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Dear Neil,

REVIEWING THE POTENTIAL IMPACT OF INCREASED WHOLESALE VOLATILITY ON THE DEFAULT TARIFF CAP: NOVEMBER 2021 POLICY CONSULTATION

We are pleased to respond to your consultation on whether the recent rise in wholesale prices has caused the level of the price cap to materially depart from the cost level allowed for in the price cap. Our overriding view is that it is **essential** that suppliers are made whole for all incremental wholesale costs that they have efficiently incurred as a result of Ofgem's flawed implementation of the price cap. It appears to us that Ofgem's current proposals will not deliver this remedy to supplier losses, and we consider it critical for the current stability and future sustainability of the energy retail market that Ofgem assess alternative remedies that will reimburse these costs to suppliers.

We have set out our views on the matters covered in the consultation in Annex 1 and would highlight the following points:

1. We have already provided detailed evidence to Ofgem of the excess costs experienced by ScottishPower in the four areas identified by Ofgem (hedging and shaping, 'unexpected SVT volumes', CfD levy and backwardation). This shows that actual costs incurred have been much higher than suggested by Ofgem's initial estimates. The most significant was 'unexpected SVT' where the impact on ScottishPower was around £[✂] per SVT customer, [✂] times Ofgem's estimate of £20-£25.

2. We agree that Ofgem should consider whether increases in the £ value of indexed allowances in Period 8 will offset any of these costs. Our analysis suggests that the majority of the £ increases are already accounted for by other cost categories and will not materially offset the key cost categories identified above. We discuss the RO mutualisation and UIG costs here in particular.

3. We are disappointed that Ofgem's consultation does not consider options beyond a simple adjustment to the price cap methodology. For example, the interests of

consumers would be better served by Ofgem (with support from BEIS as necessary) introducing a new one-off cost recovery mechanism by means of a temporary industry levy or charge. This would be distributionally fairer to consumers (with product customers contributing equally alongside SVT customers) and enable a more level playing field between suppliers. In particular, payments back to suppliers should be tailored to the *actual losses incurred*, so that suppliers who have been more assiduous in engaging their customers and moving them to products are not disproportionately penalised.

Although less distributionally fair than a levy approach, another option that Ofgem should consider is to modify SLC 28AD to allow individual suppliers to recover (on a temporary basis) the *actual losses incurred* by them in relation to the recent wholesale price volatility by reference to the four main cost categories addressed in the consultation. We believe this would be compatible with s2(2)(b) of the Domestic Gas and Electricity Tariff Cap Act 2018.

4. In the alternative, if Ofgem decides to proceed with a simple price cap adjustment (which we believe would be significantly inferior to the approaches suggested above), Ofgem should base any adjustment on the weighted average of excess costs experienced by suppliers, in the same way as it calculated suppliers' hedging costs for the purpose of the Centrica JR adjustment. To this end, we ask Ofgem to use its formal evidence gathering powers to obtain the data and to make all the evidential material or models developed using the data available to consultees[1]. In an efficient market, suppliers cannot expect to consistently 'win' on their hedging decisions, and it would be wholly inappropriate to use any form of lower quartile type benchmarking approach.

5. Ofgem appears undecided as to whether the purpose of its adjustment is to enable ex post recovery of excess costs incurred in Period 7, or to update risk based allowances on an ongoing basis to reflect the higher level of risk and more uncertain markets that suppliers are now operating in. We believe Ofgem should do both, and use different mechanisms within the price cap to achieve each. But the priority must be to enable ex post recovery of excess costs incurred in Period 7.

6. We welcome Ofgem's commitment to carry out a wider review of the price cap methodology. This is of critical importance given the dire financial position that all surviving suppliers have been left in as a result of the flawed price cap design. Unless the supply sector can return to a more sustainable regulatory model, it will be impossible to attract the new investment, innovation and market entry that will be essential to reaching net zero.

If you would like to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely,

Richard Sweet
Head of Regulatory Policy

[1] While much of the data will be confidential, Ofgem has already made sensitive and confidential information (including modelling) available in default tariff cap consultations via a disclosure room, and there is no good reason not to do so for this consultation.

