

Price Cap - Consultation on the process for updating the Default Tariff Cap methodology and setting maximum charges

Having reviewed this consultation directly and with a more holistic overview of the industry in general we do not support an in-Cap adjustment provision.

1. This provision will create **uncertainty** that could directly impact a supplier's hedging strategy. The current cap methodology (and recent administrator reports) clearly demonstrate the most prudent way to hedge for energy in the current market. This is backed by the work Ofgem is doing to stress test suppliers and gain deeper understanding of suppliers financial resilience. By adding a reopener clause suppliers may deviate from prudent hedging, with this provision encouraging suppliers to not consider or incorporate extreme volatility in their strategies. Without the uncertainty of an in-cap adjustment suppliers can hedge confidently to position themselves well for the next winter and beyond stabilising this aspect of the market and removing volatility risk from the equation.
2. With the implementation of this adjustment Ofgem will come under **increasing scrutiny**. Decisions will need to be transparently shared (as to whether to trigger an adjustment or not) with suppliers being unequally impacted by any decision, depending on hedging strategies and Ofgem being directly connected to the such impacts, which could include supplier failure or investors leaving the market.
3. There is a **direct impact on way forward work**. The Cap is likely to be extended beyond 2023 but at the moment its structure is not indefinitely confirmed with mid term changes now being consulted on. By adding a significant structural adjustment in whilst this thinking is being developed holistic redesign becomes more difficult. Separately Ofgem are currently considering short term interventions (looking at adding additional licence conditions or derogations in order to claw back costs or add certainty to investors) as well as mid term changes to the Cap (using the existing legal framework as the basis for redesign). The addition of this provision will either exclude other options (eg quarterly cap with a reopener is not possible) from being considered or be a distraction to Ofgem through implementation time and then become redundant shortly after.