

16 December 2021

Neil Kenward
Director, Retail Price Regulation
Ofgem
10 South Colonnade
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Email: BillBullen@utilita.co.uk

Dear Neil,

RE: Price Cap - Consultation on the Energy Company Obligation scheme allowance methodology in the default tariff cap

Thank you for the opportunity to respond to the above document. In these November consultations, we are treating the document entitled “Reviewing the potential impact of increased wholesale volatility on the default tariff cap: November 2021 policy consultation” as the ‘main’ document. While we have not copied into all the responses, Ofgem should consider the content of our main submission with each of these letters.

Utilita supports the ECO scheme, contributing as it does to low-cost CO2 abatement through energy efficiency improvements. Although outside the scope of this consultation, the effectiveness of the scheme could be significantly increased by relaxing some of the strict criteria around customer qualification: the criteria are currently so narrow that often the cost of finding a qualifying customer exceeds the costs of the measures installed. Expanding the pool of customers who qualify would materially increase the CO2 abatement achieved without any increase in cost.

We agree with the approach Ofgem proposes for setting the initial allowance. The intention to reconcile actual costs to allowed costs, however, is an approach which has not been applied consistently by Ofgem. There is no reason why other demonstrably over- or under-provided exogenous costs are not subject to such reconciliations. Indeed, Utilita would welcome a reconciliation of the costs of energy supply for the prepay price cap between its implementation in April 2017 and its alignment in October 2019 with the DTC methodology determined by Ofgem.

Our main concern with the proposal is that Ofgem should not later seek to retrospectively alter the approach. If a true-up approach is considered, it must be applied fairly, without any discrimination either way. Suppliers must start ECO4 spend on a timely basis to maintain the supply chain. The damage done to the ECO supply chain, with other issues at the start of ECO3, are incontrovertible evidence that a continuous investment stream is required to support ECO.

If suppliers have commenced spend in accordance with available information, Ofgem must not later seek to clawback spend already made – even if the ECO4 requirements are amended. Customers will still have received benefit and hence suppliers should be allowed to recover the appropriate costs. If Ofgem expects to take a clawback approach, then it should not make the allowance at all, instead agreeing with BEIS that ECO4 commencement should be delayed.

Suppliers cannot be expected to manage the risks of unpredictable regulatory clawback in this way, and in our view, the imposition of such risk fails the test of a reasonable, prudential regulator.

We hope that this submission is helpful and as we proposed in our recent call, we will look forward to discussing the content with you in a bilateral meeting. Please let us know when will be convenient for you and your team; we will be happy to co-ordinate diaries.

Kind regards

By email

Bill Bullen
CEO, Utilita

Cc: Neil Lawrence, Ofgem
Leonardo Costa, Ofgem