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**17 October 2018**

Dear Sir / Madam,

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the views of electricity and gas consumers in Great Britain. This document is entirely non-confidential, and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

Citizens Advice has been calling for the introduction of some form of price protection for vulnerable consumers since it took on the role of statutory energy consumer advocate in 2014. This price cap delivers on that call, while also providing broader protection for the majority of consumers who are currently on poor value standard variable or other default tariffs. You project that the cap may save consumers £1bn in the coming year, and your proposals will make a significant positive difference to many households.

There are areas where your final proposals could have gone further. For example, our interpretation of the CMA's 2014-16 market review's conclusions is that it considered that a profit margin of 1.25% before interest and tax would be appropriate, and we do not understand the basis of your alternative interpretation for allowing the higher figure of 1.9%. Equally, we remain of the view that the case for allowing any headroom is weak.

But we also recognise the very difficult trade-offs that Ofgem has needed to make in order to come up with a coherent and workable set of proposals to an acutely challenging timetable. It was inherently impossible to come up with a set of arrangements that would keep all stakeholders happy, and we consider that, in the round, Ofgem is proposing a reasonable and balanced package that provides a decent level of price protection to the majority of consumers, strong incentives to suppliers to improve their efficiency, reasonable ongoing incentives to switch, and a degree of comfort to investors that while the cap is demanding, it is also achievable.

As you move from policy development to implementation, a range of new challenges emerge around the communication and monitoring of the cap, and on preparations for successor arrangements for vulnerable consumers.

In 2020, and possibly again in 2021 and 2022 if the cap is extended, Ofgem is required to provide an annual report to the Secretary of State setting out its view on whether conditions are in place for effective competition for domestic supply contracts, and a

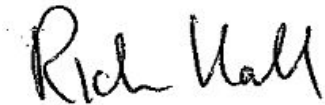
recommendation to the Secretary of State on whether it should be extended for a further year. While no equivalent statutory requirement exists for 2019, we think that it would be useful for Ofgem to communicate its emerging thinking during that year. Its next State of the Market report, due around October 2019, would appear to be a natural vehicle for this. The Act did not prescribe the success measures or criteria that Ofgem should look for in reaching its recommendations. For reasons of accountability, predictability and transparency we think that you should look to publish and articulate the tests or criteria you will be looking to assess against in the coming months. We will be enhancing our own market monitoring to inform our views on whether conditions are improving or deteriorating under the caps, and we would be happy to discuss the kinds of metrics we are considering with your team.

On communication, the cap faces unfortunate headwinds in the shape of upward pressures in cost drivers, particularly around wholesale costs, that mean hikes in the level it is set at are probable in its first year. This may mean that while eligible consumers are better off in relative terms than they would have been without it, they may nonetheless see prices rise in absolute terms. That is not the fault of the cap's design, but may undermine public confidence in it if not properly communicated. There will also be ongoing challenges around trying to explain what the cap does and does not do: that it ensures default prices are fair, but does not stop them from rising; that it is a cap on prices but not on bills; that consumers would still be better off if they switched; and so on. Through our advice provision we will seek to help consumers understand its implications, but again it may be an area where we can usefully work jointly with Ofgem around the development and delivery of consumer advice.

The Act enabling the cap provides for it to expire at some point between 2020 and 2023, depending on whether the Secretary of State chooses to exercise his or her powers under Section 7 and 8 to extend it. The decision on whether or not to extend must be published on or before 31 October in the relevant year, meaning that there may be as little as two months notice of its extension or termination. There are some tensions between that timeline and the requirements under Section 9 for Ofgem to conduct a review of whether excessive tariff differentials may emerge for some consumers, and whether enduring protections are needed for vulnerable consumers, before the cap ends - given that Ofgem itself may only have short notice of its termination. Given that uncertainty, we would encourage you to adopt the working assumption that the cap may be terminated as early as December 2020 in your planning for developing successor protections for vulnerable consumers. We note, and welcome, Dermot Nolan's past comments to the BEIS Select Committee that some form of enduring protection for vulnerable consumers is likely to be needed after the wider default tariffs cap has ended.

Finally, we would like to commend your team for the constructive, open and thorough way in which they developed and tested these proposals. We do not underestimate how difficult the delivery of such a complex and bold intervention into the market to such a challenging timescale has been, and we think Ofgem deserves considerable credit for the quality and comprehensiveness of its approach.

Yours sincerely

A handwritten signature in black ink that reads "Rich Hall". The signature is written in a cursive, slightly informal style.

Richard Hall  
Chief Energy Economist