

## **Is there competition below the PPM tariff cap? What are the implications for policy?**

**Stephen Littlechild<sup>1</sup>**

**16 October 2018**

Ofgem is required to set the forthcoming SVT/default tariff cap at a level that (inter alia) enables suppliers to compete effectively and maintains incentives on customers to switch tariff or supplier. How has the PrePayment Meter (PPM) tariff cap worked in this respect? Is there now a wide range of PPM tariff offers below the cap, or have offers generally clustered around the cap? These are also relevant questions for the CMA, which has undertaken to review the PPM tariff cap in January 2019.

Recent Ofgem data suggests that the cheapest PPM offer was £142 below the tariff cap throughout the summer. Can this still be the case? This paper looks in more detail at the lowest price PPM tariff offers available today on Ofgem-accredited Price Comparison Websites (PCWs). The picture is confusing, and varies greatly from one PCW to another. Nevertheless, the range of offers that are widely available and significantly below the cap is much less than first appears.

This suggests some possible implications for policy. 1) There may be scope for tightening up the provision of information to customers about available tariff offers. 2) In setting the level of the SVT tariff cap, note that the PPM cap has had a greater impact via clustering than first appears. 3) Small supplier exemptions are significant, so reducing them and/or finding less distorting ways of meeting the associated obligations should be considered. And should there really be continued focus on 4) cheapest tariff and on 5) maximising switching?

### **1. Clustering of average market prices**

Early and dramatic evidence about the impact of the PPM tariff cap was Ofgem's pair of graphs (next page) showing the clustering of six Large and four Medium supplier PPM tariffs around the tariff cap. (Ofgem *State of the Energy Market 2017* Fig 2.13 p 32) Virtually none of the electricity PPM tariffs were set below the cap; for gas PPM tariffs, British Gas alone maintained an initial differential of about £30.

Ofgem's retail market indicators give more and later detail on market average levels of the dual fuel tariff for typical domestic consumption values.<sup>2</sup> Figure 1 (next page) shows that when the PPM tariff cap was introduced in February 2017, the market average PPM tariff (a weighted average of the twelve largest PPM suppliers) fell to about £18 a year below the cap. When the cap reduced by £19 in October 2017 the market average tariff scarcely reduced, and the difference fell to about zero. When the cap was increased to £1089 on 1 April 2018, the market average increased by about the same amount. Since then, the market average PPM tariff has

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<sup>1</sup> Professor Emeritus, University of Birmingham, and Fellow, Cambridge Judge Business School. I am grateful to several colleagues for helpful information and comments.

<sup>2</sup> Typical Domestic Consumption Values (TDCV) are 3100 kWh/year for electricity and 12,500 kWh/year for gas until 1 October 2017, 12,000 kWh/year thereafter. The calculations in this paper generally assume 12,500kWh/year; the difference from 12,000kWh/year is only a few pounds.

almost all the time been less than £3 below the tariff cap. This suggests a strong and continuing clustering of tariffs around the cap: there is no longer any differential between the average PPM tariff and the PPM tariff cap.

## Effect of price cap on PPM tariffs

Figure 2.13 Prepayment tariffs before and after the price cap

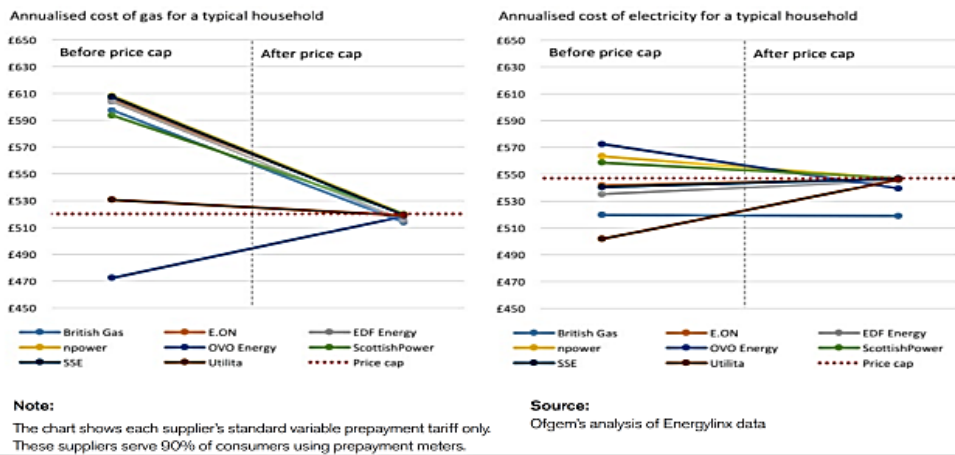
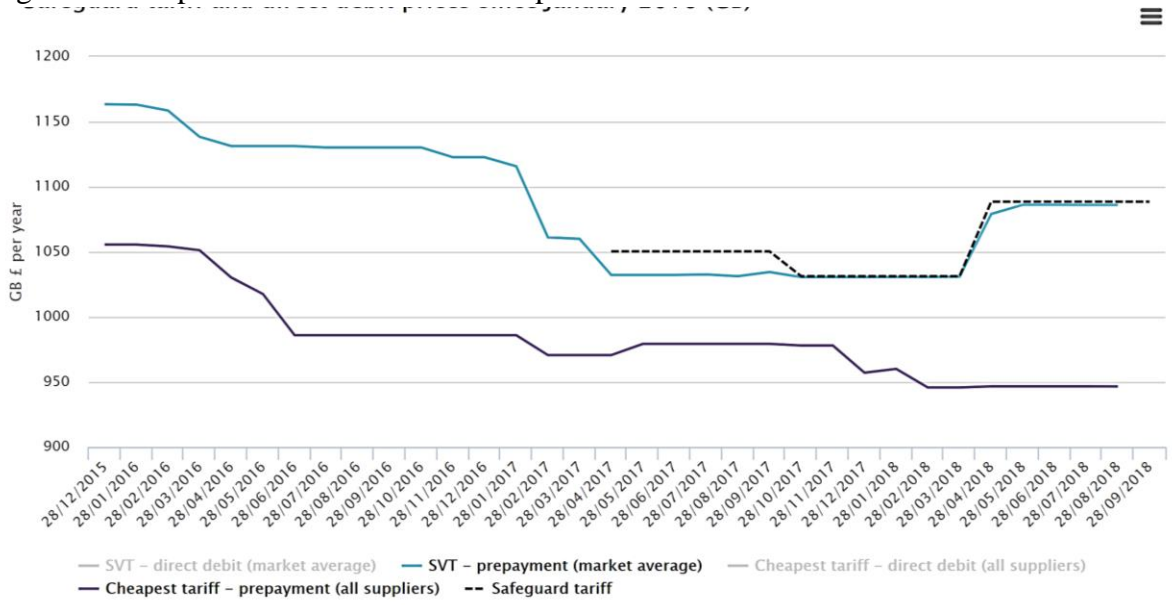


