

# The Domestic Gas and Electricity (Tariffs Cap) Bill Briefing Paper October 2017



## Introduction

The Department for Business, Energy and Industrial Strategy has announced a draft Bill to impose an energy price cap. The cap applies to households in England, Wales and Scotland on Standard Variable tariffs and other default tariffs. The cap is a temporary measure as it will expire in 2020 and is unlikely to be implemented until the winter of 2018/2019, at the earliest.

## Who does this cap apply too?

*The Guardian* claims that the price cap will cover about two-thirds of households, who are on standard variable tariff and other default tariffs. Around 18 million customers are on these standard default plans.<sup>1</sup> Standard variable tariffs are energy packages where the price per unit is dependent on the base interest rate of the Bank of England. If the rate goes up, then so do energy prices, but similarly if the rate decreases then users benefit from lower fuel costs. As such, users of standard variable tariffs experience large levels of fluctuation in their energy bills.

## Who is excluded?

The price cap will not include those households on the following tariffs: fixed energy, dual fuel tariff (where you get your gas and electricity from the same supplier), online energy, pre-payment and green energy tariffs. In addition, the price cap does not apply to households in Northern Ireland.

## How will it work in practice?

The bill will pass the obligation of implementing the cap solely to Ofgem, the government regulator for electricity and energy. However, the details of how this cap in practice will function are not known yet. So far we know that the cap is an absolute cap which requires that Ofgem begin implementing it as the earliest date, following the bill gaining the royal assent. The bill then places an obligation on Ofgem to: protect customers, create incentives for suppliers to improve efficiency, enable effective competition for domestic supply contracts, maintain incentives for customers to switch and ensure efficient suppliers are able to finance their activities.

## What are the advantages?

Greg Clark, Business and Energy Secretary, claimed that: "customers of the big six energy suppliers were overpaying to the tune of £1.4bn a year".<sup>2</sup> Default tariffs can cost hundreds of pounds a year more than standard deals and this cap is intended to reduce these occurrences.

## What are the disadvantages?

This cap is a temporary short term fix to the growing fuel crises. The cap will not be implemented until the winter of 2018/2019 at the earliest. Dermot Nolan, Chief

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<sup>1</sup> May's energy price cap will cover about two-thirds of households, *The Guardian*, 12th October 2017 <https://www.theguardian.com/money/2017/oct/12/may-energy-price-cap-ofgem-electricity-gas-tariffs>

<sup>2</sup> Energy price cap plans to be revealed, *The BBC*, 12th October 2017. <http://www.bbc.co.uk/news/business-41592200>.

Executive of Ofgem, has said it will take around five months, after the bill received Royal Assent, for the regulator to enact a price cap because the watchdog had a statutory duty to consult power companies.<sup>3</sup> With the cap expiring in 2020, realistically consumers will only get two winters out of it. Whilst the government has stated there will be a need to review the cap post 2020, this is no guarantee it will continue. MPs have also claimed that the government already has the power to introduce the cap, via secondary legislation, and therefore question why there is a need to extend this into a legislative process.<sup>4</sup> Interestingly, the cap will not apply to pre-payment meters which have higher charges for energy and typically serve the poorest households.<sup>5</sup>

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<sup>3</sup> UK's promised energy price cap will expire in 2020, Nathalie Thomas and Jim Pickard, *The Financial Times*. 12th October 2017 <https://www.ft.com/content/f0bbd608-ae5f-11e7-aab9-abaa44b1e130?mhq5j=e6>

<sup>4</sup> Caroline Flint Twitter, personal tweet. 12th October 2017 <https://twitter.com/CarolineFlintMP>

<sup>5</sup> What is the energy price cap- and what does it mean for bills? *The Telegraph*, 9<sup>th</sup> May 2017, <http://www.telegraph.co.uk/business/2017/05/09/energy-price-cap-does-mean-bills/>