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Response to Ofgem consultation on the process for updating the default tariff cap methodology and setting maximum charges

MoneySavingExpert (MSE) welcomes the opportunity to respond to Ofgem's consultation on the proposed changes to the Default Tariff Cap methodology. We are concerned that the current proposal will not adequately address underlying issues in the market, and would have an unfair impact on consumers. We make a recommendation to instead reduce the current six monthly assessment period to a shorter period.

The price cap has always been a victim of time lag, which has affected consumers

Since the price cap has been introduced, an issue has become apparent with the eight-month lag between assessment periods and the associated price cap periods. This has resulted in price caps being set at levels not reflective of the wholesale prices for the price cap implementation period. This has contributed to 24 energy suppliers going bust, affecting over two million customers.[1]

This proposed change would only result in higher prices for consumers

While we can understand the logic of the proposed within-period assessments, because this would certainly help firms, we have concerns that it would only ever negatively impact on consumers, through higher prices.

This is because any event that prompts a within-period adjustment would have to meet two tests: to be 'rare' *and* 'have high impacts without urgent action', but it seems highly unlikely that these tests would ever be met by an event that decreases wholesale prices. As evidence, this consultation has been published in response to rapidly increasing whole prices in 2021, but no similar action was taken in 2020 when wholesale prices plummeted to their lowest levels since 2010. If this policy is implemented, we would expect an in-period adjustment to be triggered should such a scenario occur again, but do not expect this would happen in practice.

Double-counting wholesale price spikes is our main concern with this proposal

While we are concerned that this proposal would in practice only ever increase prices for consumers, and never reduce them, our main concern is that the envisioned system would lead to double-counting of price spikes, and thereby push the cap even higher.

In the current system, peaks and troughs in the wholesale price are averaged out over the six-month period, so balance to the consumer and the firm's interests is designed in to the process. If within-period assessments are introduced, the price spike that prompts a within-period assessment will be counted for that process, as well as for the subsequent, normal assessment period. This is inherently unfair on the consumer as, rather than allowing for spikes to be balanced out, it doubles down on

[1] This figure does include 1.7m consumers with Bulb, who are currently protected by its special administration status.

the wholesale increase and counts it *twice.* One spike would apply an upward pressure on both the within-period assessment, *and* the subsequent (normal) assessment period.

Delays could still occur with a within-period Price Cap adjustment process

Reacting quickly to a rare event is critical to achieve Ofgem's aims of protecting well-run energy firms from events they could not reasonably have been expected to plan for, or hedge against.

As noted above, the time lag in the current process between price cap assessment periods and implementation periods is central to the current problems in the market. We are concerned that the current proposals will not adequately address the lag issue to solve this problem; certain thresholds would need to be met, and following a consultation to decide the new cap level, any decision made will not be applied retrospectively.

Instead of the current proposal, we recommend moving to more frequent Price Cap adjustments in order to solve the double-counting issue for consumers, and reduce the time lag problem

We do not support the proposal in its current form, due to the reasons explained in this response. However, we recognise that the regulator is keen to act in order to protect consumers and firms from the issues we have seen recently prompting well-run firms to exit the market.

As an alternative, we propose that within-period adjustments are not implemented, but that action is taken to reduce the current eight-month time lag.

Moving from six-monthly adjustment periods to shorter periods would have key benefits over the current proposal for in-period adjustments:

- The impact of the time lag on firms would be reduced
- Consumers would be protected from spikes in the wholesale price being double-counted
- Peaks and troughs in wholesale prices would still balance out
- Keeping to a known-timetable for assessments would give consumers certainty

We recommend that Ofgem conducts the necessary analysis in order to determine the appropriate length of a shorter price cap period.

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