Figure 1 PPM prices and the PPM tariff cap



Source: Ofgem retail market indicators, September 2018

## 2. The cheapest market prices

Figure 1 also shows a further striking feature of the retail energy market indicators. The differential between the tariff cap and the cheapest PPM tariff was £71 until September 2017 then fell to about £53 for a couple of months. But the differential then increased, reaching £85

in March 2018 and £142 in April 2018, at which level it has remained until this statistic ceases in mid-September 2018.

On this basis, price dispersion initially decreased, then increased after the tariff cap was imposed. But if the cheapest tariff really was £142 below the tariff cap, and if the average tariff has become closer to the cap and is now practically equal to it, this suggests that tariffs offering a significant saving on the cap, or even an intermediate saving, might be rather thin on the ground.

Ofgem's just-published *State of the Energy Market Report 2018*, covering the period until March 2018, confirms the narrowing of price dispersion until then.

“Price dispersion has narrowed under the safeguard tariff, but cheaper deals are still available

Overall, price dispersion narrowed during the first two periods [1 April 2017 to 30 September 2017 and 1 October 2017 to 31 March 2018]. This was mainly due to suppliers reducing higher prices to comply with the cap, while the market cheapest tariffs remained roughly at the same level and were offered in most cases by the smaller supplier. (p 33)

... the vast majority of PPM customers (above 90%) were on tariffs priced at or close to the PPM cap in both charging periods.” (p 35)

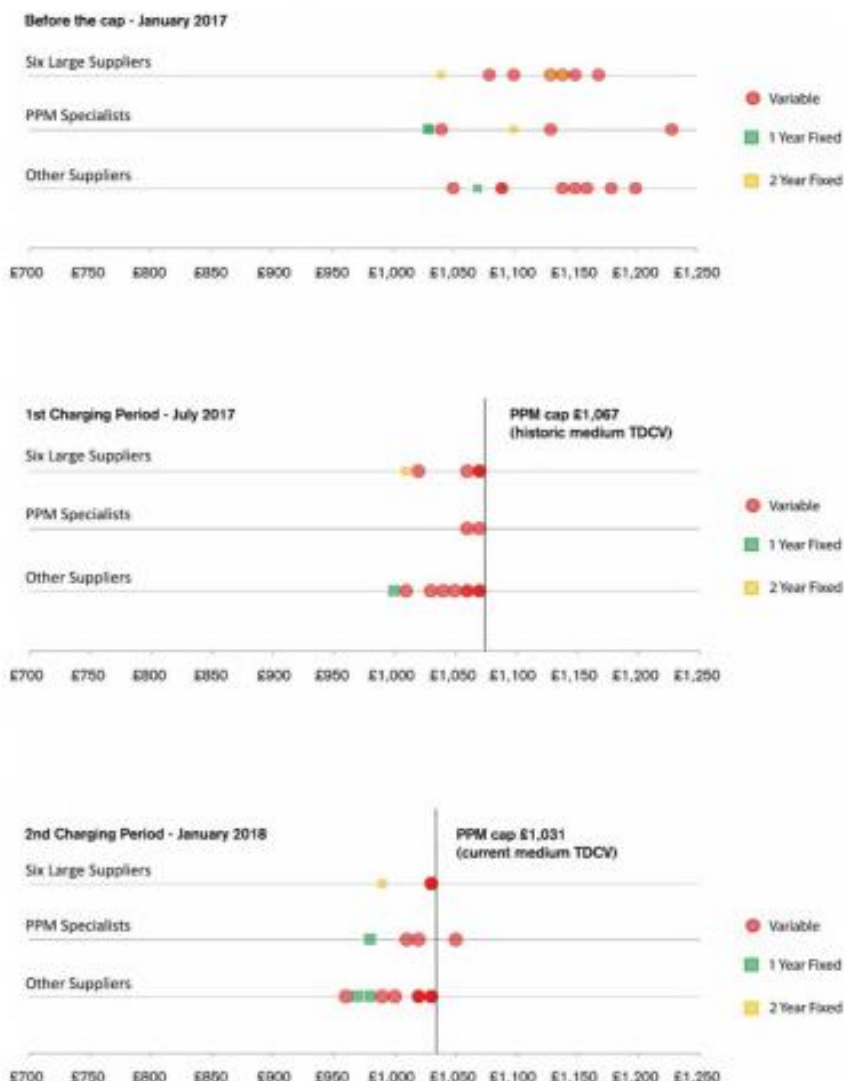
If these “cheaper deals” were still available as of March 2018, how many were there? The *Report's* Figure 2.14 (next page) sheds further light on the extent of these, and on the mix of PPM tariff types below the cap. It seems that in January 2018 about half a dozen offers were pitched more than £30 below the tariff cap. (It is not clear whether darker pink circles indicate multiple offers, and if so how many.) The greatest saving seems to be about £70 in January 2018.

