Update

Summary of Responses to the Future of Domestic Price Protection Discussion Paper

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This document summarises views expressed by stakeholders in response to our Future of Domestic Price Protection discussion paper published in March. It incorporates written responses as well as those gathered through stakeholder workshops.

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1. Executive summary

1.1 In our recent discussion paper on the Future of Domestic Price Protection ('the discussion paper') we evaluate the role of the default tariff price cap ('the cap') to date, evaluate the cap for the future energy market including when Market-wide Half Hourly Settlement (MHHS) is implemented and set out possible options for evolving price protection.

1.2 There was significant interest. We received 120 responses including 78 from consumers, 14 from consumer groups and charities, 11 from suppliers and 5 from price comparison websites. We also engaged with stakeholders through workshops and have incorporated feedback received in those sessions in this document. It should be noted that some parties did not respond to all the questions, so the broad sentiment summary for each category of respondent does not necessarily reflect the views of every party within that category.

1.3 The discussion paper's case for change is that the current cap design, based on the three "flat, universal and stringent" parameters, is increasingly challenging as the diversity in suppliers' customer bases increases. This diversity will increase further once MHHS is implemented when different customer consumption patterns result in different wholesale costs for suppliers to serve them.

1.4 Most stakeholders of all categories agreed with the discussion paper's list of successes and challenges of the cap to date, although some were more positive than others. In relation to evolving price protection, there were different views on which of the three parameters should be relaxed.

1.5 Most stakeholders said that some form of price protection should remain universal for default tariff customers but that reform is needed as the market changes. Most consumers and consumer groups and charities argued that the cap should be stringent while suppliers generally said it should be less stringent. However, most stakeholders said that price protection should not be used to tackle affordability, arguing that a social tariff or additional support for vulnerable customers would be more effective.

1.6 Thinking towards a half-hourly settled market, many stakeholders recommended introducing a ToU capped default tariff alongside a flat capped default tariff; there was general agreement that a static rather than dynamic ToU design was more appropriate for default tariff customers. Ofgem will continue to review the evidence gathered and follow up with stakeholders where appropriate as we consider next steps for future price protection. In doing so we are working closely

with DESNZ, which issued a related Call for Evidence on default energy tariffs[1] in parallel to our discussion paper. Future price protection considerations are also linked to wider work being undertaken by Ofgem, working closely with the UK government, including on standing charges and affordability and debt.

[1] DESNZ (2024), Call for Evidence: Default energy tariffs for households, https://www.gov.uk/government/calls-for-evidence/default-energy-tariffs-for-households-call-for-evidence

2. Introduction

Background

2.1 In March 2024, we published our Future of Domestic Price Protection Discussion Paper.[2] As independent economic regulator, Ofgem is required under the Domestic Gas and Electricity (Tariff Cap) Act 2018 (DTCA) to make decisions on the cap with a view to protecting existing and future domestic customers who pay standard variable and default rates.[3]

2.2 As the UK government department responsible for developing policy on domestic price protection, DESNZ is also considering the nature of future default tariffs which are closely linked to questions around future price protection, publishing a Call for Evidence on default energy tariffs for households in February.

2.3 Our discussion paper outlines the context in which the cap was introduced, then sets out the successes and challenges of the cap and the case for change to respond to future energy market changes. Finally, it sets out a broad spectrum of options for evolving consumer price protection and seeks input from stakeholders on whether reform is needed, and if so, what kind of reform will work best for consumers.

2.4 This publication provides an update including a summary of stakeholder responses to our proposals and our next steps. Stakeholder responses are grouped by the themes set out in each chapter of the discussion paper. Within each chapter of this publication, we briefly recap what we said in the relevant chapter of the discussion paper for context. It is not intended to provide an exhaustive summary of the discussion paper.

[2] Ofgem (2024), Future Price Protection Discussion Paper, https://www.ofgem.gov.uk/call-for-input/future-price-protection-discussion-paper

[3] Domestic Gas and Electricity (Tariff Cap) Act 2018 (legislation.gov.uk). In setting the cap, Ofgem must have regard to five matters of 1) supplier efficiency incentives, 2) enable suppliers to compete, 3) incentivise consumers to switch, 4) ensure efficient suppliers can finance their activities, and 5) impact on public spending.