Annex 1

REVIEWING THE POTENTIAL IMPACT OF INCREASED WHOLESALE VOLATILITY ON THE DEFAULT TARIFF CAP: NOVEMBER 2021 POLICY CONSULTATION – SCOTTISHPOWER RESPONSE

1. Introduction

Ofgem notes that its 2018 decision on the price cap said it would consider amending the price cap where there were *significant* and *unanticipated* changes which affected suppliers' costs and which would cause the allowance in the price cap to *depart materiall*y from the efficient level, looking across the market as a whole. We agree with Ofgem that all the tests in this commitment are met: the extent of recent wholesale market volatility was completely unforeseen and has resulted in certain cost categories exceeding the allowance by a very substantial amount. In view of this commitment, and Ofgem's legal obligation to have regard to the need to ensure that suppliers who operate efficiently can finance their activities, we believe it is essential for Ofgem to take steps now to allow suppliers to recover these excess costs.

We are acutely aware that consumers are already facing unprecedented increases in their bills from April 2022. ScottishPower has been recognised for its approach to supporting vulnerable customers, as one of only two suppliers to receive a gold award from the Energy UK Vulnerability Commitment for outstanding practice in supporting customers in vulnerable circumstances. We will continue to look for ways to mitigate the impact of these increases on our most vulnerable customers, and work with Ofgem and Government to identify ways to spread some of the cost drivers over longer periods. But in balancing the needs of consumers, Ofgem must also take into account consumers' interest in having a dynamic, competitive and sustainable supply market, which depends critically on supplier financeability.

This annex is structured as follows:

a) We summarise the evidence we have already submitted to Ofgem on the impact of the four main cost categories for ScottishPower (section 2).

b) We review the extent to which the costs identified in (a) may be offset by increases in percentage-based allowances or augmented by other areas where costs have exceeded allowances (section 3).

c) We make the case for taking action outside of the price cap, via some form of levy, to ensure greater distributional fairness and more level playing field between suppliers (section 4).

d) We submit that, in the absence of action taken outside of the price cap, Ofgem is required (and has thus far failed) to give proper consideration to modifying SLC 28AD so as to allow individual suppliers to recover actual losses incurred (section 5).

e) In the event that Ofgem persists with its proposed approach of simply adjusting the level of the price cap, we suggest the principles on which that should be based (section 6).

f) We suggest the most appropriate mechanism to give effect to an adjustment (should Ofgem persist with this approach) (section 7).

g) We emphasise the need for Ofgem to make appropriate arrangements for consultees to be given adequate access to data in order properly to evaluate and respond to its proposals (section 8).

h) Finally, we offer some thoughts on other areas to be considered in Ofgem's wider review of the price cap methodology (section 9).

2. Magnitude of cost impacts identified by Ofgem

We submitted detailed evidence to Ofgem on 14 December relating to ScottishPower's experience in the four cost categories identified: shaping and imbalance costs; unexpected SVT demand; CfD levy costs; and backwardation. We summarise the key points below.

<u>Shaping and imbalance costs</u>

In ScottishPower's case, we expect shaping and balancing costs in the price cap allowance in Period 7 (October 2021 to March 2022) are likely to significantly exceed costs in previous periods and exceed the allowance to the extent suggested by Ofgem (£5 to £25 per customer).

Our analysis suggests that recent wholesale market volatility has contributed to cumulative under-recovery of power balancing and shaping costs of **£**[✂] **/customer** (£[✂] from tighter system margins and £[✂] from assumed proportions of baseload and peak).

Looking ahead to more enduring price cap reforms, we think that the allowances under the cap for shaping and imbalance are out-dated and do not reflect changed market fundamentals, levels of price volatility and risk. Despite having the benefit of being percentage-based, the percentages themselves have not risen while the expected level of similar costs priced into our fixed term tariffs ("products") have.

<u>Unexpected SVT demand</u>

We believe the cost of unexpected SVT volumes is the most important financial impact of wholesale market volatility, and the losses that suppliers have suffered as a result of the price cap design urgently need to be addressed with effect from Period 8. Ofgem's estimate of £20 to £25 per TDCV customer per year is likely to significantly understate the losses incurred by suppliers. In ScottishPower's case we estimate the impact is around **£[✂] per SVT customer** (£[✂] in total) to March 2022. The estimated impact between April and September 2022 is smaller at £[✂] but still significant.

The additional costs incurred by ScottishPower were the result of hedging decisions that a supplier could reasonably have taken in the circumstances and should not be judged with the benefit of hindsight. In particular:

- [✂].

- [✂].

