



# What next for the UK retail energy cap?

An assessment of effective  
competition indicators

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# Where was the UK retail energy market at before the current pandemic? What current market features might affect Ofgem's thinking when the price cap review comes around?

## Introduction

At the start of 2019, Ofgem introduced the default tariff cap to protect certain retail customers.

Subsequently, Ofgem set out a framework to assess whether conditions are in place for efficient competition in domestic supply contracts. This sets out the basis to determine whether to keep the cap in place at the end of its term in 2020.

At some point this year, Ofgem will need to decide whether to extend the application of the cap by determining whether those conditions are in place.

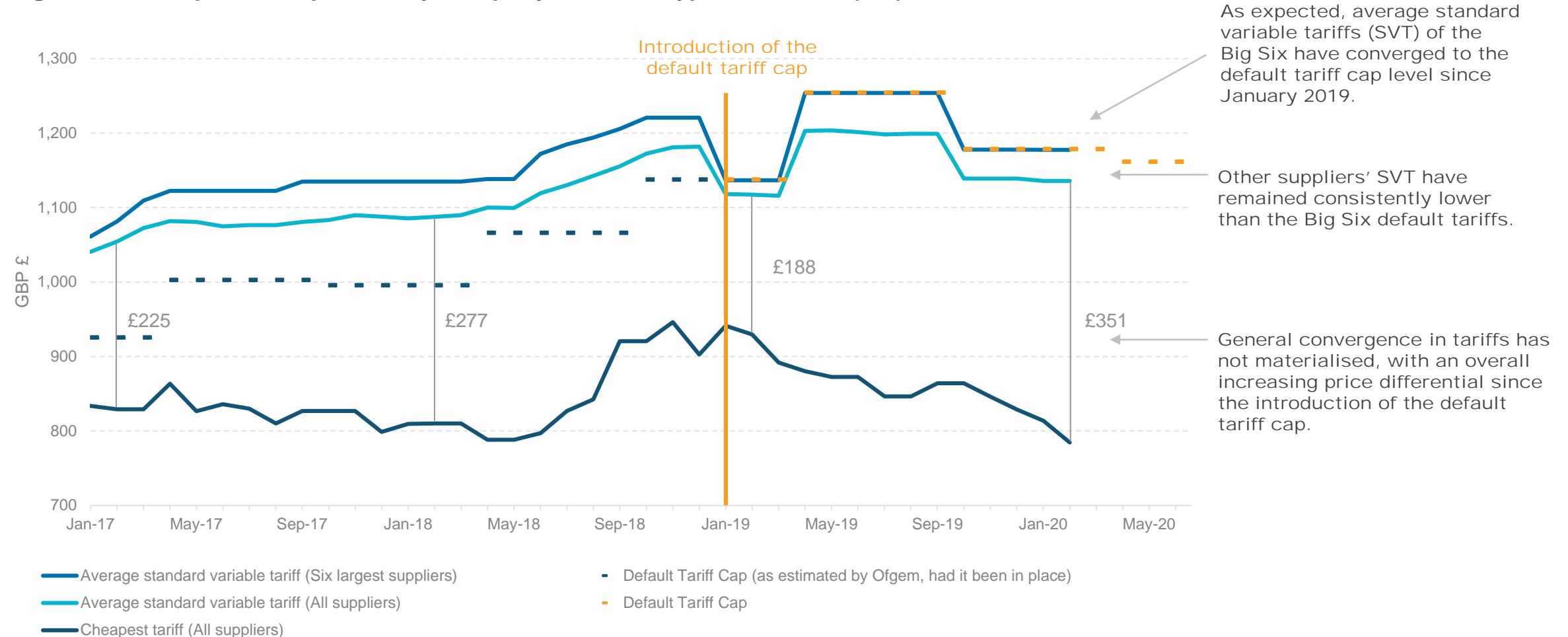
**Our analysis of key indicators of Ofgem's framework illustrates five trends that may form the basis of the future investigation...**