Overview of responses and wider feedback

2.5 We received 120 responses with the following breakdown: consumers (78), consumer groups and charities (14), suppliers (11), price comparison websites (5), energy or energy industry related trade bodies (3), think tanks (2), social enterprise (1), academic (1), green technology business (1), other company (1), independent non-departmental advisory body (1), independent statutory body (1) and social care network (1).

2.6 We also conducted stakeholder workshops. We held two joint workshops with DESNZ, separately with suppliers and consumer groups and charities (CGCs), to discuss further the DESNZ Call for Evidence and Ofgem's discussion paper on future price protection. Ofgem also held two other separate workshops for suppliers and CGCs to discuss further Ofgem's call for input on affordability and debt in the domestic retail market as well as our discussion paper on future price protection, given the interlinkages between the two workstreams. This document summarises written responses to the discussion paper as well as feedback gathered in the stakeholder workshops.

Related Publications

2.7 Future price protection considerations are linked to wider work on the retail energy market, including on standing charges and affordability and debt and the Ban on Acquisition-only Tariffs (the "BAT"), as well as changes to the current cap. In recent months, Ofgem has published a number of publications in these areas.

2.8 The following are related publications:

- Ofgem, Debt Strategy: a 'reset' and 'reform' for customers in debt
- Ofgem, Standing charges: update on our review
- Ofgem, Future of the Ban on Acquisition-only Tariffs (BAT) after March 2025
- Ofgem, Energy price cap operating cost allowances review
- Ofgem, Energy price cap: additional debt costs review decision
- DESNZ, Future default tariffs: Call for evidence
- DESNZ, Future default tariff arrangements: Summary of responses
- DESNZ, Putting consumers first: empowering and protecting energy consumers

3. Evaluating the cap to date

Background

3.1 Chapter 2 of the discussion paper provides an evaluation of the role of the cap to date. It sets out how the cap was designed to protect disengaged consumers and incentivise supplier efficiency. The cap initially appeared effective: it incentivised efficiency gains by suppliers and protected disengaged customers from price exploitation without stifling competition. But the gas crisis exposed certain limitations and challenges of the cap.

3.2 These limitations are set out in the paper as i) additional costs and risks, which exist as a side effect of the cap, ii) impacts on competition, innovation and service levels over time as a result of the existence and design of the cap, and iii) the growing challenge of applying the cap to a more diverse market especially when considering the growing bad debt levels.

3.3 We describe how some of these challenges relate to the inherent design of the cap as being "flat, universal and stringent". Below we provide an overview of what we mean by these parameters in the context of the cap:

- flat: because it is based on a single unit rate. This doesn't reflect the fact that post MHHS suppliers will be charged different rates according to which half hourly periods their customers consume electricity and as a result the cap's flat design doesn't incentivise consumers to shift their usage to cheaper times of day.
- universal: because it protects all customers on default tariffs, currently around 80% of the market. This means that as well as protecting customers that can't engage in the market including those in vulnerable circumstances, it also protects those who can but choose not to engage in the market, potentially reducing the incentive for them to engage. It also means the same costs are charged to all consumers despite the cost to serve them becoming increasingly differentiated.
- stringent: because it is calculated using a bottom-up approach based on a notional efficient supplier. This may deliver lower prices for consumers in the short term but can also place more risk on suppliers and undermine market resilience. It also may become increasingly unsustainable as the costs suppliers face to serve their customer bases become increasingly differentiated.

Consultation questions

3.4 This chapter asked stakeholders the following question

Q1. Do you have any reflections on our list of the cap's successes and challenges?

Consultation responses

Consumer group and charity (CGC) responses

3.5 CGCs generally agreed with the successes listed. Several also said that the cap had boosted consumer understanding and trust in the energy market by making pricing more transparent. One CGC said that the discussion paper should also have added as a success the cap's positive impact on competition, arguing it had levelled the playing field between suppliers with and without large disengaged customer bases.

3.6 On the cap's challenges, many CGCs said that energy prices were still unaffordable for many customers. Several CGCs expressed concern about suppliers lobbying Ofgem to change aspects of the price cap methodology and said that if Ofgem's adjustments keep favouring suppliers it would weaken price protection. Four CGCs expressed concern about how Economy 7 rates are set within the cap, highlighting the significant variations between day and night rates in different regions and from different suppliers which they said meant many customers were overpaying.

