

From: Mark Presswood

To: Retail Price Regulation <Retailpriceregulation@ofgem.gov.uk>

Subject: Consultation Response - Energy Price Cap

Dear Ms Rossington

Herewith my response to the OfGem consultation on the tariff cap for domestic customers

I understand what you are trying to achieve by applying the cap and both nil consumption and at average consumption level, with a straight-line connection between however do not think your proposal is the best way to deliver the cap

One of the disincentives to switching is the complexity of the pricing models - suppliers have combined daily standing charges and per unit of consumption charges and these all vary between the suppliers, making it very difficult to compare packages and hence switch. Which is one reason for the market not working

More importantly, users who have say less-than-average per day consumption and especially those on very low consumption in effect pay substantially more 'per unit' because of the greater proportion of their total costs taken up by the standing charge. Customers who use a lot of energy effectively get a cheaper overall 'per unit' cost.

This a) is a disincentive to save energy and b) disproportionately affects poorer households who typically tend to be those who use less energy

The whole standing charge thing is a bit outdated, especially since many of the costs of providing energy are already accounted for in the per unit of consumption charges. The actual fixed, unavoidable costs per month of providing an active account for a customer must be extremely small, especially given automation in the banking system, direct debits and so on

If you applied the whole of your cap to the standing charge element that would be more beneficial to the sector of society that struggles most with high energy costs, for which energy is a higher proportion of their disposable income than it is for higher net worth individuals who consume more due to larger houses etc. I believe that is how you should apply the cap, because that is where the greatest value lies in intervening in the market, with the greatest benefit to society. And if you could cap standing charges at a nominal amount as close to zero as possible, that would be even better. Maybe 1 pence per day, or £1/month or similar. Suppliers then would be forced to account for ALL their costs in the cost per unit for each fuel type, making comparisons between suppliers much simpler. This would have the additional benefit of incentivising lower consumption. This alternative approach doesn't stop you from also capping the unit rates of the fuel types to prevent excessive profit-taking; it simply means calculating that cap in a slightly different way. If you like, applying 2 caps - one on the standing charge (capped as low as possible) and a second cap on the unit prices (based on market, wholesale costs, benchmarked costs of supply, network, overheads, profit etc, just as you have done already)

Regards

Mark Presswood