## Five retail market trends

- 1 No price convergence of the cheapest tariffs available on the market with standard variable/default tariffs**
- 2 The largest suppliers still charge higher default tariffs than all other suppliers**
- 3 The isolated effect on switching of the default tariff cap is unclear**
- 4 The proportion of customers on default tariffs has continued to decrease**
- 5 Net customer gains to small- and medium-sized suppliers is at a three-year low**

# No price convergence of the cheapest tariffs available on the market with default tariffs

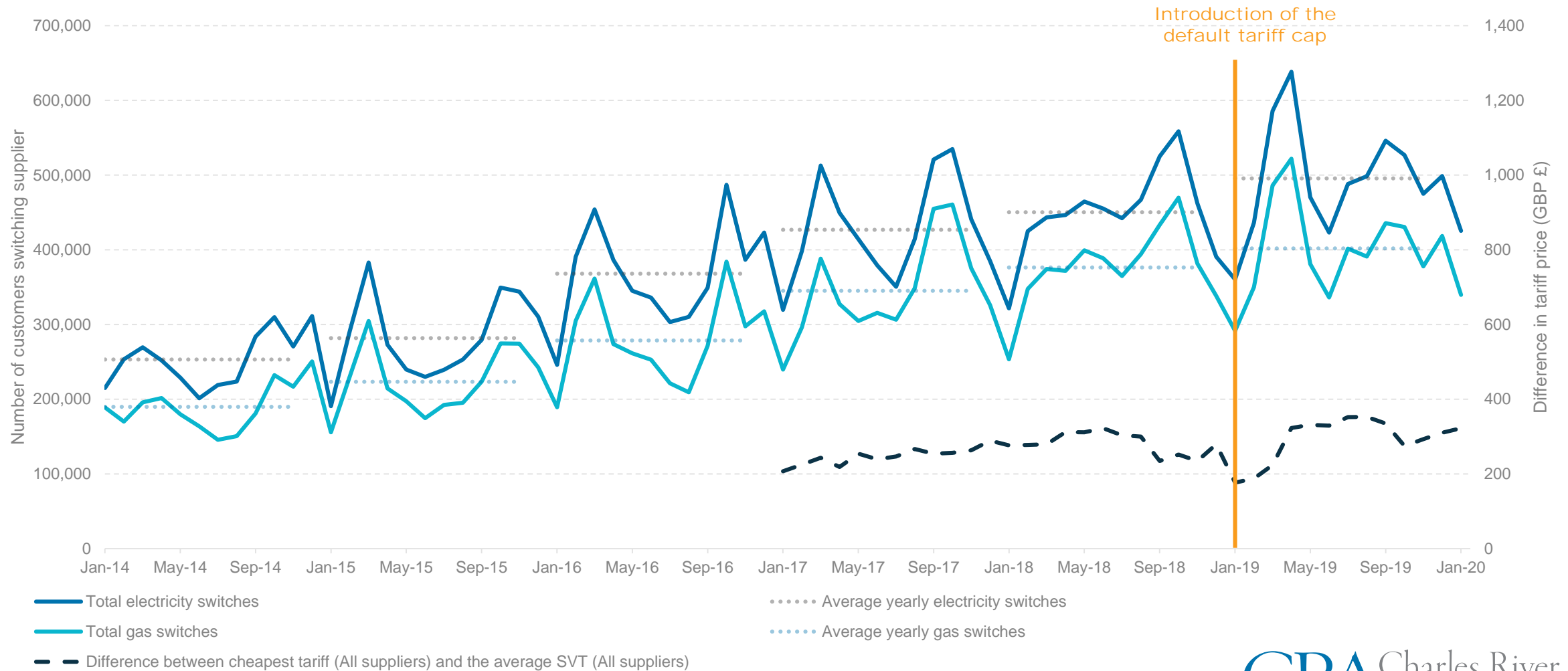
**Figure 1: Retail price comparison by company and tariff type: Domestic (GB)**



Source: Ofgem retail market indicators. The different tariff types are calculated using a 'typical medium domestic consumer', where typical domestic consumption values (TDCV) for a medium consumer are 12,000kWh/year for gas and 3,100kWh/year for electricity. All tariffs and prices shown in the chart are for a dual fuel, direct debit customer. The average of the cheapest tariffs is calculated by taking the simple average of the cheapest tariff offered by each of the 10 cheapest suppliers in the market.