- [✂]

CfD levy costs

Ofgem would be wrong to assume that all suppliers have received an offsetting benefit from CfD levy costs. It is possible to hedge the vast majority of the movement due to changes in wholesale prices between the reference date for setting the CfD levy cost allowance in the cap and the time of delivery.

ScottishPower [✂].

Ofgem should avoid the temptation to judge decisions to hedge CfD levy costs with the benefit of hindsight. At the time we made the decision it appeared a prudent course of action which would ensure that actual costs incurred matched as closely as possible the allowance in the price cap. [✂].

Backwardation

Our analysis, based on ScottishPower's [✂] hedging strategy (that we believe is likely to be representative of a number of suppliers), showed that there is likely to be a large cumulative margin deficit of around **£**[✂] per dual fuel SVT customer by the end of Summer 2022. There is no reason to believe that this deficit will be reversed as we move into later periods. Indeed, based on current forward market prices at 8 December 2021 we would expect the cumulative deficit to deteriorate to around **£**[✂] per dual fuel customer by the end of Summer 2025.

We also provided analysis of winter summer spreads and other market phenomena which could explain why a systematic bias has emerged since the price cap methodology was conceived in 2018.

3. Other categories of costs and risk allowances

Ofgem notes that any adjustment to allow suppliers to recover excess costs will need to take account of the fact that certain allowances in the price cap are expressed as percentages, and will therefore increase in Period 8 (and potentially Period 9) with the increasing level of the cap. We do not disagree that increases in these allowances should be taken into account, but in doing so Ofgem must also consider other areas where costs that are covered by these allowances may have increased.

Increase in indexed allowances

The magnitudes of the main indexed allowances in different price cap periods are shown in Table 1.

Table 1: Increase in indexed allowances Period 5 to Period 8

Allowance	**% basis**	£/dual fuel customer (3,100kWh elec)			
		Period 5	Period 6	Period 7	Period 8 (Forecast)[2]
Wholesale risk	1.0% of direct fuel	£2.66	£3.31	£4.73	£9.00
Headroom	1.4641% of all costs exc network	£10.85	£12.17	£14.14	£21.02
EBIT	1.9368% of all costs	£19.28	£21.05	£23.60	£32.77
Total		£32.79	£36.53	£42.47	£62.79

The **wholesale risk** allowance is 1% of the core direct fuel allowance, for both gas and electricity. It was included in the default price cap since Ofgem had regard to the fact that wholesale costs are a volatile and uncertain element of suppliers' costs. Elements of uncertainty identified by Ofgem included volatility, weather, backwardation, operating cost uncertainty, customer numbers uncertainty. We would expect all these categories to scale with wholesale costs and therefore any increase in £ allowance in Period 8 is already accounted for – indeed, as explained above, backwardation costs alone exceed the increase. Ofgem notes that historically there may have been surpluses here. We do not consider that to be the case. Our view is that these issues scale with the wholesale price and issues of weather volatility and customer number uncertainty more than account for the 1% allowance.

Ofgem stated[3] that the **headroom** allowance was intended to cover a large number of items:

- Failed supplier bad debts that are mutualised
- Suppliers with above-average numbers of Priority Services Register (PSR), single fuel and offline customers
- Suppliers with above-average numbers of standard credit (SC) customers
- Suppliers with SC customers on WHD who are subject to DD cap
- Industry programme costs
- General cost uncertainty
- Higher policy costs for larger suppliers.

The headroom allowance as well as the wholesale allowance is also cited as covering backwardation (material and recurring management cost), weather volatility and demand forecasting risk. It has also been invoked by Ofgem in recent years as a reason for not updating the cap to reflect additional compliance costs imposed on suppliers. We think it is likely to have been more than 100% accounted for in each year.

The CMA's rationale for the **EBIT** margin, which was subsequently adopted by Ofgem, was to allow suppliers to earn a reasonable return on the capital tied up in their businesses. At the time of the CMA investigation, we argued that their estimates of capital employed were significantly too low because they ignored the extent of risk capital required by suppliers to weather market turbulence such as we are currently seeing. Although recent events have caused the EBIT allowance in £ terms to increase, this can be seen as a necessary adjustment to reflect the true level of risk capital employed, in light of recent events.

In aggregate, therefore, we do not consider that there is 'spare' allowance in these indexed allowances to offset the additional costs identified in section 2 above.