Supplier responses

3.7 Suppliers generally agreed with our list of the cap successes to date. Some highlighted other benefits which were not listed in the paper. A key additional benefit identified by both large and smaller suppliers was the cap promoting consumer trust in the retail market sector by being based on a published and transparent bottom-up cost assessment.

3.8 Similarly, as the cap methodology is based on a bottom up and published assessment of costs, one larger supplier said that the cap helped to reduce "legacy" suppliers' ability to exploit market power through discriminatory pricing which reduces competition. Conversely, another smaller supplier said that the cap reflects large rather than smaller supplier costs and so acts as a barrier to competition.

3.9 Many suppliers questioned the extent to which the cap had incentivised efficiency gains, arguing that competition already incentivises greater efficiency, irrespective of the cap.

3.10 Generally, suppliers agreed with our listed challenges. Large suppliers in particular said the cap had a detrimental impact on service levels, especially for those with higher cost to serve customers who need greater levels of support. They argued the cap had forced suppliers to cut costs, including for customer service.

3.11 Many suppliers suggested an additional challenge of the cap is the reduction in market liquidity driven by the cap's prescriptive hedging strategy, which has been compounded by the large majority of domestic customers being on default tariffs. A smaller supplier countered by arguing that the cap is not the cause of homogonous hedging strategies, saying that suppliers already followed similar hedging strategies before the cap was introduced, due to pressure of competition.

Price comparison website (PCW) responses

3.12 On the successes of the cap, three PCWs agreed that it helped to protect disengaged customers from the loyalty penalty. Two PCWs also agreed that the cap had helped to realise supplier efficiencies and one agreed that it had helped to preserve competition in the market. There was a view among some that the cap had helped to limit the true impact of wholesale price surges during the gas crisis.

3.13 On the challenges of the cap, most said that having so many customers covered by the cap, who generated a profit and are unlikely to switch, reduced incentives for suppliers to price competitively to acquire new customers or improve customer service.

3.14 PCWs generally agreed that the cap was stifling competition and innovation in the market and thereby reducing switching levels. Additionally, there was concern that the cap was reducing incentives for consumers to shift consumption patterns and thereby impacting the transition to net zero.

Consumer responses

3.15 Consumer views on the successes and challenges of the cap to date were mixed. Some agreed with our view that the cap initially provided a level of consumer price protection, however argued that this protection no longer exists due to volatile prices and the perception that the cap favours supplier profits over consumers. Others considered that the cap continues to protect disengaged customers but at the risk of disincentivising any future engagement with the market.

3.16 Furthermore, some consumers considered that the cap does not reflect true wholesale energy costs, in particular of electricity generated by renewables. A number of consumers also considered that the term 'cap' was unclear as it implied a total cap on energy bills rather than a cap on unit prices, highlighting an underlying issue around understanding how the cap works.

Other responses

3.17 One economist said the discussion paper was too "self-congratulatory" on the successes of the cap. They argued the discussion paper overstated the benefits and didn't fully acknowledge the disadvantages, saying the cap has in fact stifled competition and has likely driven up supplier costs and hence prices to customers.

4 Evaluating the current cap for the future

Background

4.1 Chapter 3 of the discussion paper provides an evaluation of the current cap for the future energy market. It sets out why diversity in household consumption patterns is expected to grow over coming years and the interactions with the current cap design.

4.2 With adoption of electric vehicles (EVs), heat pumps and other low carbon technologies (LCTs) set to increase, how much electricity different consumers use – and when – is set to become more diverse. In addition, greater reliance on renewable forms of generation is anticipated to lead to higher variability in wholesale prices as they become increasingly determined by weather patterns.

4.3 The price of electricity on wholesale markets, especially day ahead markets, is generally not static throughout the day, and changes with supply and demand. When demand is high or supply low, the wholesale price of electricity increases. Flexibility in how we use (and store) electricity is the most cost-efficient way to manage peaks in demand and troughs in supply and is a critical part of ensuring the lowest possible cost net zero energy system.

