Anthony Pygram
Director, Conduct & Enforcement
Ofgem
10 South Colonnade,
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London,
E14 4PU

Sent via email to: retailpriceregulation@ofgem.gov.uk

15 July 2020

Ofgem ref: Feed-in Tariff (FiT) Allowance in the Default Tariff Price Cap, E Ref: Reg. 173

For the attention of Anthony Pygram,

Dear Anthony,

E (Gas and Electricity) Ltd is a medium sized UK challenger energy retailer set up in August 2014 to focus on serving traditional prepayment customers through our UK base call centre. E very quickly recognised the value to its prepayment customers of smart metering and started an aggressive smart roll out programme; we now have over 55% of our prepayment customers on smart meters.

As an energy supplier who is focused mainly on prepayment customers, we have fundamentally challenged the acknowledged cross subsidy which exists between credit and prepayment customers. It is impossible for a prepayment specialist to make an appropriate level of return whilst this cross subsidy exists and this discourages suppliers from actively participating in the prepayment market, resulting in less competition, less innovation, fewer product offerings, a convergence towards the PPM Cap and hence less choice for prepayment consumers.

In the current Covid environment it is paramount that all cost increases, which in the main are as a direct result of the pandemic are fully reflected in future Price Caps and as soon as possible. This increase in FiT cost is a consequence of the sharp reduction in overall demand, which means that we are now facing a much higher £/MWh cost for FiT than expected or allowed for in the current price cap.

We welcome the move toward using actual FiT costs (on a lagged basis) instead of OBR forecasts, but if we are to be able to recover increased COVID-related costs, it is essential that this is accompanied by a move toward using actual demand instead of forecast demand to calculate the £/MWh allowance in the cap. This would reflect the approach that Ofgem already uses for BSUoS costs, and we therefore see no reason why it should not be used when applying FiT costs. In principle, this move will provide for a more stable framework for the cap and better account for the immediate and longer-term impacts of COVID-19 on FiT costs.

We are also concerned that Ofgem is proposing to introduce an unnecessarily long lag between actual FiT costs and their pass-through to the price cap allowance. Ofgem's proposal involves a 24-month lag, in order to accommodate the timing of the FiT annual report. We see no reason why Ofgem should not use, as an alternative, the information contained in the quarterly FiT invoices issued by Ofgem.

In line with the principle above, we believe that Ofgem should ensure there is a level playing field within the retail market by removing the existing prepayment cross subsidy. In addition, it is essential that Ofgem progress on a new option for the recovery of the FIT allowance, which better reflects the actual costs incurred by suppliers and, as far as possible, allows for the recovery of additional COVID-19 costs in a shorter time span.

We support this proposal made by Energy UK and would add that the principle of using the most recent actual costs and actual demand are of paramount importance for a prepayment supplier who is fully constrained by the cap and operating with tight margins as a result of the cross subsidy.

Please contact me in the first instance should you require any further information.

Yours sincerely

Richard Masterson
Regulation & Compliance Manager

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