

Energy price caps explained

A price cap on **default energy tariffs (including standard variable tariffs or 'SVTs')** came into force on 1 January 2019, bringing price protection to around 11 million energy customers.

Since 1 April 2017, there has also been a price cap for consumers on **prepayment meter energy tariffs**. This cap covers around 4 million energy customers, and is expected to last until 2020.

The caps deliver fair energy prices by ensuring these tariffs reflect the underlying costs to supply energy, and no more.

Why are there price caps?

With the government, Ofgem has introduced the caps to protect consumers temporarily, while longer-term reforms like smart metering are implemented. That's because the market isn't currently working for everybody. Customers on prepayment meter tariffs can find it harder to access cheaper offers. And people who don't shop around are getting stuck on 'default' deals, paying more than they need to. Default tariffs (which include standard variable tariffs) are a basic supplier offer, and are usually the most expensive.

Who's protected?

Not everybody. Around **11 million customers** are covered by the Default Tariff Price Cap, and **4 million customers** by the Prepayment Meter Price Cap. The caps don't apply to people on fixed-term deals, as these are more likely to be good value.

The latest cap levels update

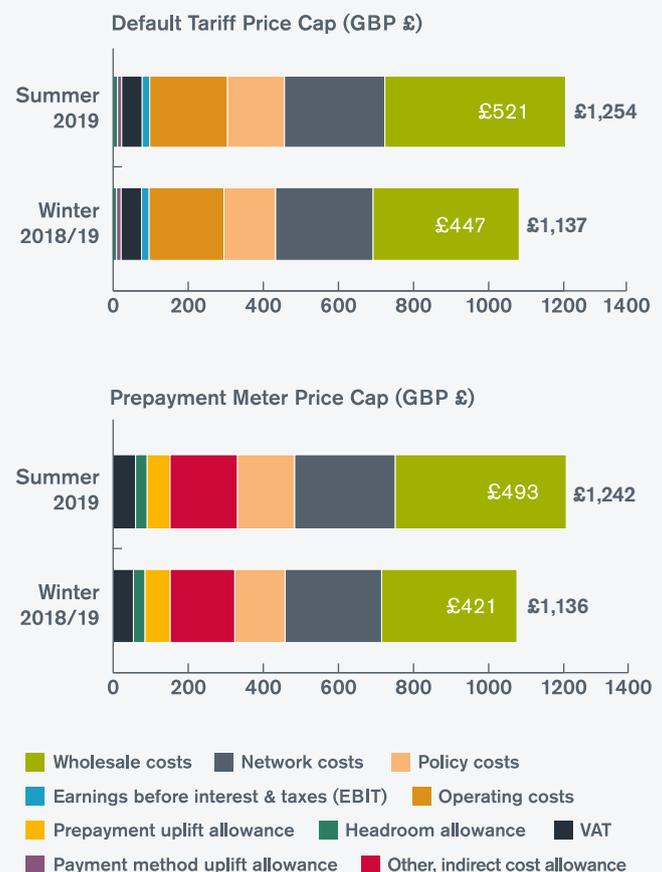
Twice a year, in April (the 'summer' cap period) and October (the 'winter' cap period), Ofgem adjusts the cap levels to reflect the estimated costs to supply energy over the next six month price cap period. The latest update means the level of the caps will increase in April 2019. The Default Tariff Cap by £117 to £1,254 per year and Prepayment Meter Cap by £106 to £1,242 per year for a dual fuel customer with typical usage.

Why have price caps gone up and not down?

Capped prices only increase when the underlying cost of energy increases. Around £74 of the £117 increase in the default tariff cap is due to higher wholesale energy costs. These have similarly pushed up the level of the prepayment meter cap. Higher oil prices last year contributed to a rise in wholesale gas prices, which, because of the importance of gas as a source of electricity generation, led to higher wholesale electricity prices.

While wholesale costs have recently fallen, overall they remain 17% higher compared to the previous price cap period.