# The isolated effect on switching of the default tariff cap is unclear

**Figure 2: Number of domestic customers switching supplier by fuel type (GB)**



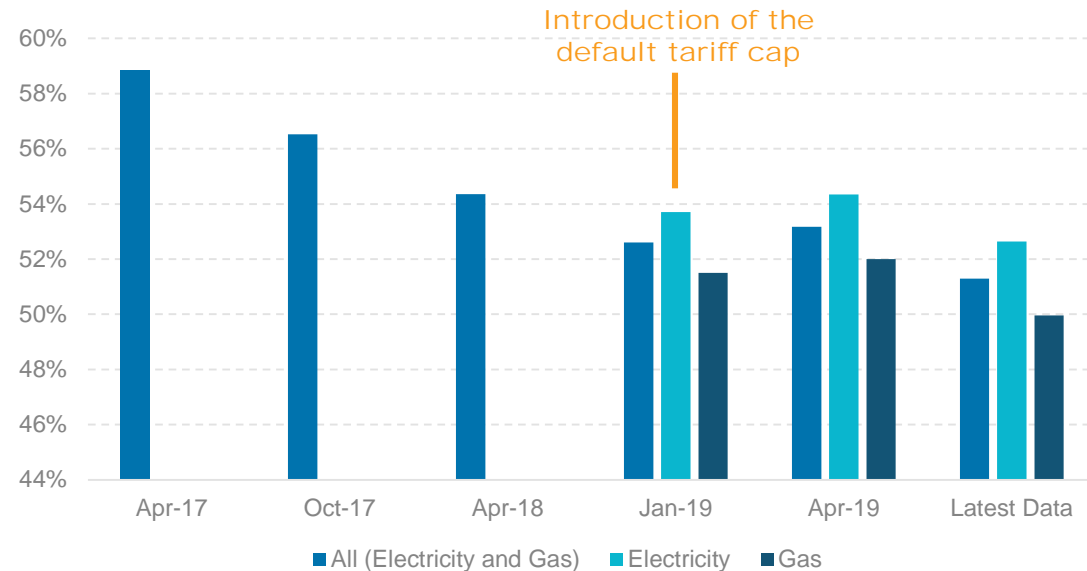
Source: Ofgem retail market indicators. The number of customers switching supplier shown in the graph is based on the number of meter points a supplier gains from another following a customer choice to change their supplier

# The proportion of customers on default tariffs has continued to decrease

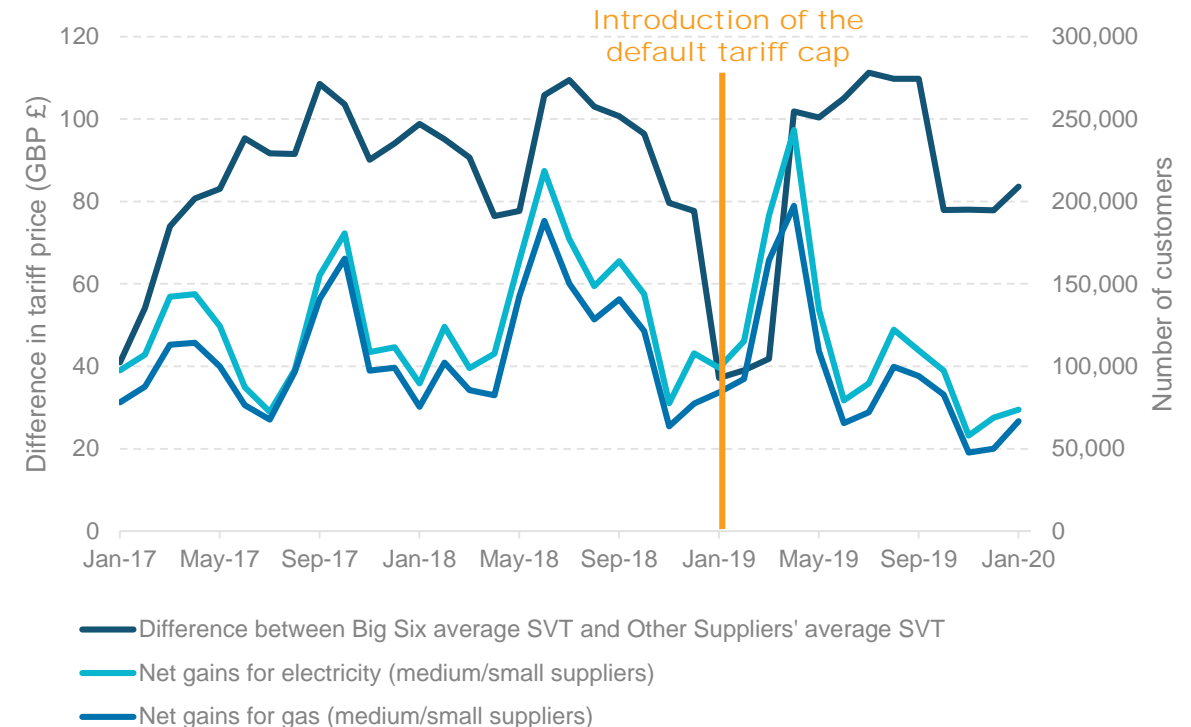
## Net customer gain to small- and medium-sized suppliers is at a three-year low

