



Domestic Gas and Electricity (Tariff Cap) Bill: Second Reading

Citizens Advice helps people find a way forward.
We advocate for our clients and consumers on the issues that matter to them.

Overview

- Citizens Advice is the statutory consumer advocate for energy consumers.
- We welcome the Government's move to cap energy bills. This Bill is a vital step to ensuring that consumers on default tariffs are not being ripped off, while still allowing competition in the market.
- We agree that the price cap should be absolute, not relative.
- We will not be seeking any amendments during the process of the Bill. We share the cross-party desire to make sure people are protected from rip-off energy deals before next winter.
- However, we would like to see Ministers make a commitment to long-standing protection for customers in vulnerable situations that lasts beyond the sunset clause contained in the Bill.

The need for this Bill

All gas and electricity customers are receiving the same product through the same pipes and wires. Yet the price they pay differs greatly.

Default tariffs are suppliers' basic tariffs and are almost always their most expensive. The difference in price that people on default tariffs pay as opposed to those on tariffs used to attract new customers - acquisition tariffs - has tended to widen over time.

The average 'Big 6' default tariff is currently around £300 more expensive than the cheapest deal on the market.

Citizens Advice helped people with over 74,000 issues relating to fuel debts last year.

Loyal customers and customers in vulnerable situations have been the victims of a dysfunctional energy market and have been ripped off by energy companies for too long.

Why the Bill won't kill competition

The argument against intervening is usually that regulating energy prices will kill competition.

However, there are three clear pieces of evidence on the link between price, regulation and switching which means that those arguments don't stack up:

1. **Until the early 2000s¹, we used to have regulated retail energy prices in Great Britain**, so we can see the switching rates with and without them. Switching rates were similar when energy prices were subject to caps.
2. **We can also see how the switching rate has been affected by the level of possible savings from switching over time.** Default tariffs have become progressively less competitive over time - you could typically have saved less than £100 from switching in 2009 and more than £300 in 2015. Switching levels are surprisingly poorly correlated with the level of saving that consumers can achieve, and we saw similar levels of switching when the savings were much lower.² Loyal customers have simply been paying an ever-increasing cross subsidy to savvy switchers.
3. **They still have regulated prices in Northern Ireland, so we can see the difference between switching rates there and in Great Britain.** Price regulation doesn't appear to be dampening consumers' willingness to shop around. **In 2016 the electricity switching rates in Northern Ireland and Great Britain were identical, both at 15.8%.³**

Benefits of the absolute cap

We agree that the price cap should be absolute, not relative. The benefits of this are:

- **It puts a ceiling on prices to stop the exploitation of those who do not switch**, with the lowest prices still being set by the competitive market.
- **It squeezes excess profits and encourages greater efficiency.** The Competition and Markets Authority estimated that, of the £1.4 billion per year consumers are overpaying for energy, around £650 million is excess profit while the rest is lost to inefficiency. The cap should be set at a level that allows an efficient supplier to make a reasonable profit, while forcing inefficient suppliers to work harder to reduce their costs.
- **It leaves room for better deals below it.** Switching away from a default energy tariff would remain worthwhile, and suppliers would still have incentives and room to compete for new custom.
- **It will be revised every 6 months by Ofgem to reflect changes in underlying costs, such as networks, wholesale prices and the costs of delivering Government policies.**

As an absolute price cap would set a 'price to beat', there would still be incentives for suppliers to serve default energy tariff customers more efficiently over time.

Beyond the sunset clause

We would like to see Ministers make a commitment to long-standing protection for customers in vulnerable situations that spans beyond the sunset clause contained in the Bill.

¹ The right of households to switch their electricity and gas supplier was phased in between 1996 and 1999. Both British Gas, as the former national gas monopoly, and the former regional monopoly electricity boards, were initially subject to price regulation that restricted how much they could charge their customers. The cap on electricity direct debit prices was removed in April 2000, with the other price caps removed in April 2002. In 2001, the [National Audit Office reported](#) that by June 2000 around 400,000 households were switching their electricity supplier each month. BEIS switching data suggests that the current monthly figure is very similar, at around 420,000. In 1999, [NAO reporting](#) implied around 300,000 households were switching their gas supplier each month. BEIS data suggests the current figure is around 330,000. Both [BEIS figures](#) are based on the average across Q4 2016-Q3 2017.

² According to [BEIS data](#), around 5.025 million households changed their electricity supplier in 2009. The figure for the last four quarters where data is available (Q4 2016-Q3 2017) is 5.055 million. For the same periods the gas figures were 3.825 million and 3.57 million respectively. Switching peaked in 2008 at just under 5.5 million electricity and 4.2 million gas switches.

³ The source of the electricity switching rate for Great Britain in 2016 is BEIS "[Quarterly Domestic Energy Switching Statistics](#)" and for Northern Ireland is the Utility Regulator for Northern Ireland's Q4 2016 "[Transparency Report](#)," Table 10.