4.4 Suppliers currently use typical consumption profiles to estimate their customers' half hourly consumption. The introduction of MHHS will expose suppliers to the true costs of consumption of their customers with smart meters for the first time. Customers for example who use more electricity during more expensive peak periods will be more expensive to serve and vice versa. In this way MHHS will incentivise suppliers to offer Time of Use (ToU) tariffs to their customers who are willing or able to shift their demand to cheaper off-peak periods.

4.5 This chapter explains the broad categories of ToU tariffs types as either static or dynamic:

- Static ToU tariffs can have fixed rates, but those rates differ between time-bands, with typically higher unit rates during peak hours. A simple version of these tariffs - Economy 7 and Economy 10 tariffs - have been in the market for decades and are used by millions of customers. These tariffs can help customers to reduce their bills by avoiding electricity use during peak periods, while also reducing suppliers' wholesale costs.
- Dynamic ToU tariffs charge electricity prices that are linked to the wholesale day ahead market. As such, they often vary by half-hour, and are likely to be more volatile. Consumers on these tariffs who increase

consumption when cheap electricity is plentiful and curb demand when it is not will enjoy bigger savings but face higher bills if they don't change their consumption patterns. Smart devices, such as EV smart chargers, make it easier for customers to shift their consumption automatically to take advantage of these price movements.

Consultation questions

4.6 This chapter asked stakeholders the following questions:

Q2. Do you believe that the growing diversity of electricity consumption patterns will make it challenging to retain a flat, universal and stringent price cap? How quickly do you think this will materialise and with what impacts? What evidence can you provide to support your view?

Q3. What plans do suppliers have to launch ToU tariffs and to incentivise customers to shift their electricity consumption once MHHS is implemented?

Q4. How quickly and at what scale do you expect customers, especially those with large flexible loads such as EV and solar/battery users, to take up ToU tariffs once MHHS is implemented?

Q5. In addition to the factors set out in this chapter, are there any other important changes that might affect the ability of the current default tariff cap to achieve its objectives

Stakeholder responses

Consumer group and charity (CGC) responses

4.7 Two CGCs said diversity in electricity consumption patterns already existed even before implementation of MHHS, due to the significant number of customers with night storage heaters on Economy 7 tariffs. Several CGCs said there was uncertainty around the speed and scale of LCT adoption and the related adoption of ToU tariffs. One CGC added that it had expected suppliers to have developed more ToU tariffs so far, which it said suggested that adoption of ToU tariffs post MHHS would be similarly slow.

4.8 One CGC said that high levels of customer disengagement before the gas crisis, despite customers being able to save hundreds of pounds from switching, demonstrated that it would be wrong to assume that large numbers of customers would adopt ToU tariffs even if they could make significant savings. It cautioned that many consumers do not even understand how the current flat cap works and a lack of understanding around more complex ToU capped default tariffs may reduce confidence in future price protection.

4.9 Several CGCs said early adopters were more likely to be affluent and expressed concern that this could lead to more energy inequality if lower income households were unable to benefit from the cheapest ToU rates. One CGC added however that more affluent EV owners who prefer the convenience of charging when they want, even at a higher price, would not switch to a ToU tariff.

Supplier responses

4.10 Suppliers generally agreed that the current flat, universal and stringent cap design would need to be reformed as the market changes. However, one large supplier said that even though diversity in the costs to serve of different suppliers' customer bases is growing, some of these costs should be within suppliers' control. It cited the example of customer debt, arguing that more efficient debt collection and billing would reduce bad debt costs.

4.11 Suppliers generally said that it is difficult to predict when reform would be needed given uncertainties around how many and how quickly customers (including those with large flexible loads) would adopt ToU tariffs once MHHS is implemented.

4.12 Two large suppliers said that customers with large flexible loads, such as EV owners, are likely to already be on a ToU tariff and if not are more likely to take one up more quickly. One large supplier said as a result the post MHHS risk of higher cost to serve customers (such as EV owners) remaining on the cap and

being subsidised by lower cost to serve customers may be limited, initially at least. One smaller supplier added that EV owners without access to off-street parking or who do not charge their EV at home would not be able to benefit from a ToU tariff for charging their EV.

4.13 Several suppliers said that the pace of change post MHHS may be slower than expected. One smaller supplier said that there may not be enough of an incentive for many customers without an EV to switch to a ToU tariff. Given these uncertainties around the pace and nature of change, many suppliers recommended more gradual changes to future price protection.