With switching numbers continuing to increase, the numbers of customers on default tariffs has continued to decrease. The trend is less certain in 2019. After an initial large gain in customer numbers at the time of the April 2019 cap increase, switching gains (electricity and gas) to smaller providers have decreased and are currently at a three-year low.

**Figure 3: Proportion of customer accounts on default tariffs**



**Figure 4: Net gains to medium/small suppliers**



Source: Ofgem retail market indicators. Figure 3 shows the number of domestic customer accounts for the largest and medium-sized suppliers, excl. those that primarily supply customers on PPM. From January 2019, Ofgem started reporting figures for electricity and gas accounts separately. From January 2019, Figure 3 represents the average between electricity and gas. In Figure 4, the net gains for small and medium suppliers is calculated by subtracting from the gross meter point gains these suppliers achieve over the month, the gross number of meter points these suppliers lose over the same period.

Two of the Big Six have exited the market. Significant growth (doubling) of medium size suppliers, both organic and acquisition. Continued exit of smaller suppliers.

Figure 5: Market shares and mergers

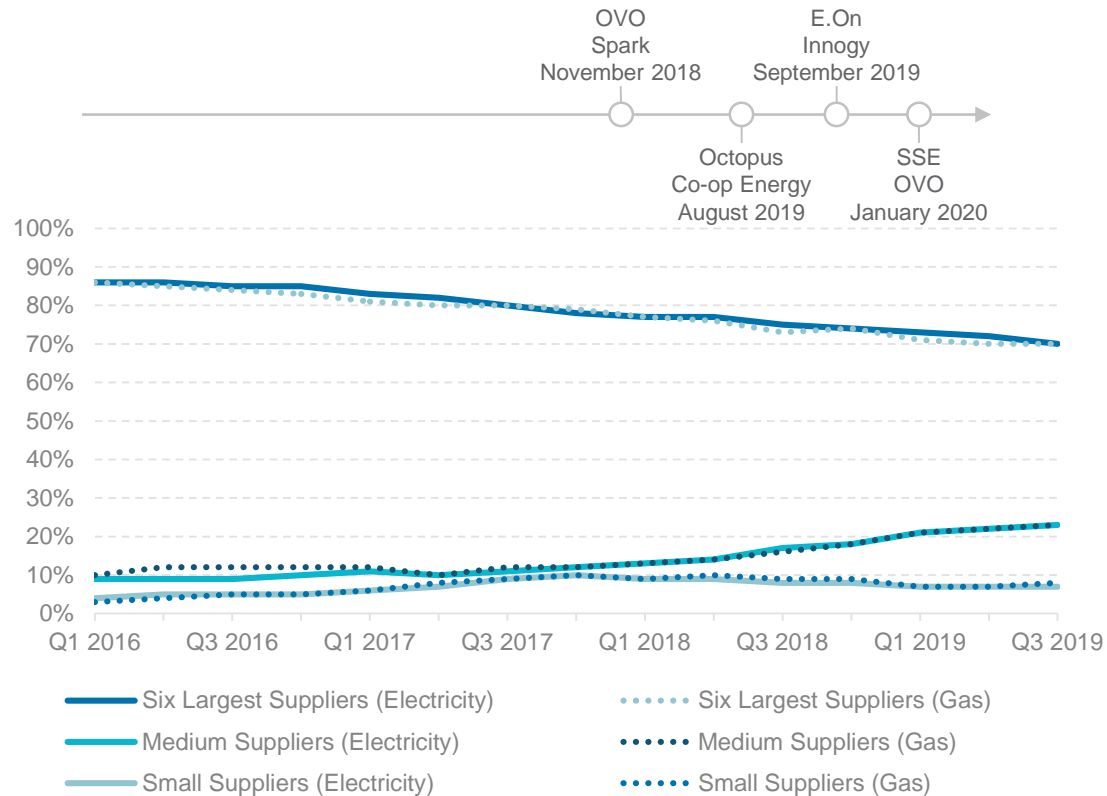
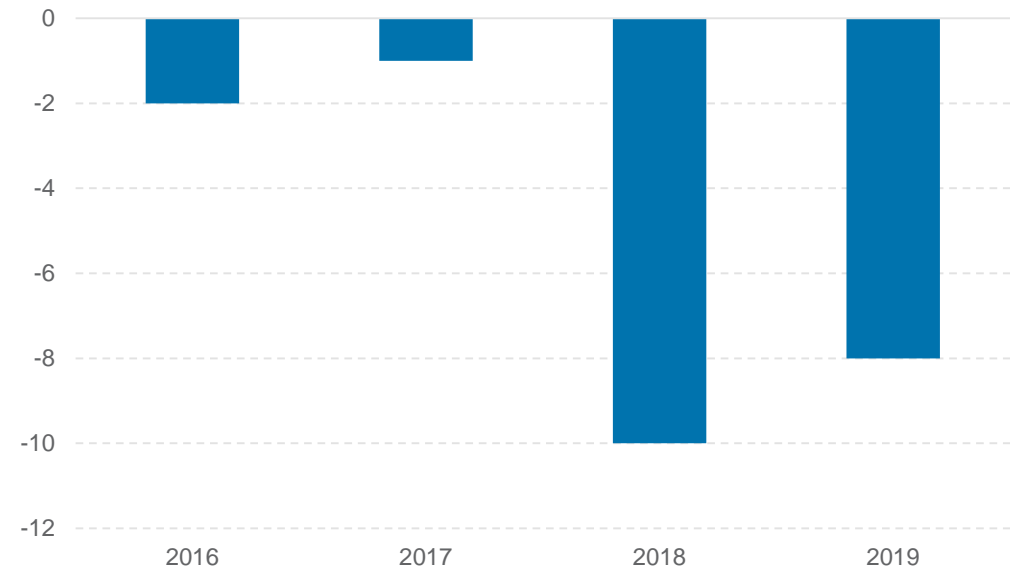


Figure 6: Suppliers' exits from the UK retail market



## Where to next? Emerging questions for Ofgem and market participants

- The current pandemic might affect the timing for Ofgem's review of the default tariff cap (the Ofgem 2020 work programme is currently on hold). It may encourage greater caution, or willingness to extend the cap.
- The pre-COVID-19 marketplace evidence, however, raises a number of interesting questions:
  - What non-monetary impediments still account for this persisting and significant price differential?
  - Has the Cap affected attitudes towards switching differently for customers on default tariffs and those on cheaper tariffs?
  - Is there a 'correct' rate of switching associated with a given level of price differential?
  - Has the Cap forced small suppliers to reduce their cheapest offers (in order to encourage switching) and are these tariffs economically sustainable?
  - Will the CMA's recent decisions on SSE/OVO (and previously SSE/Npower) and E.On/Npower mergers, and the subsequent consolidation of the market, affect Ofgem's review of whether competition is effective?

## For further information:



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