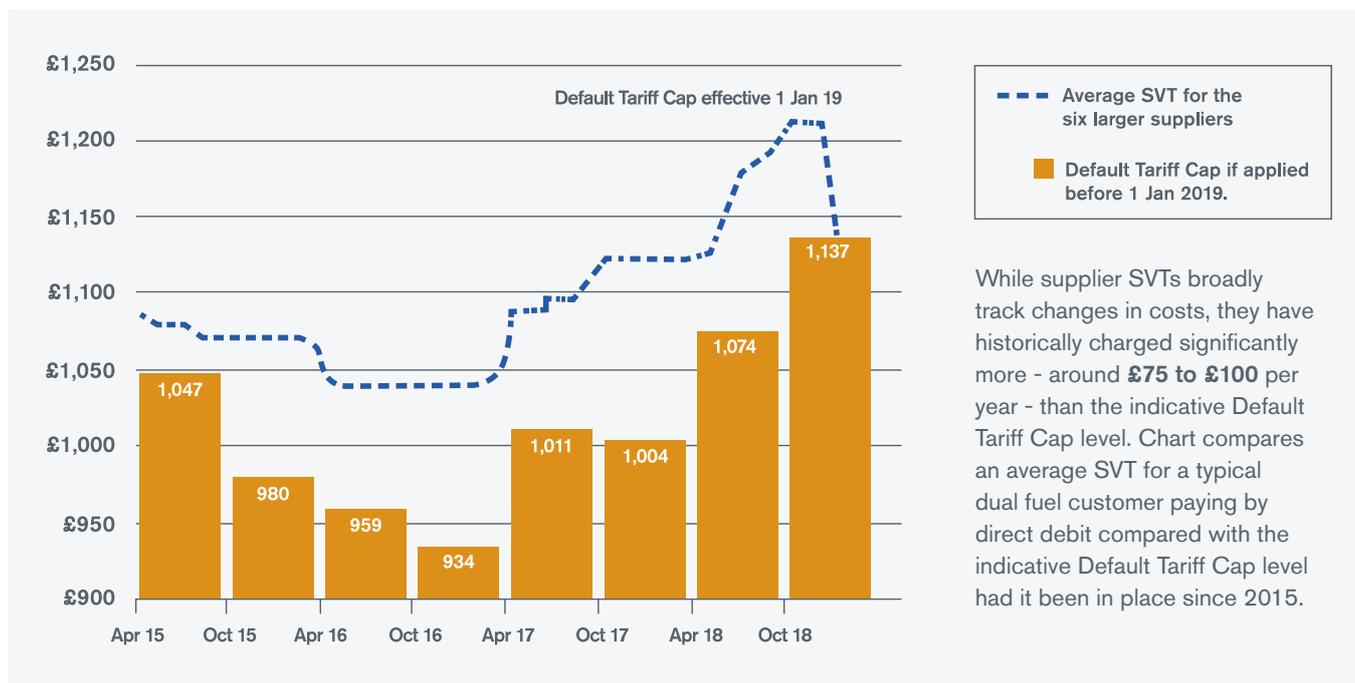
Price cap costs breakdown



For an explanation of terms, see www.ofgem.gov.uk/energy-price-cap-glossary

How are prices fairer?

The caps ensure suppliers set their prices to reflect the underlying costs to supply energy, and no more. Capped prices only increase when the underlying cost of energy increases. Equally, if costs fall consumers should see a cut in their bills as suppliers are prevented from keeping prices higher for longer than necessary. This keeps prices fair.



Need-to-know

- ✓ **It's not a cap on a total bill.** It's a cap on the rates customers are charged. That's the price set for each unit of energy used ('kWh') plus the standing charge.
- ✓ **The cap rate varies depending on your usage.** Figures you may see in the media reflect a customer with typical consumption paying by direct debit. The actual prices a customer pay depends on their individual circumstances: how much energy they use, where they live, their meter type and payment method (standard credit or direct debit).
- ✓ **Different caps apply depending on if you use a prepayment meter or are on a 'default' tariff.**
- ✓ **The Default Tariff Cap includes standard variable tariffs,** but not 'fixed' tariffs. Fixed-term tariffs usually lock in a price for a year or more and tend to be better value.
- ✓ **By ensuring prices only reflect underlying energy costs, the Default Tariff Cap scrapped excess charges of around £76 on average per year for customers using a typical amount of energy when it came into effect on 1 January 2019.**
- ✓ **Switching still saves on fuel bills.** It takes around 5 minutes to compare and switch. Start with an Ofgem-accredited comparison site: www.ofgem.gov.uk/energy-switch.

How you can help people understand the price caps



- Raise awareness online through your social media using #EnergyPriceCap and signposting Ofgem's impartial consumer guide at www.ofgem.gov.uk/energy-price-caps.
- Promote Ofgem-accredited switching tools and advice, or the Citizens Advice price comparison tool, to help savings understanding and the switching guarantees available www.ofgem.gov.uk/energy-switch
- Put out the energy information leaflets and posters available from the Ofgem resources hub in reception and public areas. See www.ofgem.gov.uk/energy-price-caps/resources