This is not inconsistent with the greatest saving increasing to £85 in March 2018. But what is this £142 saving from April to mid-September 2018, as suggested by Ofgem's latest retail indicators?

I do not have access to tariffs on offer in that period. I am told that Bulb had a Vari-Fair Beta PPM tariff that was initially only available as a trial but that was later available at £946, which was then £142 below the tariff cap. (Bulb's tariff no longer offers a saving of that amount: after its own price increase on 10 September 2018 and the tariff cap increase on 1 October, it now offers a saving of about £52.) But how many other tariffs offered – and still offer - significant savings against the cap?

This seemed worth investigating. The present paper therefore examines the tariffs and tariff savings posted on PCWs in early October 2018.

Figure 2.14: Price dispersion for PPM dual fuel tariffs before and after the introduction of the PPM safeguard tariff



Source: Ofgem analysis of Energyhelpline data

### 3. PPM tariffs available today

The tariff cap increased to £1152 on 1 October 2018 for the average consumption rates assumed in this paper.<sup>3</sup> The next morning, a day after the tariff cap increase, the PCW uSwitch listed 28 different suppliers with PPM offers in the market. Half of them had offers essentially equal to the cap and offering zero or negligible savings. These suppliers comprised all 6 Large Suppliers, all 5 Ofgem-designated Medium suppliers (First Utility, Ovo, Utility Warehouse, Co-op and Utilita), and 3 Small suppliers (Green Network Energy, Ecotricity, and Toto). Two Small suppliers offered rather small savings (£11 and £33); nine Small suppliers offered

<sup>3</sup> Here and later, savings figures are for a dual fuel PPM customer in Midlands region, assumed to be with present supplier npower on its standard Prepay tariff, viz electricity 15.099p/kWh plus 30.41p/day (£110.99 per year), and gas at 3.749p/kWh plus 28.55p/day (£104.21), including VAT at 5%. At 3100kWh/year electricity usage and 12,500kWh/yr gas usage the annual bills are £579.06 electricity + £572.77 gas = £1151.83. This tariff is at the present PPM tariff cap level.

savings in the range £51 to £77; and three Small suppliers offered higher savings of £110, £118 and £145.

However, it seems that not all suppliers had yet adjusted to the latest tariff cap. Over the next couple of days several offers were removed. On the other hand, one Large supplier (EdF), while keeping its PPM SVT tariff at zero saving against the cap, introduced a one-year fixed tariff offering a saving of about £69.<sup>4</sup> But the general pattern remained clear. With the exception of this one tariff, the Large and Medium suppliers and some Small suppliers were pricing at the tariff cap. Only some other Small suppliers were pricing below it.

The level of the savings actually offered by these Small suppliers was also notable. Put aside for the moment the three Small suppliers apparently offering large savings (over £100) against the cap. Most of the savings available from Small suppliers were in the range £50 to £80.

These Small suppliers are exempt from social and environmental costs levied on the Large and Medium suppliers.<sup>5</sup> Estimates of the level of these costs vary, and the obligations themselves have evolved over time. Moreover, as Small suppliers move into the non-exempt category, the costs are phased in over time. The CMA noted that Ofgem “estimates that environmental and social costs will have increased from £62 in the year to 31 December 2014 to £71 in the year to 31 March 2016.” (CMA *Final Report 2016* fn 109 p 984)

The cost may be lower now: I understand that the cost allocated to ECO and WHD in Ofgem's default price cap methodology is around £38 per dual fuel customer (though no doubt some of the suppliers are challenging that). Centrica recently put the figure at around £42 a year for a dual fuel customer (around £12 for WHD plus around £30 for ECO)<sup>6</sup>. Other suppliers have suggested higher figures to me.

Small suppliers also have other cost advantages as a result of regulation. Most are exempt from the obligation to set annual targets to install smart meters.<sup>7</sup> And they get free advertising on the Ofgem-accredited websites that Ofgem requires to list all the tariffs available. A complainant auto-switching service says that the commission fee charged to larger suppliers that are willing to be switched via the websites “can amount to more than £80”, though of course this includes provision of the switching service as well as the advertising.<sup>8</sup>

What this means is that, apart from one EdF tariff, all the tariffs offering savings over the tariff cap in the range £50 to £80 are by Small suppliers who have government and regulatory exemptions – in effect subsidies - which seem to be worth at least £40, and arguably much

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<sup>4</sup> This seems surprising, given that EdF has had relatively high operating costs since 2009, although its position relative to the other Large suppliers improved in 2017. (Ofgem *State of the Energy Market Report 2018*, Fig 2.8 p 28) There may therefore be a question as to how long this fixed tariff will continue to be offered.

