Vulnerable safeguard tariff

Department for Business, Energy and Industrial Strategy - Ofgem

RPC rating: validated

Description of measure

The measure extended a price cap already in place (the prepayment meter or PPM safeguard tariff) to customers in receipt of the warm home discount (WHD). The measure benefits approximately one million additional households. The cap applies to the 15 largest energy suppliers obligated under the WHD scheme. It came into force on 2 February 2018 and is scheduled to end in December 2019.

Impacts of measure

The main impact of the measure on business is lost revenue to the 15 retail energy suppliers. The regulator's business impact target (BIT) assessment estimates a total loss of £95.5 million each year. This figure comes from Ofgem's statutory impact assessment.[1] The BIT assessment provides a breakdown of this figure by supplier.

There are also administrative costs to retail energy suppliers: one-off costs of familiarisation and annual costs, such as providing Ofgem with information for monitoring of compliance. These costs are estimated at £0.132 million in the first year and £0.099 million in the second year. These costs are low, partly because suppliers already have procedures in place to ensure compliance for the PPM price cap.

The BIT assessment lists 'non-financial impacts' on business, such as impacts on supplier tariff offerings and switching. The statutory impact assessment includes more information on these impacts and on other wider impacts, such as on the market, consumers and government tax revenues.

Quality of submission

[1] https://www.ofgem.gov.uk/system/files/docs/2017/10/financial_protections_for_vulnerable_consumers_-_technical_document.pdf. Chapter 5 of this document is the IA and the £95.5 million lost revenue figure is presented at paragraph 5.23, page 39.

The regulator's assessment is very brief for a measure with a large equivalent annual net direct cost to business (EANDCB) and is sufficient only when combined with the statutory impact assessment. The BIT assessment would benefit from describing the regulator's approach to calculating the EANDCB more explicitly. At a minimum, the BIT assessment should include a link to the statutory impact assessment and an indication of where the key information supporting the BIT assessment is presented in that document. The RPC's validation of future BIT assessments of this nature from Ofgem will depend upon this information being included.

The BIT assessment could be improved by providing at least a brief description of each of the 'non-financial impacts' listed.

The BIT assessment would benefit from being more explicit on the end date of the regulations. The RPC validation of the regulator's assessment and, in particular, the BIT score (which is also subject to framework requirements for the present parliament) is on the basis that the measure lasts for two years only.

The BIT assessment would also benefit from some discussion of the likelihood of the renewal of the measure after two years and, if it were renewed, how the impact of the renewal would be assessed.

Finally, the second table on page five should be amended slightly so that the total costs read £95.632m (2017/18) and £95.599m (2018/19).

Regulator assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£95.6 million
Business net present value	-£188.0 million

RPC assessment

Classification	Qualifying regulatory provision under the framework rules relating to the 2015-17 parliament
EANDCB – RPC validated	£95.6 million (two year time-limited)

Business impact target score	£191.2 million under the framework rules relating to the 2015-17 parliament

Regulatory Policy Committee