[2] Forecasts based on data as at 13/12/2021
[3] Ofgem 2018 appendix 2 – Cap level analysis and headroom

Other cost increases

Even if there were some ‘spare’ capacity in the indexed allowances (which we do not think is the case), it would potentially be offset by other cost elements which have grown significantly, notably UIG and RO mutualisation (Table 2).

Table 2: Other cost increases offsetting indexed allowances

	£/dual fuel customer				
	Period 4	Period 5	Period 6	Period 7	Period 8 (forecast)[2]
UIG excess costs (additional [✂]% above allowance)	£[✂]	£[✂]	£[✂]	£[✂]	£[✂]
RO mutualisation (covered by headroom allowance)[4]	£1.05	£0.36	£0.36	£2.50	£2.50

We believe the current **UIG** allowance of 2% is far too low and suppliers have therefore under-recovered costs. In 2021 ScottishPower’s demand weighted UIG volumes have been at least [✂]% ([✂]% greater than the allowance), and our current forward trading assumption is that UIG will continue to be above [✂]%. This would have added the equivalent of £[✂] per gas customer to the cap balancing allowances compared to what was provided for in cap period 7. Ofgem justifies its decision not to address UIG in the current consultation on the grounds that it is considered in the separate consultation on end user categories (EUCs) for PPM customers. This is not a good reason for ignoring it: the EUC consultation is purely concerned with the impact of different consumption profiles on the UIG allowance, not with the adequacy of the UIG allowance overall. Ofgem claims to be satisfied that the current allowance remains appropriate but does not provide any evidence to this effect.

RO mutualisation costs were zero in 2017, the base year for Ofgem’s original price cap design but in subsequent years RO (and other) mutualisation costs have risen sharply. For scheme year 2020/21, Ofgem has announced a shortfall of £218 million to be mutualised across surviving suppliers. Despite this rapid growth in costs, Ofgem has stuck to its position that:

> “If a supplier gets into financial difficulties and exits the market, there may be knock-on costs imposed onto other suppliers […] The credit arrangements set out in industry codes are designed to reduce the risks of these costs being passed onto other industry parties. Whilst it is not possible to estimate the cost, frequency or likelihood of such events, we note that in **some** circumstances **some** proportion of the headroom allowance may need to be used to cover such costs in the event they materialise.”[2]

We estimate the RO mutualisation costs in 2020-21 of £218m will account for £2.53 per domestic customer. This is close to 18% of headroom costs in period 7 and 12% of headroom costs in period 8. This is at a time when other costs that were included in the headroom have not moved. We urge Ofgem to account for mutualisation costs outside the headroom.

[4] We assume that the cost of RO mutualisation is allocated to the financial year in which the liability is crystallised, ie for the 2020-2021 RO scheme year, the liability is crystallised in Nov 2021 and is allocated to the financial year 2021-22 (price cap periods 7 and 8).

4. One-off cost recovery mechanism outside of price cap

We are disappointed that Ofgem's consultation does not consider options beyond an adjustment to the price cap methodology. As explained below, the interests of consumers would be far better served by Ofgem (with support from BEIS as necessary) introducing a new one-off cost recovery mechanism by means of a temporary industry levy or charge. A new levy could be added to DUoS or TNUoS network charges, similar to the last resort supply payment (LRSP) levy, and in a way that would be passed through in the price cap. Money raised through this levy could then be redistributed to suppliers to compensate them for excess costs incurred as a result of wholesale market volatility.

Such an approach would better serve consumers' interests (and hence Ofgem's statutory duties and its duties under the Domestic Gas and Electricity Tariff Cap Act 2018 (the **Act**)) since:

a) Adding an additional allowance to the default tariff cap is distributionally unfair (as compared to the use of a levy mechanism) as costs would be disproportionately recovered from customers on standard variable tariffs (SVT). Customers on products have received the benefit of product tariffs in the good times but would not be bearing the cost in bad.

b) As soon as product prices become more competitive than SVT, customers who had previously been on products would likely return and suppliers may not recover their excess costs.

c) Suppliers have all suffered losses to different extents and the "one size fits all" approach that is implicit in a simple price cap adjustment (as opposed to the more cost reflective approach available via a modification of SLC 28AD - see section 5) creates winners and losers among suppliers.

