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& Industrial Strategy

The Rt Hon Anne-Marie Trevelyan MP
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Dear Darren,

Update on the Energy Price Cap and Energy Retail Strategy

I am writing to let you know that today we are publishing our Energy Retail Strategy and announcing our intention to enable future extensions of the Energy Price Cap (Default Tariff Cap) beyond 2023, if needed.

The Government wants to unleash a wave of competition within the energy market and keep energy bills low for households across the UK. A core objective of the Energy Retail Strategy is to ensure that no matter how consumers engage with the market, all should pay fair prices for their energy. The Strategy describes how we will work to create a fairer retail energy market, with greater competition and innovation, and which encourages a move towards greener energy tariffs.

Alongside our strategy paper we have published a consultation on opt-in switching and testing of opt-out switching, which sets out long-term plans to tackle the causes of the so called “loyalty penalty”, where energy companies place longstanding customers on the most expensive tariffs. Under the plans published today, trials of a new system will take place in 2024, in which consumers on costly tariffs would be automatically switched to cheaper ones unless they opt out.

We anticipate that the energy transition over this decade and beyond will drive a greater uptake of electric vehicles, smart systems, and smart appliances, which will increase the average consumer’s engagement with their energy use and the energy retail market. As such, it is important that structures are in place to enable and support consumer engagement with the market.

To meet our strategy’s objective, we have considered options for continuing protection for consumers whilst our reforms bed in. The Energy Price Cap was introduced in 2019 to protect the 15 million British households on default tariffs, and is estimated to save households on the highest tariffs between £75 and £100 a year on dual fuel bills.

The Domestic Gas and Electricity (Tariff Cap) Act 2018 allows for the price cap to be extended for one year at a time up to the end of 2023 at the latest. If the price cap expires before the conditions for effective competition are in place, there is a substantial risk that the millions of consumers who remain on default tariffs will be exposed to the excessive charging that existed before the price cap’s introduction.

We have concluded that allowing the cap to remain in place beyond the end of 2023 (if needed) is the best option while we continue to address the underlying causes of the loyalty penalty. With this in mind, and as Parliamentary time allows, we intend to enable the default tariff cap (price cap) to be continued, subject to periodic extensions, beyond the existing longstop date of December 2023. This will ensure that consumers who do not shop around for the best deals on their energy are protected.

Over the coming months, we will consider how the new legislation should enable retention or removal of the price cap beyond 2023 and if a new longstop date should be set. Alongside legislation, we will also set out our exit strategy for the price cap; I want to provide greater clarity and transparency on how decisions will be made about retaining or removing the price cap.

Competition is the most effective and sustainable way to keep prices low for all consumers over the long-term, and that is at the heart of the Strategy we are publishing today. In the meantime, we think it is prudent to retain the ability to have a price cap to protect consumers from excessive energy bills.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Anne-Marie Trevelyan', with a horizontal line underneath.

THE RT HON ANNE-MARIE TREVELYAN MP
Minister of State for Energy, Clean Growth and Climate Change