engagement is already at a multi-year low, this would be a significant backwards step that would take a long time to recover from.

### **3.3. Option 3 – Requiring suppliers to pay a Market Stabilisation Charge when acquiring new customers**

This is our preferred option of the three that Ofgem has presented.

Unlike options 1 and 2 the change would not be visible to consumers and is unlikely to impact their propensity to engage with the competitive market. Any complexities would be managed by suppliers in the background so consumers should see no change to their communications or service.

Whilst the requirement for the acquiring supplier to pay a stabilisation charge will negatively impact savings, the threshold Ofgem proposes for the charge becoming payable (wholesale costs falling 30-50% below that assumed in summer 2022 cap) will mean sufficient levels of savings will still be available.

Since the proposal is for a ‘behind the scenes’ proposal that will not directly impact consumers the potential for unintended consequences that would impact consumer perceptions or engagement is likely to be lower than the other options.

Whilst we recognise that this is a more interventionist proposal, we consider the consumer outcomes, positive industry impact and minimal risk of unintended consequences make this the much-preferred option.

### **3.4. Conclusion**

We understand that Ofgem may need to make short-term changes to ensure the medium-term viability of the market. The bar for implementing any of these measures should be high and we have serious concerns about changes that would make the decision to engage more complex or less attractive for consumers, particularly in a rising or flat market where savings available to consumers are already constrained by the price cap methodology.

Of the options presented we favour option 3 which will have limited impact on consumer engagement and only impacts savings in a falling wholesale market where savings are high.