



Retail Market Policy
Ofgem
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By email to: retailpriceregulation@ofgem.gov.uk

13 April 2018

Dear Sir / Madam

Default Price Cap: Second Working Paper (Market Basket)

We welcome the chance to respond on Ofgem's second working paper on the market-wide default price cap ("**Default Cap**").

As we noted in our response to Ofgem's consultation on providing financial protection to more vulnerable customers, we consider the "basket of tariffs" approach (as described in that consultation) to be problematic. We retain that view in the context of the Default Cap for very similar reasons.

We do not consider that a market basket approach - working properly - could be simple. It would require a large number of adjustments in order to control for gaming, differences in tariff type, supplier model and approach and market positioning. It was these concerns that led us to consider that this option is too risky to use to set the price cap.

It follows that we agree with Ofgem's point at paragraph 3.26 (and made elsewhere) that the more adjustments are made to the basket, the more this becomes a benchmark rather than use of market information, although even in the latter case, its use is problematic in setting the Default Cap. Likewise, it follows that we agree with Ofgem's position (at paragraph 4.4) that it is unlikely that the market basket would be an appropriate way to set the initial benchmark.

We are also sceptical as to the suitability of a market basket for use in updating the initial benchmark. Ofgem here has rightly highlighted the challenges and risks involved. To an extent, one underlying challenge is the number of suppliers in the market and the dynamic nature of price-setting, and the impact of the Cap itself on prices within in and outside of it. On this basis, it is hard to see how a market basket could reliably be used to update the initial benchmark.



We agree that Ofgem should base its views on rigorous analysis, in particular where a number of risks and challenges are raised by the option being considered. We therefore support the need for further analysis, although we would be concerned if given Ofgem's previously cited need to act speedily, this constrained any more detailed analysis on options that on the face of it, had less risk and were more appropriate for use in updating the initial benchmark.

Yours sincerely

[not signed]

Natasha Hobday
Group Policy and Regulation Director