<sup>5</sup> “... there is currently a 250,000-customer account threshold, above which suppliers have to bear the costs of contributing to the Energy Company Obligation (ECO) and the Warm Home Discount (WHD)”. Ofgem *State of the Energy Market Report 2018*, p 20.

<sup>6</sup> British Gas, *Informing the UK energy market*, November 2017, p 13.

<sup>7</sup> Energy suppliers with more than 250,000 customers must set annual targets for the proportion of their customers that will have smart meters by the end of each year. (At present this covers only 9 suppliers.) Ofgem recently required EdF to pay £350,000 for missing its target for 2017.

<sup>8</sup> “Online rival flicks switch on market complaint”, Robert Lea, *The Times*, Oct 15 2018, p 35.

more than that. Hence, net of the subsidies, the offers presently available are below the cap by at most £10 to £40, arguably much less than that. So, still setting aside the larger savings (apparently over £100) on some tariffs, it seems that much of the price competition under the tariff cap is an artificiality attributable to Small supplier subsidies.

#### 4. Are there larger savings available?

Now consider the few larger savings apparently available. To minimise the chance of overlooking any, I checked with all eleven Ofgem accredited PCWs on 4/5 October. “As Ofgem-accredited comparison sites, you can trust that the options and prices you find on them are calculated and displayed in a fair and accurate way.” (Ofgem website) Three of the sites had to be abandoned: Simply Switch and Energylinx because they required time of day usage information, and Myutilitygenius because it would only show savings for Direct Debit, not PPM. This left eight PCWs.<sup>9</sup>

Aggregating over these eight PCWs, 14 suppliers listed what seemed to be 21 different PPM tariff offers promising savings of more than £80 over the tariff cap, the largest such saving being £165. At first sight, this appears to be a significant degree of price competition. However, on closer inspection, several of the tariffs were offered at different prices on different sites. In fact, 13 of these 14 suppliers offered one tariff each, and one supplier offered two tariffs (a Smart and non-Smart version), so  $21 - 15 = 6$  of the offers were just different (and incorrect) prices quoted for the same tariff. In fact, most of the 21 tariffs were not generally available on the supplier’s website at the claimed savings levels. (In all these cases it was necessary to use the supplier’s website to sign up because none of the tariffs were available by switching via one of the accredited comparison sites.)

Table 1 lists the 21 different tariff offers apparently available. Of these

- 7 tariff offers are restricted to customers in particular localities and not widely available (n/w/a)<sup>10</sup>
- 5 tariff offers appear not available (n/a) on the suppliers’ websites
- 1 tariff offer depends on consumption of other products, for present purposes classed as not available alone (n/a/a)
- 1 tariff is available but (on current terms) with approximately zero savings (0)
- 4 tariffs (or later versions) are available with positive savings but below £80 (<)
- 2 tariff offers (with the same supplier) may (or may not) be available above £80, albeit one of them at a lower saving than offered (<\*)
- 1 tariff seems to be available at advertised savings above £80 (√).

In sum, of apparently 21 offers of savings in the range £80 to £165, only one tariff seems to be clearly available that embodies a saving of over £80. This is ExtraEnergy’s Variable Price v3, a variable tariff with an estimated annual cost of £1040. This implies an annual saving of £1152

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<sup>9</sup> Quotezone, Energyshop, Runpath, Switch, Unravelit, MoneySupermarket, Energyhelpline, uSwitch

<sup>10</sup> Ofgem excludes such tariffs in calculating its cheapest tariffs. “We exclude tariffs with limited availability – such as tariffs only available to new customers (also known as ‘acquisition’ tariffs) or tariffs restricted to certain regions - when calculating the market cheapest tariff. This is so we give a representative picture of tariffs generally available to all customers across GB.” (Ofgem Retail Market Indicators, Methodology)



- £1040 = £112 compared to the benchmark PPM tariff (which is equal to the tariff cap). As far as I can judge, the calculation is correct and consistent over the five Ofgem-accredited PCWs on which it is listed.<sup>11</sup>

**Table 1 Tariff savings over £80 offered and actually available, 4/5 October 2018**

Offered saving £	Supplier	Tariff	Listing PCW	Actual availability	Available saving £
165	Coop	Fuel Good Simplicity PPMv1	Quotezone	Walsall Housing Group only	0 n/w/a
158	Robin Hood (RH)	Evergreen PAYG	Runpath	Nottingham only	78 n/w/a
158	Economy Energy	Smart 2017v1	Energyhelpline	Smartpay2017v1	92? ?
149	E	Smart Apr18	uSwitch	Smart n/a online	n/a
145	RAM via RH		Energyshop	Midlands only	78 n/w/a
145	Robin Hood	Evergreen PAYG	Unravelit	Nottingham only	78 n/w/a
145	The Energy Deal	Action v1	Runpath	No longer active	n/a
145	Fairer power		Unravelit	Cheshire only	0 n/w/a
122	Engie		Runpath	Per online	11 <
122	Bristol Energy	SVT	Energyhelpline	SVT	75 <
120	Toto	PAYG Discount variable	uSwitch	No PPM online	n/a
119	E	Apr18	Runpath	Oct18	35 <
115	Greenstar		Runpath	No elec PPM tariff	n/a
113	Utility Warehouse		Unravelit	Not available alone	n/a/a
112	Extra Energy	VarPricev3	5 PCWs*	VarPricev3	112 √
112	Ecotricity		MoneyS/market	Per online	0 (0)
97	Fairer power		Energyshop	Cheshire only	0 n/w/a
92	Economy Energy	Smart2017v1	Energyshop	Smart2017v1	92? ?
85	E	Smart Apr18	4 PCWs**	Smart n/a online	n/a
85	E	Apr18	5 PCWs***	Oct18	35 <
82	Fairer power		Switch	Cheshire only	0 n/w/a

