

Rachel Reeves MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
London
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Email: Dermot.Nolan@ofgem.gov.uk
Date: 13 November 2018

Dear Rachel

Vulnerable customers and the default tariff cap

Thank you for your letter in relation to vulnerable customers and the default tariff cap. I am conscious that you wrote to the Secretary of State, but given we discussed this issue when we met earlier in the year I was also keen to respond to you directly.

When we met in June, you asked about whether vulnerable customers, who are currently protected by the safeguard tariff cap, would be disadvantaged if they were moved to the forthcoming default tariff cap. I explained then that vulnerable customers would not be moved if the default tariff cap was set at an appreciably higher level than the safeguard tariff cap.

As you will know, when we published our statutory consultation on 6 September 2018, the proposed level of the default tariff cap was set at £1,136 per year¹ – which was the same level as the safeguard tariff cap. On that basis, in our statutory consultation we proposed that these customers would be moved to the default tariff cap when it comes into effect.

After consulting on the price cap we have made some minor adjustments to the level of the price cap to better reflect the real costs of supplying default tariff customers with gas and electricity. This has resulted in a very small overall increase in the level of the cap of £1.27. This means that the default tariff cap will be set at £1,137, compared to the safeguard tariff cap, which is currently set at £1,136.

Given that the levels of the two caps are so similar, we have decided to proceed with our decision to move these customers onto the default tariff cap, when it comes into effect on 1 January 2019. Within the cap, there are different levels depending, among other things, on payment method. Mindful of the need to protect vulnerable customers, we have chosen to apply the – lower – direct debit cap level to customers already protected by the safeguard tariff cap, regardless of whether they pay by direct debit or standard credit. This protects these customers who pay by standard credit from an appreciable change in the level of protection they receive.

You asked whether customers who had been moved from the safeguard tariff cap to the default tariff cap would see their bills increase at a faster rate. As you may know, the safeguard tariff cap was always intended to be a short term, temporary measure – scheduled to expire in December 2019 – to provide immediate protections for these customers before the default tariff cap came into force.

¹ For a dual direct debit consumer with typical consumption

At this stage, we cannot be precise about what the level of either the safeguard tariff cap or the default tariff cap will be when they are updated in the spring. Given wholesale prices remain significantly higher than last year, it is likely that there will be an increase in the level of both caps. While it is possible the default tariff cap may increase slightly more than the safeguard tariff cap when they are updated in the spring – in part reflecting the treatment of smart meter costs under the caps – at the moment we expect any such difference for a typical consumer to be relatively marginal.

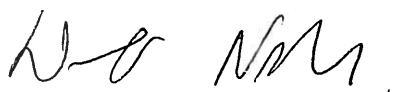
Importantly, the default tariff cap means that all customers – including vulnerable customers – can be confident that any increase in the cap would only reflect changes in the actual costs of providing the gas and electricity they use, rather than supplier profiteering – so that they will always pay a fair price for their energy.

We share your view that ensuring our energy market has appropriate protections for vulnerable consumers is of paramount importance, and extends far beyond the lifetime of the default tariff cap. Indeed, we are extremely conscious that even when the default tariff cap is removed, there are likely to be some customers, particularly those in vulnerable circumstances, who may still find it very difficult to engage in the energy market. We are ready to act to protect vulnerable customers, including considering specific price protection for these customers, in advance of the market-wide cap being removed.

Following an amendment made in July 2018, the Digital Economy Act does now allow for data sharing between energy suppliers and specified public authorities for the purposes of a price cap to assist with alleviating fuel poverty. So in the event that we did decide that further price protection for vulnerable customers was necessary when the default tariff cap is removed, we would be able to use these data sharing powers to help us to do so – and ensure that any such protection is properly targeted at the customers who most need it. Alongside this, we are working to update our dedicated Consumer Vulnerability Strategy.

I hope this letter helps to address the concerns that you have raised – but, as always, I would be very happy to discuss these issues with you further.

Yours sincerely,



Dermot Nolan
Chief Executive

cc: Rt Hon Greg Clark MP, Secretary of State for Business, Energy and Industrial Strategy,
and Rt Hon Claire Perry MP, Minister of State for Energy and Clean Growth