

Where next for retail price regulation?

June 2017



Greg Clark, Secretary of State for Business, Energy and Industrial Strategy, wrote to Ofgem on 21 June, asking them to advise him on, “what actions you intend to take in three respects:

- Safeguarding customers on the poorest value tariffs
- Ensuring that micro businesses are fairly treated
- Considering the future of standard variable tariffs”

This follows a decision by the Government in the Queen’s Speech not to legislate immediately on a price cap for all customers on Standard Variable Tariffs (SVTs), as previously proposed by Greg Clark⁽¹⁾, although his letter implies that this option is still one of those under consideration. In his letter to Ofgem, Greg Clark referred back to the earlier analysis carried out by the Competition and Markets Authority (CMA) on consumer detriment arising from current tariff structures. The CMA’s final report⁽²⁾ in 2016 stated that “average detriment is assessed at £1.4 billion a year over the period as a whole, with an upward trend, reaching almost £2 billion in 2015”.

The note provides a high-level assessment of some of the options Ofgem could look at in addressing the areas of concern the Government has highlighted. We have also assessed the original proposal of a price cap for all SVT customers in our report [‘What would a price cap mean for the energy market?’](#)

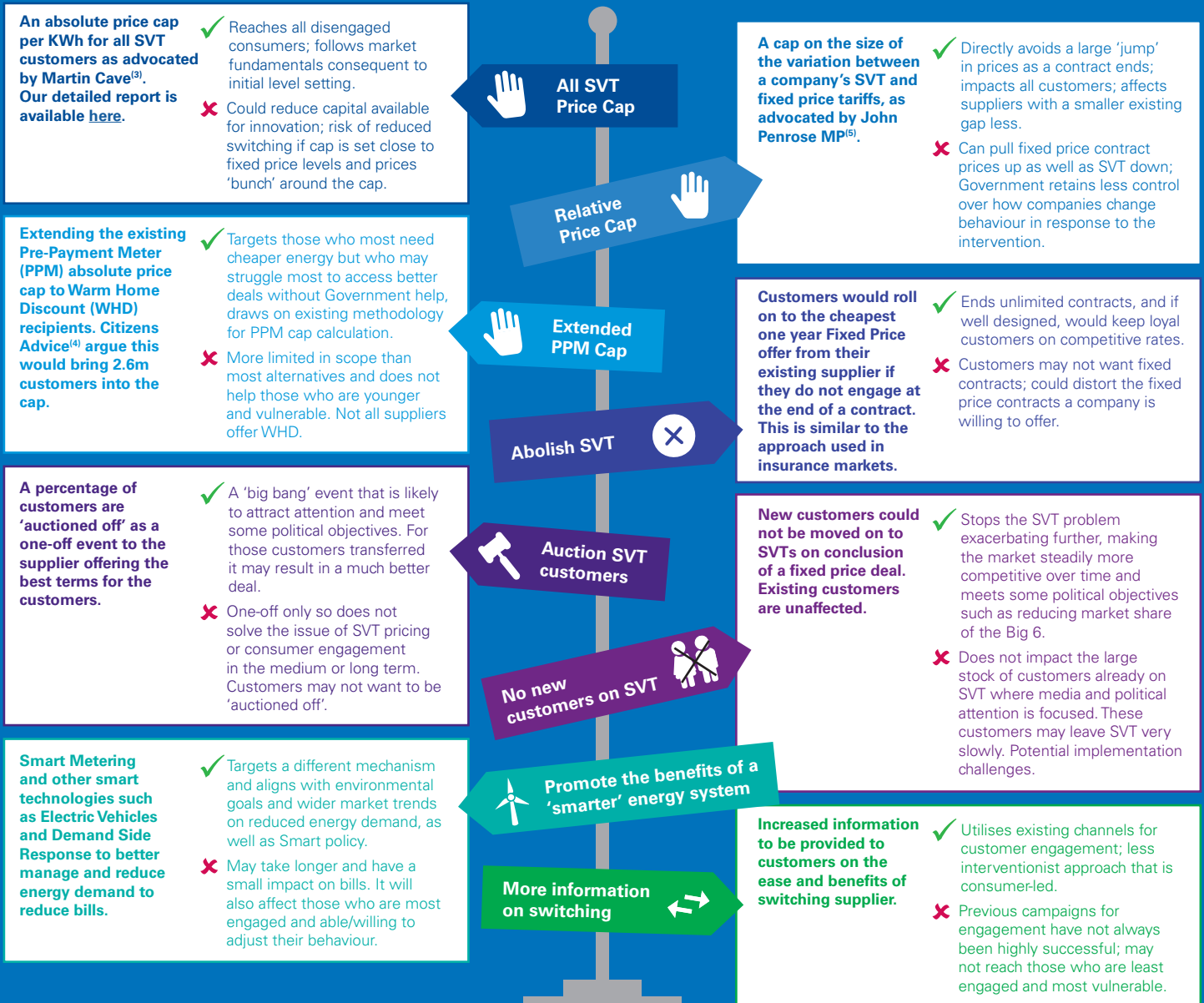
Whatever form of action is now taken by Ofgem and the Government, it is likely to have significant effects on the operation of the retail energy market, including on:

- Pricing and tariff structures
- Customer acquisition and retention strategy
- Customer services and investment

¹ [Greg Clark’s letter to Ofgem, Department for Business, Energy & Industrial Strategy, June 2017](#)

² [Energy market investigation final report, Page 612, Paragraph 10.50, CMA, June 2016](#)

Potential retail market interventions



³ Energy market investigation final report, Page 1415, CMA, June 2016

⁴ How government can still help the poorest energy customers, Citizens Advice blog, June 2017

⁵ John Penrose, Energy bills: We need a relative price cap – to boost choice, cut prices and stick it to the Big Six, Conservative-home, March 2017

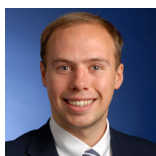
Our team of energy specialists at KPMG is very well placed to help companies think through these implications of such changes. If you would like to find out more, please contact us using the contact details below.



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