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Dear Ms Rossington

About Which?

Which? is the largest consumer organisation in the UK with more than 1.3 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers. We are funded solely by our commercial ventures and receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

Summary

We welcome the opportunity to comment on this consultation; however, we remain concerned about any potential unintended consequences that may result from the implementation of the price cap, which could limit its success and adversely affect consumer engagement for years to come.

We are also concerned that, as noted in our response to Ofgem's May 2018 price cap consultation, Ofgem has yet to set out how it intends to monitor consumer understanding and reactions or what the conditions will be for the cap's ultimate removal. In addition, we are concerned that this consultation does not address how the cap will be communicated to consumers by Ofgem, or indeed if there will be any communication requirements or guidance for suppliers. We believe it is important for these issues to be resolved prior to the cap taking effect to allow for useful evaluation of both the cap and the process for removing it.

A price cap is a significant intervention in the market and it is important both for consumer and investor confidence (the latter so they continue to invest in innovations and technological improvements) that Ofgem takes further action alongside it, working towards a market that works for everyone. This should include implementing the CMA's recommended remedies and provision for automatic compensation associated with switching. Research about the implementation of switching in financial services has shown that having a guarantee that any costs erroneously incurred through the switching process will be compensated is important to consumer confidence.

Monitoring, measuring and evaluation

We remain concerned that Ofgem has decided to not yet consult on the conditions that must be met for the cap to be removed. By not setting these out before the cap comes into effect, baselines from which the conditions for removal will be set cannot be accurately measured.

It is essential that Ofgem monitors the impact the price cap has on different consumer groups. Ofgem should publish regular monitoring reports for the duration of the cap, building upon the work Ofgem

already does through the annual State of the Market reports, consumer engagement surveys and Retail Market Indicators. This should include information on consumer understanding of the cap, of what a capped tariff is, and whether consumers understand if they are on a capped tariff. It should also include monitoring of consequential changes in tariff offerings, price dispersion analysis, and other relevant factors. Which? would be happy to discuss how best to focus this additional monitoring on the factors of most importance to consumers.

The sensitivity analysis of predicted changes in consumer switching accompanying the consultation is alarming; the energy market cannot be considered to be becoming more competitive if switching rates are dramatically falling. Furthermore, it cannot be assumed that switching rates will rebound once the cap is removed, particularly without clearer communication about the temporary nature of the cap and the conditions for its eventual removal.

Enhanced monitoring of key consumer metrics would enable Ofgem to take quick action if the cap leads to poor consumer outcomes; for example if previously engaged consumers misunderstand the cap and therefore reduce their engagement.

Which? welcomes Ofgem's assertion in this consultation that it will monitor non-price factors (such as customer service standards) when the cap is introduced, and will take enforcement action if these standards reduce. Which? will also continue monitor customer satisfaction through our annual satisfaction survey and broader consumer intelligence, and will ensure this data is fed into Ofgem's enforcement work.

Consumer awareness

The media reaction to this consultation may lead to many consumers making incorrect assumptions about the cap; for example assuming the headline cap figure of £1,136 applies to them, regardless of their location, consumption and payment method. This may include consumers who are actually on more expensive fixed rate tariffs, but are not aware these are not covered by the cap, and therefore incorrectly believe their bills will now reduce. Which? believes there are over 70 such fixed rate tariffs currently on offer - meaning three out of 10 tariffs currently on sale would cost more than a capped default tariff - the priciest costing £206 more per year than a capped default tariff for the medium user. Ofgem must take further action to ensure consumers understand the price cap, and understand how the price cap affects them - or indeed, if it will not affect them. How the cap is communicated to consumers is crucial to their understanding and subsequent action, as highlighted in Ofgem's June 2018 Consumer First Panel.

Once again, Which? suggests (as others have) that Ofgem undertakes behavioural research to determine if renaming default tariffs to better indicate that such tariffs are unlikely to offer the best value, such as to 'out of contract' tariffs, would have a positive effect on consumer behaviour. If Ofgem finds that more direct terminology is successful in engaging consumers it should take action to rename these tariffs. It may be useful to monitor the success of a similar proposal for consumers to be informed when their designated contract term ends in the telecommunications sector.

Yours sincerely,

Philip O'Donnell
Head of Policy Analysis