



## MoneySuperMarket | Default Tariff Cap Consultation Response

### About MoneySuperMarket

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MoneySuperMarket is the UK's leading price comparison website. We provide free, online tools to help people manage, save and grow their money, by enabling them to compare and switch insurance, money and home services products from more than 980 providers across 44 different channels.

MoneySuperMarket is part of the Moneysupermarket.com Group PLC, an established member of the FTSE 250 index, authorised and regulated by the Financial Conduct Authority (FCA FRN 303190) for the insurance, mortgage and consumer credit products it offers. For energy products, MoneySuperMarket is accredited under the Ofgem Confidence Code.

Last year, MoneySuperMarket helped nearly eight million families save an estimated £2bn on their household bills, including over half a million households that switched their energy supplier. We want to work with Government to help even more consumers engage with and save as much as possible on their household bills.

### Executive Summary

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1. The key driver of keeping energy bills down comes from switching. We are therefore alarmed that the consultation document states *"We (Ofgem) expect that under a cap, switching levels would have been lower, by up to 50%."* At a time when a record number of consumers are switching and saving money on their energy bills, we firmly believe the default tariff cap will stall momentum and discourage consumers from engaging in the energy switching market. This appears to contravene the requirement within the default tariff cap legislation for Ofgem to have regard for the need to maintain *"incentives for domestic customers to switch to different domestic supply contracts"*.
2. The default tariff cap legislation requires Ofgem to carry out a review into *"whether conditions are in place for effective competition for domestic supply contracts."* This requires a clear and transparent definition of effective competition to be agreed and published as soon as possible, clarifying how success for the price cap will be defined.
3. We believe the default tariff cap will ultimately harm consumers. The current environment points to continued increases in wholesale energy prices. Increases in wholesale prices will lead to significant increases in the level of the default tariff cap and subsequently an increase in prices for consumers. This has already been experienced with the price increases in the safeguard tariff cap for prepayment meter customers. Ofgem has now proposed moving vulnerable consumers reliant on the



Warm Home Discount onto the safeguard tariff. Vulnerable consumers, who believe they will be protected by the cap, will be hit significantly by price increases and would have been better protected through switching.

4. We are worried the default tariff cap will lead to a convergence in supplier pricing. Our internal research shows clearly that since the introduction of the safeguard tariff, supplier prices have risen and converged around the cap level. We believe all the existing evidence indicates the same outcome will occur once the default tariff cap is introduced, reducing choice and ultimately raising prices for consumers.

Although not included in this submission, we would be happy to share our internal research with Ofgem. We would be keen to seek a meeting with Ofgem to discuss this submission and to present our research findings.

## **Detailed comments on the proposals**

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### **2. Cap Level Analysis**

The primary purpose of intervention in the market must be for the benefit and empowerment of consumers. Consumers should be encouraged and prompted to move from Standard Variable Tariffs (SVTs) or other default tariffs to more competitive tariffs.

Our internal research highlights that, since the introduction of the safeguard tariff for pre-payment meter households in April 2017, suppliers have converged around the cap price. This has resulted in consumers paying more for their energy. The available evidence would indicate a repeat of this scenario for the retail cap is inevitable, which will reduce choice and ultimately harm all consumers.

Our aims align, the MoneySuperMarket vision is to “help households save money” and we support interventions that help to achieve this aim. However, we absolutely expect this energy price cap to drive up prices for all consumers.

The unintended consequences of the default tariff cap will also impact those who are not engaging in the market. These consumers who so far have yet to engage constructively in the market are likely to believe that with the introduction of the price cap there will now be no reason or need to engage.

We believe there remains a clear need for the introduction of demand side remedies alongside the price cap which focus on reaching both the vulnerable and the disengaged.



MoneySuperMarket is supportive of the measures published by the CMA designed to increase engagement in the market and would welcome enhanced openness from the Department of Work and Pensions over its benefit data.<sup>1</sup>

### **3. Updating Cap Methodology**

We believe the current criteria for updating the cap, and the nature of the cap itself, will lead to increased prices for consumers in the future. Higher wholesale prices in the energy market will lead to higher energy prices. This means that consumers will still experience significant price rises despite being offered greater protection by the proposed cap.

Consumers would be far better protected by switching to a deal that would guarantee their energy prices for a sustained period of time. Under the cap, consumers may be lulled into a false sense of security by believing they are properly protected from their bills increasing. These consumers would be served far better through being encouraged to switch.

Ofgem proposes to update the cap methodology every six months. We believe it is necessary for Ofgem to issue more frequent updates in order that consumers avoid pricing shocks. The proposed period between the announcements of cap levels does not provide consumers with timely relevant information to make informed decisions.

### **4. Wholesale Costs**

The energy market is highly volatile, with trends pointing towards further wholesale price increases. This means that the level of the default tariff cap is likely to rise in April 2019 when the next cap review comes into effect.

The increase in wholesale prices this year has already seen two increases in the safeguard tariff cap level, first in April and then in October, with prices initially rising to £1,089 to £1,136 for dual fuel customers. Although the default tariff cap has been designed differently to the safeguard tariff, an increase in wholesale costs will impact upon the cap methodology and would lead to an increase in the default tariff cap.

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<sup>1</sup> <https://www.gov.uk/cma-cases/energy-market-investigation>



## 11. Draft Impact Assessment

The default tariff cap legislation requires Ofgem to carry out a review into “*whether conditions are in place for effective competition for domestic supply contracts.*” This requires a clear and transparent definition of effective competition to be agreed and published as soon as possible. There must be a clear timeline for this definition or guidelines, which also define how success is measured. We urge the confirmation of the timetable for its earliest possible removal of the cap.

The energy market today is as competitive as it has ever been against both historical and international comparisons. There are now over 80 suppliers in the market. Deals available on MoneySuperMarket currently shows consumers could save on average £250 by switching to a more competitive deal. This saving is far greater than that being proposed by the cap.

The latest figures from Energy UK for the period June-August 2018 show 1,453,622 consumers switched supplier over this period.<sup>2</sup> Switching is the best way to drive competition in the market and to save consumers money on their bills. Switching numbers continue to be at record levels in the market and are improving steadily as shown by consecutive results. Further measures to educate consumers about the benefits of switching should be introduced and encouraged as soon as possible.

At a time when a record number of consumers are switching and securing the best possible deal on the market, the default tariff cap will stall momentum. We are concerned that in the overview document, Ofgem has accepted that whilst the cap is in place, ‘*switching rates will be lower than today’s levels*’ and explicitly ‘*We (Ofgem) expect that under a cap, switching levels would have been lower, by up to 50%.*’ This is counter-productive and is at odds with the legislation, which states:

*‘The Authority must exercise its functions under this section with a view to protecting existing and future domestic customers who pay standard variable and default rates, and in so doing it must have regard to the following matters:*

*(c) the need to maintain incentives for domestic customers to switch to different domestic supply contracts.<sup>3</sup>*

Reduced opportunities to switch will lead to a reduced number of opportunities for consumers. Additionally, reduced switching will have a detrimental effect on new suppliers entering the market. Consumers benefit from new suppliers entering the market who help to provide greater opportunities and drive prices down.

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<sup>2</sup> <https://www.energy-uk.org.uk/press-releases/412-2018/6809-switching-soars-despite-sweltering-summer.html>

<sup>3</sup> [http://www.legislation.gov.uk/ukpga/2018/21/pdfs/ukpga\\_20180021\\_en.pdf](http://www.legislation.gov.uk/ukpga/2018/21/pdfs/ukpga_20180021_en.pdf)



### **Contact Information**

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