- \* Quotezone, Energyshop, Unravelit, MoneySupermarket, Energyhelpline (Note: These appear to be correct rather than incorrect listings)
- \*\* Quotezone, Runpath, Unravelit, Energyhelpline
- \*\*\* Quotezone, Runpath, Unravelit, Energyhelpline, uSwitch

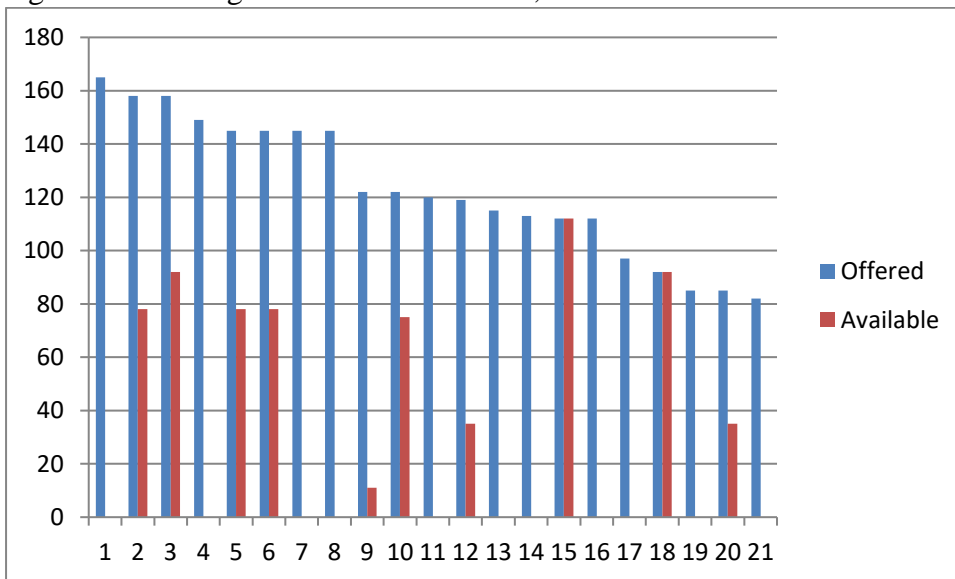
<sup>11</sup> Note, however, that this offer is not directly comparable with tariffs offered by larger suppliers insofar as Extra Energy is not required to provide the Warm Home Discount in 2018/19, and more generally benefits from the Small supplier exemptions mentioned above.

The other two tariffs that may offer savings over £80 are associated with Economy Energy. They are more problematic to evaluate, as discussed in the next section.

Setting aside the tariffs that are available, but only in particular localities, around half the listings seem to be erroneous. For the most part, this does not seem to be associated with particular suppliers or particular PCWs. In many cases the error is one outdated tariff on one PCW. Having said that, supplier E had 11 erroneous listings (for two outdated or unavailable tariffs). And PCW Runpath had 6 erroneous listings. (One of these was the inclusion of a tariff from The Energy Deal, a supplier that left the market over a year ago according to Ofgem’s *State of the Energy Market Report 2018*.)

Figure 2 (based on Table 1 above) summarises what savings seem to be actually available as compared with what initially seemed to be available. Although three tariffs over £80 are shown as available, one of these tariffs (appearing at two different prices in the listings) is questionable, as now discussed.

Fig 2 Tariff savings offered and available, 4/5 October 2018



### 5. Economy Energy’s tariffs

On Energyhelpline (the PCW used by Ofgem as the basis for its retail energy market indicators), Economy Energy’s Smart PAYG 2017 v1.0 tariff promises an annual saving of £158, based on an estimated cost of £994 per year compared to the present benchmark tariff (which is at cap level) of £1152. This tariff requires a smart meter. On Energyshop, however, the same-named tariff is priced at a higher level, at the same level of charges as the supplier’s Evergreen PAYG tariff (which does not require a smart meter). This yields an estimated annual cost of £1060, hence an estimated annual saving of £92 rather than £158. The supplier’s own website quotes the high-rate Smart tariff and the (identical) Evergreen tariff (as per Energyshop’s listing rather than Energyhelpline’s).



After a telephone inquiry on 15 October I was quoted both the low-rate Smart tariff and the higher rate Evergreen tariff (as per Energyhelpline's listing). However, in response to my question whether the smart meters were actually available, I was told "there's not much available at the moment". The website says "Unfortunately we cannot promise a date for when you will be contacted" to install a smart meter. Energyhelpline says "Please note this tariff [Smart PAYG v1] comes with a smart meter and until Economy Energy have installed your new smart meters you will be placed on their Evergreen tariff to support your pre-payment meters."