4.14 Suppliers generally said that they were still testing and developing ToU tariffs ahead of MHHS implementation.

4.15 Suppliers listed a number of other market wide changes that might affect the ability of the cap to achieve its objectives, some of which are already under consideration as part of the wider price cap work programme. One smaller supplier said that the discussion paper did not give sufficient consideration to the environmental benefits of exposing the market to MHHS.

4.16 One smaller supplier expressed concern that customers won't notice when they save money as a result of ToU tariffs and will only notice when they pay higher peak rates which could undermine public acceptance.

4.17 One large supplier said that the building blocks for moving to a universal ToU capped default tariff post MHHS are not in place, as the roll out of smart meters is incomplete and due to issues around consumer consent for sharing half hourly consumption data. It said these issues need to be tackled urgently ahead of MHHS implementation.

Price comparison website responses

4.18 There was agreement, from those that responded to the questions in this section, that the growing diversity of electricity consumption patterns would present challenges if the existing cap design remained.

4.19 It was generally considered that the cap's design provided no incentive for consumers to shift consumption and consequently for suppliers to offer ToU tariffs. Two PCWs acknowledged the slow uptake of ToU tariffs on the market, saying some suppliers were innovating only for small numbers of high value customers and early adopters of LCTs. It was noted that the majority of ToU tariffs on the market currently were static rather than dynamic, further noting

that it was unclear at this stage which offered the most benefits and appeal to customers.

4.20 There was a view that default tariffs should be seen as a backstop rather than the best tariff for all households, and that consumers should be rewarded for switching to ToU tariffs and shifting consumption to aid the net zero transition.

4.21 One PCW said it was not clear how quickly even customers with large flexible loads would take up ToU tariffs and welcomed further analysis on the impacts and timings of this transition. Two PCWs considered that such customers would take up ToU tariffs quickly given the incentives to do so, although others flagged barriers including a lack of appropriate infrastructure and issues with smart meter roll-out as hindering this transition. The lack of effective ToU tariff comparison was cited as another barrier to faster uptake, with one PCW calling for easier access to consumer half hourly consumption data and a cross-industry standardised approach to ToU tariff comparison.

Consumer responses

4.22 A number of consumers acknowledged the challenges of keeping a flat, universal and stringent cap design in light of the growing diversity in electricity consumption patterns. It was acknowledged that more affluent customers with EVs and solar panels would likely be early adopters of ToU tariffs. However, there was concern that many lower income customers, including not just those typically grouped as vulnerable customers, cannot afford LCTs and would remain on flat tariffs and pay more as a result. In addition, there was some concern that those who do not work from home, such as shift workers, may be less able to shift their electricity consumption to benefit from cheaper ToU off-peak rates.

4.23 Another concern flagged by many was the availability of fully operational smart meters to access ToU tariffs with consumers saying more needed to be done to encourage smart meter take-up. It was suggested that the current flat cap should remain in place until smart meters are more widely available.

4.24 Many consumers said that the market needs to work for everyone and those remaining on a flat rate tariff should not be penalised by subsidising those on cheaper ToU tariffs.

Other responses

4.25 One energy industry trade body recommended that if suppliers do not offer a wider range of ToU tariffs post MHHS, then Ofgem should mandate suppliers to do so.

4.26 One green technology business said it is possible to make the transition to net zero with a flat, universal and stringent cap. It argued that demand can be shifted in other ways other than through ToU tariffs, pointing for example to rules requiring EV smart chargers to charge at off peak hours by default and suppliers rewarding consumers for shifting consumption such as through the ESO's Demand Flexibility Service.

4.27 One economist noted that the DTCA, which brought the cap into existence, doesn't require it to be stringent or flat.

5 Options for evolving price protection for the future

Background

5.1 Chapter 4 of the discussion paper presents a list of alternative approaches to price protection that could help to address the challenges identified in previous chapters.

5.2 It describes in more detail the three different parameters of the current cap – flat, universal and stringent – and examines the impacts of relaxing each one. The eight options listed in the discussion paper are grouped according to which parameter would need to be relaxed to enable them.

