

Why the CMA's "£1.4 billion detriment" is flawed

The UK's competition watchdog says that the large energy firms overcharged customers for gas and electricity by £1.4 billion a year on average between 2012 and 2015. It calls this figure a "detriment". But many expert organisations and individuals have raised significant concerns about the figure, particularly as it is greater than total annual energy supplier profits in the relevant period.

The detriment estimate by the Competition & Markets Authority (CMA) has been used by ministers and regulators to justify a number of measures, including:

- The price controls on pre-payment meters.
- Extending price controls to vulnerable customers.
- The proposed extension of price controls to all customers on Standard Variable Tariffs and other "default" tariffs.

However, the figure is flawed, as highlighted by a series of leading experts:

- **Group of five former power and gas regulators:** "It seems to us that the CMA's calculation of excess profit depends heavily on a hypothetical non-existent large standalone supplier, and that even slightly different assumptions could have indicated a zero or even negative excess profit." [See more](#) →
- **Oxera (economic consultancy):** "Oxera's results show that, once corrections for key issues have been made, there is no evidence of an overcharge over this period." [See more](#) →

- **Mark Friend (Partner at Allen and Overy):** "The CMA has redacted core elements of its calculations, thereby preventing interested parties from being able to verify whether the results are robust." [See more](#) →
- **KPMG:** "Failing to recognise the uncertainty surrounding its profitability analysis means that the CMA did not properly consider the very real possibility that its estimate of consumer detriment was significantly overstated." [See more](#) →
- **Centre for Competition Policy, University of East Anglia:** "It is important to highlight why we believe the headline estimates of detriment reported by the CMA are likely to be overestimates." [See more](#) →

Despite these expert views, many commentators continue to quote the figure and, when most people hear the terms "detriment" and "overcharging", they assume that the large energy suppliers are consistently making excess profits. But this was not actually what the CMA alleged, and not what the facts prove.

£1.4 billion is more than the annual combined profits of all the energy suppliers in Britain.

So, if the detriment estimate is not the result of excess profits, then what caused it? The best term to describe it is “hypothetical inefficiency”. Or, less generously, “imaginary inefficiency”. It is based on the assumption that there are structural inefficiencies in the way the large suppliers operate.

And it is just an assumption. Because, surprisingly, the CMA did not arrive at its figure by closely examining all of the large suppliers’ costs. Instead, in essence, it took the average standard variable price charged by the large suppliers; subtracted the adjusted average price offered by two smaller suppliers - First Utility and OVO Energy; and multiplied the answer by the total number of large supplier customers who pay standard variable prices. The basic principle of the CMA’s calculation is as follows:



Conceptually, on this basis, if the same calculation were applied to any customer market where there are differing prices for the same product — whether it’s a coffee or a cooker — then detriment would be found.

Had the CMA correctly adjusted for the differences in costs and commercial strategies between the benchmark companies and the large energy suppliers, it would not have come up with the £1.4 billion estimate. We ask all responsible commentators, politicians and other stakeholders to stop using this misleading figure as justification for a range of counterproductive measures.

