17 January 2022

Dan Norton
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Email: Alisonrussell@utilita.co.uk

Dear Dan,

RE: Price Cap – Consultation on reflecting change to gas SoLR levy costs in the Default Tariff Cap

Thank you for the opportunity to respond to the above document. We have set out (in our submission to the Call for Input on Adapting the Price Cap Methodology for Resilience in Volatile Markets) our overall concerns on the fundamental issues with the price cap which must be addressed. We refer Ofgem to that submission (attached as Appendix 1) rather than restating all points here.

In that submission, we set out our view that the solution to the issues facing the industry is a fundamental reform to address the long-standing errors and issues with the cap, to enable suppliers to recover efficient costs and improve resilience. We do not believe that minor adaptations to assist risk-taking suppliers, who have elected to follow risky business models incompatible with price capping, are a fair or proportionate response to the current crises. Equally, the approach set out in the above consultation is inadequate and incomplete.

Utilita welcomes and supports Ofgem's proposal to introduce a new element of the price cap that will reflect a new proposed gas distribution charge. As Ofgem notes, the change will be material and, given the already artificially low level of the price cap, a further reduction below the level of efficient costs would be intolerable for energy suppliers. However, the proposals do not go far enough.

Although outside the scope of this consultation, Utilita wishes to make clear its objection to the premise of the underlying UNC modification. Allocating SoLR costs to the market sector in which they arose has no basis in logic or equity; domestic customers are no more to blame for the failure of domestic energy suppliers than business gas customers and apportioning more costs to domestic customers at this time, proportionately more of whom are in receipt of variable tariffs that will rise significantly in the spring, compounds what will already be a desperate situation for many fuel poor customers. Furthermore, a daily charge, rather than a volume related charge, also means lower users of gas will pay proportionately more to cover SoLR costs and will further burden the fuel poor, who tend to be lower users.

The failures of so many energy suppliers, and the corresponding extraordinary SoLR costs, are, in fact, due to a fundamentally flawed price capping regime and unsustainable pricing practices of failed suppliers that instead of being challenged by the regulator were actively encouraged: the UNC modification requires domestic customers alone pay for this regulatory failure.

In addition to the point above on the apportionment of SoLR Levy costs to the market sector in which they allegedly arose, we note that such costs are arbitrarily allocated 55%:45% to electricity and gas. This appears to be an equally inaccurate attribution which is not addressed by Ofgem. Furthermore, the proposed approach still fails to allow suppliers to properly recover the ROC mutualisations. These mutualisations should be addressed in the same way as the levy i.e. suppliers should be explicitly able to recover the costs via the default tariff cap.

To choose one element of the distribution of the charges – that between business and domestic gas customers – while ignoring these other failures of accurate attribution to the 'originating sector' is unfair and discriminatory. The approach between gas and power should also be equivalent.

In conclusion, while we agree that suppliers must be able to recover the charges, Ofgem should address all these identified aspects and impediments to supplier cost recovery, not only one.

Kind regards

By email

Alison Russell
Director of Policy & Regulatory Affairs