5.3 The chapter also sets out the different frameworks that we can consider when examining the different options.

Consultation questions

5.4 In this chapter we asked the following questions:

Q6. Do you agree that we need to retain some form of price protection in the retail market?

Q7. Do you have views on which of the three key parameters – the cap being flat, universal and stringent - should be relaxed when considering future price protection options?

Q8. What are your views on options discussed? Do you have any preferred options or combination of options?

Q9. In particular, which options or combination of options do you think would best protect vulnerable customers?

Q10. How should consumers with large flexible loads, mainly EV and solar/ battery users, be treated with regards to future price protection?

Q11. Are there any additional options that we haven't, but should be considering

Stakeholder responses

Consumer groups and charity (CGC) responses

5.5 All CGCs who responded agreed that some form of price protection should remain in place to prevent a return of price discrimination against disengaged customers. Most said that this price protection should apply to all default tariff customers and that some form of stronger targeted support for vulnerable

customers such as a social tariff or additional bill support, for example through an enhanced Warm Home Discount (WHD), should exist alongside it.

5.6 Most CGCs said that such targeted support would be more effective for vulnerable customers than a targeted price cap, which one also said could reduce suppliers' willingness to serve eligible customers. One CGC said that principles-based regulation – such as a "fair pricing principle" - could be an alternative to a universal price cap and would encourage customers to engage, especially with ToU tariffs.

5.7 Most CGCs expressed concern about relaxing the stringency of price protection, for example due to the impact on disabled people. Conversely, one CGC said it did not think the current cap was stringent anyway and that tightening stringency may constrain development of tariffs priced below the cap level.

5.8 One CGC said a targeted price cap would inevitably miss some disabled people who are, for example, not in receipt of the WHD. If the price cap is not flat, disabled people running electrical medical equipment around the clock would also lose out, it added. It said that Ofgem should not make any changes to the cap until it had carried out an equalities impact assessment on the impact on disabled people.

5.9 More generally, several CGCs expressed concern that customers remaining on a more expensive flat capped default tariff would suffer a new "loyalty premium" by not switching to a cheaper ToU tariff, either because they are unable to shift electricity consumption or due to general disengagement. Several said that those who cannot engage in the market should still benefit from system savings generated by other customers on ToU tariffs shifting their consumption.

5.10 Most CGCs recommended introducing a static ToU capped default tariff for Economy 7 customers and other customers who can shift consumption. One CGC said that Ofgem needed to learn the lessons from incorporating Economy 7 tariffs within the current cap when designing such a static ToU capped default tariff.

5.11 Most said that it would not be appropriate to default customers onto a dynamic ToU capped default tariff unless they had been on a dynamic ToU fixed term tariff beforehand to avoid consumer detriment. Several CGCs said suppliers should continue to offer a flat capped default tariff for customers without smart

meters or for those on low incomes who would not benefit from or would struggle to engage with ToU tariffs.

5.12 Four CGCs expressed support for defaulting LCT owners onto a ToU capped tariff to avoid the risk of cross subsidisation. However, one of them said that due to the challenges in identifying such customers, a technology neutral approach may be necessary, for example setting "fair usage" limits on peak consumption for all customers which if breached could trigger customers being moved to a ToU default capped tariff. Another of them said that the form of price protection should be determined by the consumer's prior tariff type rather than if they own an EV for example, so customers coming to the end of their ToU fixed term contract tariff would default onto a ToU capped default tariff.

5.13 Of the other options listed in the discussion paper, only retaining the BAT received any support, from several CGCs.

Supplier responses

5.14 Most suppliers said that some form of price protection should be retained to protect all default tariff customers from price discrimination. One large supplier said Ofgem needs to review the purpose of the cap and the original theories of harm that the cap was introduced to address. It noted that future price protection was now being discussed in the context not just of the loyalty penalty but wider affordability issues too.

5.15 Two smaller suppliers said that the cap should be removed entirely. One said it should be replaced by alternative protections like the BAT and the other said non-financial methods could be used to help disengaged customers, such as collective switches.

5.16 Most suppliers said that the cap should remain universal, applying to all default tariff customers. However, one large supplier said the universal nature of the cap should be reconsidered as it reduces the incentive for customers to engage. It suggested the cap coverage could instead be limited to long term disengaged customers or that all customers should be able to select a regulated tariff. One smaller supplier said that all three parameters should be relaxed for most customers.

