

Theresa May's energy price cap: more about who, than how

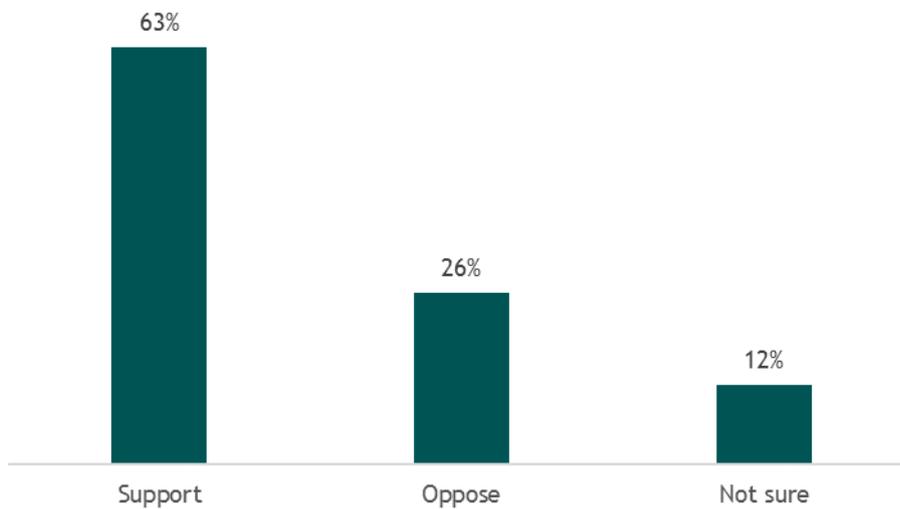
Blog post by Practice Lead Matthew Duhan, 09 May 2017

When it finally came, UK Prime Minister Theresa May's announcement that she would introduce a cap on energy prices if re-elected was made more in anger than in sorrow. Declaring in the Sun newspaper that she is "fed up with rip-off energy prices" May promised to cap the 'standard variable tariffs' (SVT), through which most UK households buy their energy. The cap will be put in place by the regulator Ofgem, and although not all details are yet clear, May's expectation that it would "save families on poor value tariffs as much as £100" strongly suggests the imposition of a cash limit.

In the autumn of 2016, the Competition and Markets Authority (CMA) inquiry into the energy market concluded that action needed to be taken to address what it estimated to be £2 billion in consumer detriment. However, few in energy policy consider a price cap in this form to be the most effective way to do so. Indeed, the CMA itself – with the notable objection of CMA member Martin Cave – concluded that such a cap brings "excessive risks of undermining the competitive process, likely resulting in worse outcomes for customers in the long run".

On the one hand, such technical criticisms are persuasive. May has also inevitably been subject to a political backlash for repurposing a policy much derided by those on her own benches when proposed by former opposition Labour Party leader, Ed Miliband. However, both critiques are in danger of fundamentally missing the point during a period in which pressure from populist parties has changed the operative question for politicians from how – as in how would you tackle any given policy issue – to who, as in whose side are you on?

Rhetorically at least, May's answer to the question of 'who' has been clear since her first speech on the steps of Number 10: her favoured just about managing families or 'JAMs'. However, a lack of concrete policy measures in her first year have left the prime minister facing something of a proof of concept test for 'Mayism'. The energy price cap offers a clear redress, and when proposed by Ed Miliband – a leader far less popular than Theresa May is today – scored well against the most basic political yardstick; its popularity among the electorate (Figure 1). As such, it is of a piece with both grammar schools and the retention of the promise to reduce immigration to the "tens of thousands" as examples of policy intended to address frustration in the perceived inability, or unwillingness, of mainstream politicians to address popular concerns, rather than attempts to find economically optimal solutions to the respective challenges of declining social mobility, the UK skills gap and aging population, and the challenge of rising energy prices.



Such an approach is not without risk. In the case of energy prices, even if it is Ofgem which sets the price cap, politicians who take the credit now will struggle to shrug off the responsibility if the regulator decides six months after the election that the cap should in fact rise. The latest round of UK energy price rises were largely the result of energy companies passing through the post-EU referendum impact on gas import prices of a significantly weakened sterling. With the prospect of further declines in sterling at key moments on the road to EU exit, it is very possible that Brexit, May's first signature policy, could ultimately undermine the energy price cap, her second.