

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

**Consultation Response:**

1. E.ON strongly opposes a within-period amendment process.

**Within-period changes are not practical**

2. We question how quickly Ofgem could respond should within-period amendments be considered necessary.
3. Circumstances such as wholesale market price spikes are unpredictable, and the effects are felt before any mitigating action can be taken. Using 2021's wholesale market volatility as an example, how quickly could the cap have been updated if Ofgem had the ability to do so? How many further within-period amendments would have been needed given the sustained nature of volatility in the market?
4. If Ofgem does pursue within-period adjustments, it must consider SLC31I - notably SLC31I.2(a) – that requires customers to be given reasonable time to avoid any changes before they take effect.
5. Supporting point 4. we would query how quickly a price change could take effect given customer notification requirements. This is also ignoring suppliers' system capability to update bill calculations and churn out thousands or millions of price change notification communications.

**Within-period changes would introduce additional uncertainty**

6. Within-period amendments add additional cost and revenue uncertainty, particularly where the cap rate could go down as well as up.
7. From a consumer perspective within-period adjustments would bring confusion and potential distress: the current methodology presents reasonable cost certainty with prices fixed for six-months. The threat of prices being changed at short notice would be unsettling and could compromise household budgets. Furthermore, various communications such as updates on the level of the cap, the cap effective date, on top of within period updates could result in information overload and ultimately reduce customers' ability to easily make informed decisions.
8. Given obvious practical challenges coupled with unneeded uncertainty attention should instead be turned to the cap's methodological design so within-period updates are not required.

**Focus should be on building a price cap that does not require within-period adjustments**

9. Should more time be needed to make fundamental adjustments to the cap's methodology Ofgem should, in the short-term, ensure the level of the cap accounts for underlying costs and risk management. At the time of writing the market continues to experience significant and prolonged volatility exceeding 1 in 20 market price conditions; Ofgem must initially manage these exceptional circumstances by ensuring cap period 8 is set appropriately by accounting for costs associated with previous cap periods, including cap period 7.
10. In the longer term any cap must be designed in such a way that manages volatility. For example, rather than continuously trying to forecast and play catchup with a multiplicity of

costs, Ofgem should look at other options such caps relative to fixed term contracts. Alternative approaches like this would better minimise the current “boom/bust” conditions that have led to supplier failures, protect customers, provide suppliers with certainty by being able to react more quickly to market conditions, and provide foundations for a competitive market.

11. As discussed in other responses we recommend that Ofgem carries an immediate evaluation of wholesale markets and whether they are operating efficiently. We have observed significant reductions in market liquidity that has been compounded by the removal of the market making obligation. It is our view that this has created an imbalance in the market between suppliers who, in effect, compelled to purchase (to hedge) and generators that are not under a similar obligation to sell. A better functioning wholesale market can ultimately reduce prices that end consumers pay.
12. We provide more detail on the above in our response to *Reviewing the potential impact of increased wholesale volatility on the default tariff cap: November 2021 policy consultation* and responses to those consultations published on the week commencing 13/12/21.

**E.ON**  
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