To confuse matters further, the supplier's website as of 15 October lists the Smart PAYG v1, SmartPay 2017 v1 and Evergreen tariffs as no longer available. And on that date Energysshop no longer featured the Economy Energy Smart Pay 2017 v1 tariff that had previously offered the £92 saving. Energysshop now lists only Economy Energy's Vari Club and Vari Smart SVTs, both offering a negative saving of £11.

This supplier has been in the news recently in relation to its variable tariff. In October 2017 Economy Energy was offering its Switch Saver tariff at £811 for an average use (non-PPM) customer. This was the second-lowest tariff in the market (the lowest being offered by IRESA which had to be bailed out). Reportedly, in September 2018 Economy Energy suddenly increased its Switch Saver tariff by £311 for an average-use customer.<sup>12</sup> Moreover, although this SwitchSaver tariff had been advertised at launch as variable, many customers were told on signing up that it was a one year fixed price deal. The supplier agreed to honour that commitment for those customers that could prove they were told that.

Disturbingly, this confusion and inconsistency is still present. On the Energyhelpline website the Smart PAYG 2017 v1 tariff is described as fixed for 12 months. On the supplier's own website the Smartpay 2017 v1 is described as a variable tariff, as it is in the Terms and Conditions. But following the "Full info" link to the Electricity Tariff Information the Tariff type is said to be Fixed, although it also says No end-date.

There is yet another apparently incorrect calculation on this supplier's website. In this case it leads to an underestimate of the saving from changing supplier.<sup>13</sup> One wonders whether the supplier itself is fully aware of what is being offered. For all these reasons, I am not yet convinced that a saving of £158 or £92, or anything over £80, is actually available from Economy Energy at the moment.

## **6. Quality of service**

Consumer organisations and some PCWs are beginning to rank companies for quality of customer service. Though between them they offer (or in one case may offer) two of the cheapest PPM tariffs, Economy Energy and Extra Energy do not rank highly for customer

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<sup>12</sup> Andrew Capstick, MoneySavingExpert.com News, 14 September 2018.

<sup>13</sup> At one point on the supplier's website, the benchmark npower PAYG tariff is correctly specified but the annual cost is incorrectly calculated as £1103 rather than £1152. Hence the annual saving from changing tariff is given as £1103 - £1060 = £43, less than half the apparently correct saving of £1152 - £1060 = £92. At another point on the supplier's website, the benchmark npower PAYG tariff and the Evergreen tariff are both said to cost £1060 per year, hence the Evergreen tariff is said to offer zero savings.

service. Trustpilot ranks them 27<sup>th</sup> and 36<sup>th</sup>, respectively, out of 45 electric power companies. Focusing specifically on energy suppliers:

- uSwitch ranks them both in the 4<sup>th</sup> out of 5 categories, out of 32 suppliers.
- Which? energy survey ranks them 28<sup>th</sup> and 29<sup>th</sup> out of 31 suppliers
- Citizens Advice (Apr-Jun 2018) ranks them 28<sup>th</sup> and 22<sup>nd</sup> out of 33 suppliers.

Broadly, both suppliers are in the bottom quintile for customer service. Only one energy supplier (Spark) is ranked consistently worse than both.

This is, of course, a salutary reminder that price is not the only consideration for customers. Some may decide to switch, or not to switch, for reasons of customer service.

As a matter of interest, only two suppliers scored significantly highly in all four rankings here, namely Bulb (4<sup>th</sup> =, 1<sup>st</sup> =, 6<sup>th</sup> = and 2<sup>nd</sup>) and Octopus (6<sup>th</sup> =, 1<sup>st</sup> =, 3<sup>rd</sup> = and 3<sup>rd</sup>). Moreover, both these suppliers have 100% green energy. As mentioned earlier, Bulb has a Vari-Fair Beta PPM tariff offering a £52 saving over the PPM tariff cap. Octopus does not advertise a PPM tariff.

## **7. Summary of findings**

Is there presently effective price competition beneath the PPM tariff cap? Ofgem indicators show that the average PPM tariff in the market, which was £18 below the cap when the cap was first introduced, has essentially been equal to the tariff cap for the last year. However, the cheapest PPM tariff has increasingly diverged from the tariff cap, and as of mid-September 2018 was said to be £142 below the cap. Does this mean there is effective price competition? Was this offer widely available and for how long? How many other suppliers were pricing significantly below the cap, and by how much?

My brief survey of Ofgem-accredited PCWs over the last week or so (following the increase in the tariff cap on 1 October) suggests that the extent of price competition in the PPM market is less than it seems.

- With the exception of one fixed tariff offered by one Large supplier, all Large and Medium suppliers are pricing at the cap. So too are several Small suppliers.
- A number of Small suppliers seem to be offering savings against the cap in the range £50 to £80. (I have not examined these in detail.) These could be worthwhile to customers. However, Small suppliers are largely exempt from social, environmental and other obligations that cost at least £40. So, adjusting for the subsidy, the best of these offers are below the cap by less than £10 to £40. The apparent competition under the tariff cap is in part an artificiality attributable to Small supplier subsidies.
- Although there appeared to be 15 Small suppliers offering 21 tariffs promising savings in the range £80 to £165 over the tariff cap, only one such tariff, saving £112, seems to be actually widely available. The availability of another tariff, possibly saving £92, has not been firmly established. Unfortunately, both suppliers have poor reputations for customer service.