5.17 Most suppliers said that the stringency of the cap should be relaxed to ensure that suppliers can recover their costs and facilitate competition and innovation by enabling suppliers to price more competitively below the cap level. Some

suppliers recommended changes to how the cap is calculated, arguing that assuming costs based on a notional supplier is becoming unsustainable as the market diversifies, especially post MHHS.

5.18 All suppliers said that the cap should remain flat, at least for disengaged customers without any LCTs, as this would be least likely to lead to detriment for such customers. Suppliers generally cautioned against placing all customers onto a ToU capped default tariff. However, most said that a ToU capped default tariff should also be introduced alongside the flat cap for example for customers rolling off fixed term ToU tariffs; one large supplier said that such customers should only be defaulted onto a ToU capped default tariff if it would be cheaper for them than the flat capped default tariff. Another large supplier said that low cost to serve customers on the existing flat capped default tariff could also be defaulted onto a ToU capped default tariff. All suppliers said, in the short term at least, a ToU capped default tariff should be static rather than dynamic to protect customers less able to manage more complex tariffs and associated costs.

5.19 Regarding which option(s) would best protect vulnerable customers, all suppliers who responded to the question said that price protection, such as a targeted cap based on vulnerability, is not appropriate for protecting vulnerable customers. Suppliers instead recommended either a social tariff or additional bill support such as an enhanced WHD scheme.

5.20 Suppliers generally did not support excluding certain customers, such as LCT owners, from the cap. Some said it would be difficult to identify which customers own LCTs, with one large supplier arguing it should be left to the market to incentivise such customers to switch to ToU tariffs. Another large supplier said it would be unnecessary as the majority of its customers who own an EV are already on ToU tariffs; another said that it would risk holding back smart meter and EV take-up.

5.21 There was no support for a market basket cap which suppliers said was open to gaming and would be difficult to implement. Similar concerns were raised about the within-supplier relative cap, however, one large supplier and one smaller supplier both supported the option.

5.22 Most suppliers recommended retaining the BAT as a permanent feature of the market to help protect disengaged customers and prevent a return to unsustainable pricing. There was little support for a margins cap which

suppliers generally said could disincentive supplier innovation, investment and efficiency, and would be difficult to implement.

Price comparison website responses

5.23 All the PCWs that responded agreed that some form of price protection was necessary in the retail market, including for low income or vulnerable customers, such as a social tariff. PCWs generally said that price protection should not be universal for all default tariff customers and that those able to engage should instead be encouraged to switch and find better deals. However, two PCWs recommended a less stringent within-supplier relative price cap, which they said was the best way of spreading the benefits of competition to disengaged customers, alongside targeted support for vulnerable customers. Another PCW recommended a more principles-based approach to price protection rather than capping prices, requiring suppliers to offer a fair, reasonable and easy to understand default tariff.

5.24 PCWs generally said that maintaining a flat and universal cap would dampen incentives for customers to engage in the market, including by shifting their electricity consumption, and would as a result hinder the net zero transition. One PCW said that suppliers should be free to offer some static ToU uncapped default tariffs but that it would not be appropriate to put customers onto dynamic ToU default tariffs. One of the PWCs which recommended a within supplier relative price cap said that a static ToU capped default tariff may be appropriate for EV owners or for other customers if it would be cheaper than the flat default tariff but also did not recommend a dynamic ToU capped default tariff.

5.25 Apart from the support from two PCWs for a within-supplier relative price cap, PCWs did not recommend any other option listed in the discussion paper.

Consumer responses

5.26 Most consumers stated that some sort of price protection was required to protect consumers from further price shocks.

5.27 Of those consumers that responded, a significant number agreed that the "flat" parameter of the cap should be relaxed, due to the growing diversity in electricity consumption patterns. Consumers generally favoured a static rather than dynamic ToU capped default tariff as they are easier to manage. It was acknowledged that ToU tariffs would largely benefit early adopters of LCTs and those who were keen to shift their consumption to save money on bills. High

up-front costs of LCTs, particularly for those consumers who do not qualify for specific grants, were a key barrier for those willing to consider adopting ToU tariffs.