We believe excess costs should be recovered by a one off mechanism that would be paid for on a MWh basis from customers and would be redistributed back to suppliers based on their exposure to excess costs (which by our estimates would be dominated by unexpected SVT demand volumes). These payments would be tailored to each supplier according to its own loss or excess cost and would therefore not create winners and losers among suppliers, and costs would be allocated to all customers, not disadvantaging those on SVT. Further, suppliers would be able to retain the option for customers to switch away from SVT and not face the risk of non recovery.

We would encourage Ofgem to explore with BEIS as a matter of urgency how such a mechanism could be introduced.

5. Failure to consider modification of SLC 28AD

Ofgem has thus far failed to consider the possibility the cap methodology should be adjusted (via a modification to SLC 28AD) so as to permit individual suppliers to recover the actual costs incurred by them in relation to particular cost categories as a result of the wholesale price disruption. Whilst less distributionally fair than a levy of the sort described above, this would (on a temporary basis) entitle suppliers to recover differing amounts under the cap, reflecting the significant differential impacts of market volatility amongst suppliers and recognising Ofgem's financeability duty[5].

[5] Electricity Act 1989 section 3A(2)(b), Gas Act 1986 section 4A(1C)(2)(b)

Such an approach is, in ScottishPower's submission, consistent with the Act, and consistent specifically with Section 2(2) of the Act. By limiting its proposals to adjustments which would be uniform across all suppliers, Ofgem is artificially fettering the discretion conferred upon it by the Act. Ofgem should, in ScottishPower's submission, acknowledge that it has the jurisdiction to make such an adjustment, and should exercise its discretion to do so.

ScottishPower's analysis is that section 2(2)(b) was conceived[6] as preventing the introduction of a 'relative' cap. The relative cap under discussion before Parliament was one fixed as a pre-determined percentage above the cheapest deal that a supplier's SVT or default tariff could be set at. Section 2(2)(b) was not designed to prevent the level of cost recovery under an 'absolute' cap differing from supplier to supplier, and there is nothing in the language of section 2(2)(b) that prohibits differential impacts. Modifying the methodology so that the amounts recoverable from customers under the cap can vary (on a temporary basis) according to the level of extraordinary costs incurred by a supplier, as determined by Ofgem, would not entail cap conditions making *"different provision for different holders of supply licences"* as prohibited by section 2(2)(b); on the contrary the conditions would continue to make the same provision for all suppliers, but the level of recovery would differ as between suppliers depending on the scale of extraordinary costs incurred.

Should Ofgem fail to make such an adjustment, it would penalise suppliers like ScottishPower who have responded to the wider policy objective of encouraging customers away from SVT tariffs. That is a manifestly unfair result. Such a result is also arguably at odds with Ofgem's financeability duty[7], which is especially relevant given the extraordinary costs incurred by suppliers and the level of wider and ongoing supplier failure. As envisaged, the adjustment would not interfere with the overall design of the cap and could be introduced as a temporary measure consistent with the unprecedented market circumstances.

6. Approach to price cap adjustment

Were the price cap adjustment approach considered in the consultation the only option available to Ofgem (which we dispute for the reasons given above), a key issue would be how to set a 'one size fits all' adjustment given the likely wide variation in impacts experienced by different suppliers – whether as a result of their different customer mixes or different hedging decisions.

We believe the most reasonable approach in that scenario would be to base any assessment on the weighted average of suppliers' actual out-turns for the cost categories under consideration (shaping and imbalance, unexpected SVT demand, CfD levy costs, and backwardation). This would avoid the need for Ofgem to make arbitrary value judgements about which suppliers' hedging decisions were somehow more 'efficient' or 'prudent' – judgements which can in many cases only be made with the benefit of hindsight. This would be consistent with the approach taken by Ofgem in assessing supplier wholesale hedging costs in light of the judicial review decision on the Q1 2019 wholesale cost allowance.

It would be fundamentally wrong for Ofgem to consider using lower quartile type benchmarks. Such benchmarks may be appropriate in the context of operational costs, where there is an objective of incentivising greater supplier efficiency, and where a well-managed supplier could expect to consistently perform above average. This is not the case with most hedging decisions, for example where a supplier has to guess whether markets will go up or down. In an efficient market it is impossible to win such bets on a consistent basis (since this opportunity

[6] On a review of all pre-legislative scrutiny and legislative progress
[7] Electricity Act 1989 section 3A(2)(b), Gas Act 1986 section 4A(1C)(2)(b)

would be arbitraged away) and no supplier can reasonably expect to outperform the average on a long run basis.