## 8. Implications for policy?

The above findings are based on a search of accredited PCWs at one particular moment in time. More extensive research is required to establish a broader and firmer picture. Nonetheless these findings suggest some possible implications for policy in five areas: the accuracy of PCW estimates, the level of the SVT/default tariff cap, the Small supplier exemptions, the focus on cheapest tariffs, and the emphasis on switching.

### i) Accuracy of PCW tariff offers

As a supporter of customer choice, and competition between suppliers, switching sites and auto-switching services, I have been impressed with the valuable services that PCWs provide in attracting and informing customers, and in carrying out nearly half the customer switches, in a rapidly growing and ever more complex market. However, I have been disappointed to now find these inaccuracies (as they appear to be) in the savings offered on the Ofgem-accredited PCWs. There seemed at first to be 21 PPM tariffs offering savings over £80. On closer investigation four of these tariffs may have been available locally but were not widely available. Only one of the others seemed to be available, and the status of another is unclear. About a dozen of the 21 best tariff offers seem to have been errors.

In the grand scheme of things, given the ever-increasing number of ever-changing tariffs that PCWs need to deal with, a few errors in listing are perhaps not too serious. But tariffs offering the highest savings are naturally in the public eye and can influence perceptions and policy. Can anything be done to reduce the errors?

Ofgem's Confidence Code indicates that responsibility for the accuracy of the tariff information lies with the PCW as the Service Provider.<sup>14</sup> It must be frustrating for a PCW to have to keep checking the accuracy of data for tariffs to which it cannot itself switch customers (and thereby lacks the error-correcting feedback that comes with actually having to deliver an advertised tariff). I am not sure whether suppliers have any obligation to provide accurate data to the PCW: one would have thought that would be a reasonable quid pro quo for a free listing. Perhaps the time has come to allow PCWs to make some charge on suppliers for these listings. Presumably responsibility for checking compliance and enforcing the Code lies with Ofgem.

There seems scope for some improvement in this area, with particular reference to those tariffs claiming to embody the largest savings. It has also been suggested to me that some

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<sup>14</sup> "The Service Provider must use all reasonable endeavours to include price comparisons for all available domestic tariffs, where applicable for all available payment types, for licensed suppliers (including for any agents, affiliates, and brands operating under the licence of a supplier), for gas, electricity and dual fuel." (Req 2Ai) "A Service Provider is responsible for obtaining, updating and ensuring the accuracy of all data displayed on its Price Comparison Service covering all licensed supplier tariffs." (Req 2F) "Prices and price comparisons must be accurate and state when they were last updated and state the date that its Price Comparison Service and database has been updated." (Req 7AB) "A Service Provider must use all reasonable endeavours to: update tariffs; add tariffs for a new supplier (not applicable under Req 10); correct any errors/issues highlighted by Ofgem;" (Req 7L)

standardisation of data formats and protocol would be worth exploring; I would hope this would not compromise suppliers' ability to differentiate and innovate.

ii) Levels of the tariff caps

The Tariff Cap Act 2018 requires Ofgem to set the SVT tariff cap at a level that enables suppliers to compete effectively and maintains incentives on customers to switch tariff or supplier. It has been suggested to me that suppliers will compete more aggressively for SVT customers than for PPM customers.<sup>15</sup> On the other hand, many suppliers are arguing that the proposed level of the SVT cap is too tight, which could replicate the impact of the PPM cap.

Given the more limited price competition under the PPM tariff cap than at first apparent, and the partly artificial extent of it, it seems appropriate for Ofgem to consider whether an SVT/default tariff cap set on similar lines to the PPM cap would be consistent with the Act. (The Act was not in place when the PPM cap was set.) The more limited than apparent extent of competition under the PPM tariff cap is also a factor for the CMA (and Ofgem) to consider in the forthcoming 2019 review of that cap.

iii) Small supplier exemptions

The policy of subsidising new entrants – by making Small suppliers exempt from costly social and environmental and other obligations - has enabled around 70 new energy suppliers to enter the market, and to grow. As of end-July 2018, non-Big6 suppliers serve 25% of domestic market accounts. In six of the 14 geographic regions of the country they have over 30% of dual fuel accounts.<sup>16</sup>

Ofgem categorises five suppliers as Medium size, as noted above. Reportedly another eight suppliers now have over 250,000 energy accounts.<sup>17</sup> (At present their exemption status from the social and environmental obligations is unclear to me.) These 13 medium suppliers have over 20% of the market, implying that the Small suppliers with under 250,000 accounts have in aggregate about 5% of the market. This may underestimate the impact of the subsidy: another supplier has estimated that the market share of exempt suppliers (i.e. including those in transition) was 7% in 2017.<sup>18</sup>

So the policy seems to have achieved its aim of facilitating new entry and competition. Does it need to continue? Consider some of the disadvantages.

The cost of the Small supplier exemptions is born primarily by the SVT customers of the Large and Medium suppliers. The CMA found that SVT tariffs of the Large suppliers had proportionately more vulnerable customers. To that extent vulnerable customers are bearing more of the cost of the exemptions. The exemptions also distort competition to the benefit of smaller suppliers – that is their purpose. But what is now apparent is that they also distort

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<sup>15</sup> For example, it has been put to me that suppliers are less keen to attract PPM customers if they do not have a specific PPM acquisition model, and that most new entrants start by building a direct debit book.

<sup>16</sup> Cornwall Insight Energy Spectrum, 637, 8 October 2018, p 16.