5.28 Many consumers were aware of suppliers already offering ToU tariffs. Of those that were either willing to consider these tariffs or were already on them, the majority raised concerns around their accessibility. These concerns largely centred around ongoing issues with smart meters (such as not getting a signal in rural areas or smart meters not working in some properties) and consumers said more needed to be done to resolve these issues.

5.29 Another more general concern raised around ToU tariffs was that some consumers are unable to access the cheapest rates, including consumers needing to run electrical medical equipment around the clock, or those with more inflexible work patterns or daily routines. Other consumers said it was difficult to compare ToU tariffs and expressed concerns that some ToU tariffs are restricted to certain LCTs or exclude some payment types.

5.30 Suggestions for improving ToU tariffs include adding more tiers to allow a fairer allocation of rates throughout the day and night, introducing different tiers tied to usage levels with lower consumption rewarded with lower rates and providing special ToU tariffs for consumers generating their own renewable electricity such as solar. Many consumers suggested keeping the flat capped default tariff alongside a ToU default tariff to ensure that customers could choose what worked best for them.

5.31 For those consumers who were not keen to move away from a flat tariff and onto a ToU tariff, some cited not wanting a smart meter and safety concerns about running appliances at night to benefit from cheaper off-peak rates. Many acknowledged that raising awareness and understanding of ToU tariffs is vital to increase take-up.

5.32 Some consumers considered that the "universal" aspect of the cap should be relaxed to provide more targeted support for consumers that need the most help, while others considered that price protection should be provided to all default tariff consumers. Those arguing to keep the cap universal said that many consumers who did not qualify for existing support need price protection too. Very few consumers considered that the "stringent" parameter of a universal cap should be relaxed to allow better targeted support for those who needed it most.

5.33 A small minority of consumers commented that we should retain the existing flat, universal and stringent cap design, arguing it provides the most effective protection. Conversely, there was a suggestion that the cap is removed altogether to allow a fair and free market based on competition with no market intervention.

Other responses

5.34 A green technology company, social enterprise and think tank all agreed that price discrimination for disengaged customers would return in the absence of price protection. Conversely, an energy industry trade body said that Ofgem should provide more evidence to back up our assertion in the discussion paper that price discrimination would return in the absence of price protection. An economist did not agree with this assertion and argued that disengaged customers were not exploited before the cap was introduced.

5.35 An energy industry trade body and a green technology company said that stringency should be relaxed to incentivise customers to switch to ToU tariffs. The trade body added that the cap should only apply to all default tariffs and should exclude non-default evergreen tariffs, with additional support provided for vulnerable customers. The green technology company said that the cap should remain universal for default customers as it is hard to identify vulnerable customers.

5.36 One think tank said all three parameters should be relaxed to varying degrees, arguing the priority was to relax the universality of the cap so more support could be targeted for those who need it.

5.37 One economist agreed that the current cap design is unsustainable and argued that the biggest priority is to relax stringency, adding that flatness should also be relaxed to accommodate MHHS.

5.38 Most respondents said that there should be a static ToU default capped tariff alongside a flat capped default tariff for LCT owners and/ or those defaulting off fixed term ToU tariffs. However one think tank argued that this was not necessary as such customers are more likely to be engaged, adding that if price protection was needed, it favoured the principles-based approach proposed by DESNZ in its Call for Evidence. One energy industry trade body added that a static ToU capped default tariff should not repeat the issues with Economy 7 and the current cap which other respondents also raised.

5.39 One think tank recommended moving to a rising block tariff (RBT) model, where prices increase in line with consumption, to incentivise demand reduction. It added that the UK government should review smart meter incentives to encourage greater take up to avoid a two-tier system developing where consumers without smart meters are denied the best deals.

5.40 Another think tank recommended Ofgem and DESNZ restart work on opt-in switching and support new tariff structures such as meter splitting as part of wider package of retail market reforms.

6 Next Steps

6.1 As set out in this summary of responses document, a wide range of views have been put forward with accompanying evidence. Ofgem's discussion paper complements the Call for Evidence issued by DESNZ in March on future default tariffs. Ofgem and DESNZ have considered responses to both papers as we work closely on building a future retail energy market that works in the interests of consumers. Ofgem will continue to review the evidence gathered and follow up with stakeholders where appropriate as we consider next steps for future price protection.