

December 2021 Consumer groups workshop on November 2021 price cap consultations

On the 10th December 2021 Ofgem held a workshop in order to hear the views of several Consumer Organisations in relation to the price cap consultations published on Friday 19 November 2020.

It was agreed that “Chatham House rules” applied to meeting. The comments and questions are therefore reported without attribution in the following note.

Key Issues raised:

1. It was acknowledged that the options put forward within the 19 November consultations were a response to the current volatility in the market, and were seeking Ofgem’s general views on the forward outlook of this volatility.

Ofgem responded that this risk of volatility had prompted the consultations and are seeking views on this within the consultations. We will review the outcome of these consultations as circumstances change.

2. A concern was raised surrounding the fragmentation of workstreams that are being used to address market volatility, and that a potential piecemeal increase in consumers energy prices could cause confusion within the wider public, with the cause of such increases not being made entirely clear.

Ofgem responded that the consultation approach was set out this way (as five separate consultations) to allow us to consult rapidly and concisely on the issues of concern ahead of the cap being set for the coming period. We acknowledge the risk of fragmentation but are working collaboratively to bring the strands together in our responses to the consultations.

3. A Stakeholder raised a point asking if the currently proposed consultation changes to the cap could be seen as setting a precedent regarding the frequency with which reforms are to be made to the cap (particularly during the Winter period). An additional point was raised asking if Ofgem is looking to increase the frequency of review periods to offset the impact that more frequent changes to the cap will have.

Ofgem responded that this is not the focus of the current set of consultations.

4. A Stakeholder asked if the reported increase in unexpected SVT demand provided suitable grounds for amending the price cap and if this situation is actually having a material impact on suppliers risks, outside the norm?

Ofgem responded that this was one of the reasons for the consultation, to hear views on this, including from suppliers.

5. Some Stakeholders raised concerns about providing support to an increase in the wholesale risk allowance, when they do not have certainty about what this increase could

be. In general, stakeholders indicated that they wish to support a sustainable market but it is difficult to shore-up their decision without additional detail on what these increases could look like, or what impact they would have on consumer bills.

Ofgem responded by noting the point. Some of the detail is provided within the consultations but, as a percentage of wholesale costs, it was not possible to provide a definitive answer on the cost impact.

6. Stakeholders queried how the proposed policy costs would be spread out and should they be spread out over a longer period of time. This is due to Stakeholders needing a degree of certainty surrounding potential energy bill increases in order to communicate the appropriate information to vulnerable and concerned consumers. One suggestion was that Ofgem provide a statement to the effect of *"Ofgem's view is that the cap could increase by £X"*.

Ofgem responded that we do publish detail on the impact of policy costs along side the publication of the cap.

7. Stakeholders stated that they believe consumers will understand that there is an increase in wholesale costs. However, the compounding effect of these increases being passed through by suppliers, along with the potential additional costs being added to their bills, there is danger of material frustration from the general public.

Ofgem responded to say that we do endeavour to make sure that costs contributing to changes in the overall level of the cap are clearly communicated.

8. A Stakeholder advised that some suppliers have cited that most of the market could see this situation coming and that Ofgem did not listen to warning signs given by industry.

Ofgem responded to indicate that it is for suppliers to make commercial decisions on their own hedging strategies. As one stakeholder noted, had suppliers anticipated this change in wholesale prices the opportunity was there for them to make adjustments to their forward strategy.

9. Stakeholders expressed an interest in how many customers are on SVTs, and how many are on fixed deals. A Stakeholder followed up asking if the latest version of this data will be feeding into the consultation decision.

Ofgem responded to say that we do collect data on this from suppliers and the latest figures would inform the analysis. Additionally, we do collect data on when fixed tariffs expire and stakeholders wishing to have sight of this detail should contact us offline.

10. Stakeholders questioned if the fact that suppliers have not made as much progress as expected in regard to the smart meter rollout is being considered within the nature of the supplier costs being calculated. As it can be argued that a more accurate estimation of energy use within the home would help reduce exposure to these potential volatilities/imbalances.

Ofgem agreed that this was an interesting point although not something that features in the current consultation.

11. A Stakeholder asked if Ofgem has adequate support in place to support potential customer switching given the current market.

Ofgem indicated that there are teams in Ofgem working on this, one critical question is to understand if there is a trade off between security and risk on one hand, and prices on the other. We would welcome further feedback on this.

12. A Stakeholder asked Ofgem how would any potential changes be made during the current crisis benefit suppliers with a large portfolio of long term customers?

Ofgem responded to say that it is not the intention of the price cap or the consultations to benefit any particular group of suppliers rather it is intended to ensure that consumers pay a fair price given the costs of supply.

13. A Stakeholder raised the point that there are a lot of Ofgem workstreams currently looking at this ongoing crisis. A regular response that is being given to stakeholders is '*there is another team looking at that particular issue*'. The Stakeholder questioned how Ofgem can ensure that there is effective communication across different teams as the feedback provided here and in other meetings will feed into both the long term and short term decisions, with both workstreams having a major impact on one another.

Ofgem agreed about the importance of effective communication and sharing learning across teams and that this was an important feature in the process being used for the consultations and an important priority for Ofgem.

Following the workshop one Stakeholder asked us to specifically note their recommendation that Ofgem avoid any price cap increases during the coldest months, as this would have a disastrous impact on low-income and fuel poor older consumers.