<sup>17</sup> Ibid.

<sup>18</sup> Centrica op cit p 14.

*perception* of the nature and extent of competition, and of the level of competitive costs. In particular, the market is perceived to be less competitive than it really is. And the full extent of the adverse impact of the PPM tariff cap on price dispersion is somewhat masked.

The Government is slightly cutting back the scale of the Small supplier exemptions.<sup>19</sup> But its proposals seem rather little and rather late. There would be merit in exploring a faster and/or greater scaling back. Or there might be alternative ways of covering the social and environmental costs. If removing these exemptions entirely would be an undue administrative burden on the smallest suppliers, there could be payments in lieu.

Obligations regarding smart meter roll-out and listing on PCWs are a matter for Ofgem. Here too more uniform treatment of different sized suppliers would remove or reduce distortions and misperceptions. And if Small suppliers had to pay something for every PCW listing, that might incentivise both suppliers and PCWs to remove the inaccurate listings.

iv) Focus on the cheapest tariff

It took me considerable time to check the accuracy of the tariff savings claimed on PCWs, and to find that many seem to be inaccurate and that two of the cheapest tariffs (by some margin) were offered by two suppliers with the worst customer service records. This leads me to wonder whether it is sensible to keep emphasising the cheapest tariff – either as an indicator of what the competitive price is, or as a goal that customers should strive for. Such a goal seems too sensitive to error, too elusive to be a realistic target, and too focused on one dimension (price).

Ofgem's recent addition of the cheapest tariff basket (the average of the ten cheapest tariffs) to its suite of indicators is therefore a welcome development. In view of the previous point, price calculations generally might be further refined to distinguish between prices charged by Large and Medium suppliers (that bear the full government and regulatory costs) and by Small suppliers (that are subsidised by virtue of exemptions).

An index of average or cheapest price, even differentiating between subsidised and unsubsidised suppliers, takes no account of customer service. It is encouraging to see Ofgem and some PCWs beginning to develop rankings of customer service. There seems to be scope to develop and update these.<sup>20</sup>

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<sup>19</sup> “The Government has recently announced plans to maintain the participation threshold for WHD to 250,000 accounts for the 2018/19 winter, but this will be lowered to 200,000 accounts in 2019/20 and 150,000 accounts in 2020/21. On 19 July the Government also announced a similar gradual reduction path for the ECO participation threshold.” Ofgem *State of the Energy Market Report 2018* fn 15 p 20.

<sup>20</sup> Energyhelpline, which provides the basis for Ofgem's statistics, says on its website (in mid-October 2018) that price changes and predictions were last updated on 1 July 2016 and that customer service ratings were last updated in June 2016.

v) Emphasis on switching

In view of my experience with checking best tariffs – which highlights the costs and risks of searching and switching – I wonder whether it is sensible to keep emphasising customer engagement and switching as an indicator – let alone *the* indicator - of a successful competitive market. Checking out what other suppliers offer and at what prices is normal, though perhaps not as frequently as the CMA and Ofgem seem to think is appropriate. A switch of supplier (or of tariff) is indeed an indication that a customer has engaged in the market and hopes to obtain better terms with the new supplier (or tariff). Customers’ ability to do that keeps competitors on their toes. Ofgem is therefore right to take steps to facilitate switching. And PCWs and now autoswitching services are making this easier for customers.

But switching is traditionally an indication of dissatisfaction with the existing supplier (or tariff). Do we really want to be trying to maximise customer dissatisfaction? Some customers may well be content to shop around and switch suppliers frequently, and gain the resulting benefits in terms of lower prices. But other customers – perhaps the majority – may prefer not to do so. As one member of a recent Parliamentary Committee lamented: “customers shouldn’t have to keep switching”.

Should there perhaps be less emphasis on tariff differentials at point in time, and more emphasis on the longer term implications of the various tariffs on offer? Customers who switch to a new supplier will typically stay for a few years. Combining an initial low fixed tariff offer with a few subsequent years on a higher priced default tariff could mean that some initial offers are less attractive than they seem, while some tariffs that are not the cheapest initially could be better value over time.<sup>21</sup>

Current policy is to nudge people into switching from existing tariffs that they have hitherto deemed satisfactory onto new tariffs from suppliers whose customer service record they don’t know and at rates that may be temporary and/or not sustainable. Certainly, as noted, this should stimulate suppliers. But should there perhaps not be more positive encouragement to suppliers to provide tariffs that customers want to stay on? Should comparisons not focus on prices beyond the first year (or even the first month) and also on customer service ratings? Should there perhaps be less attempt to make customers conform to CMA norms on engagement and switching, and more attempt to enable customers to obtain the kinds of lifestyle and relationship with suppliers that they actually prefer?

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<sup>21</sup> For example, Octopus Energy calculated what happened if a customer chose the cheapest tariff on the market then reverted to that supplier’s SVT. “After just two months of paying the higher SVT, the customer would have been better off picking the 9<sup>th</sup> cheapest [tariff]; in less than 7 months they would’ve been better off with the 21<sup>st</sup> cheapest – which would have been on the third page of results on the comparison site! This proves that the usual rankings are meaningless if customers stay with a supplier for anything longer than 12 months – which history shows most people do.” The paper also compiled tables showing total costs to customers over 1, 2 and 3 years. Chris Roper, Exposing the real price of energy, 9 September 2016, at <https://octopus.energy/blog/exposing-real-price-energy/>