As explained below (section 8) we would strongly encourage Ofgem to consider issuing a detailed RFI to all large and medium suppliers to elicit the information needed to form a view of actual supplier costs. If there is insufficient time to complete this ahead of setting the cap level for Period 8, Ofgem could consider a 'float and true-up' approach, with a float in Period 8 based on Ofgem's approximate analysis and a true-up in Period 9 based on more rigorous analysis.

7. Mechanisms to give effect to a price cap adjustment

Ofgem considers four possible mechanisms to give effect to any adjustment:

- amending the wholesale risk allowance;
- amending the headroom allowance;
- implementing a bespoke adjustment;
- amending EBIT percentage.

It is unclear from Ofgem's assessment of these options whether it sees the adjustment in question as a purely short-term ex-post adjustment to recover excess costs incurred in Period 7, or a semi-permanent adjustment to reflect increased risk and uncertainty going forward, pending a more thorough review. **We believe Ofgem should do both, and use different mechanisms within the price cap to achieve each.**

Ofgem's overriding priority should be to allow retrospective recovery of the very substantial excess costs incurred in Period 7, and this would lend itself best to a bespoke adjustment similar to the approach for COVID bad debt costs.

We believe Ofgem should also combine this with an adjustment to reflect a revised view of ongoing risks and uncertainties, but we believe this latter adjustment should most logically take the form of an adjustment to the wholesale risk allowance.

We would caution against an approach (which it appears Ofgem may be minded to follow) of combining both objectives in a single adjustment to the wholesale risk allowance, since this would lack transparency and clarity. Indeed, Ofgem notes in its consultation the risk that if it sets an adjustment level informed by exceptional market conditions, it is likely that that this may lead to overcompensation in future (when prices and volatility return to normal levels). This is another reason why it would be sensible to address the two issues separately.

8. Arrangements for access to Ofgem data

In our letter of 14 December, we urged Ofgem to use its formal powers to gather evidence and data on the actual approach suppliers have taken to *inter alia* hedging decisions. We repeat that request here: issuing information requests to suppliers will provide Ofgem with the necessary empirical evidence on which to base its decision-making, consistent with the duty of enquiry.

The relevant information required to make a properly informed decision must be the data and evidence on the *actual approach* suppliers took across the four costs categories identified by Ofgem. In ScottishPower's submission, if Ofgem is to take a properly informed decision then it must use its formal information gathering powers to gather data and evidence and not rely only on data and information obtained in response to this consultation or otherwise.

While Ofgem may possess some data and evidence of relevance to the issues raised in this consultation, this will not be either complete or robust until formal information requests have been issued and responded to.

The data and evidence – both available/in Ofgem's possession now, and gathered in response to its consultation (or following Ofgem's exercise of its formal powers) – is not, in ScottishPower's submission, of relevance only to Ofgem. If ScottishPower is to fully respond to Ofgem proposals, it is essential that Ofgem makes arrangements for ScottishPower and other suppliers to have access to all the evidence, data and analytical modelling carried out by Ofgem. As such, ScottishPower asks Ofgem to use its formal evidence gathering powers and make all this evidential material available to consultees.

Ofgem must ensure that the consultation is transparent and fair. As matters stand, ScottishPower (and indeed Ofgem), have no robust data or evidence on the approach taken by market participants across the four costs categories. As such, in order for ScottishPower to meaningfully participate in the consultation, Ofgem should, in addition to carrying out formal evidence gathering, also arrange for consultees to have access to the data and evidence Ofgem recovers (both formally and informally), and all relevant data and evidence currently in Ofgem's possession including Ofgem analytical models. While much of the data will be confidential, Ofgem has already made sensitive and confidential information (including modelling) available in default tariff cap consultations via a disclosure room, and there is no good reason not to do so for this consultation.

9. Wider review of price cap

We welcome Ofgem's commitment to carry out a wider review of the price cap methodology. This is of critical importance given the dire financial position that all surviving suppliers have been left in as a result of flawed price cap design. Unless the supply sector can return to a more sustainable regulatory model, it will be impossible to attract the new investment, innovation and market entry that will be essential to reaching net zero. The future market looks very different to 2018 when the price cap was being considered and assessed. Therefore, the data on which the analysis to set the structure and level of the price cap was based, is likely to no longer be representative. As such, Ofgem must change its approach.

ScottishPower
December 2021