

Emailed to: retailpriceregulation@ofgem.gov.uk

17 December 2021

Dear Sir/Madam,

Ofgem Price Cap - consultation on the potential impact of increased wholesale volatility on the default tariff cap and Ofgem Price Cap - consultation on the process for updating the Default Tariff Cap methodology and setting maximum charges

Thank you for the opportunity to respond to the consultations related to impacts of the wholesale volatility on the default tariff cap and on the process for updating the methodology (including the Energy Company Obligation, the true-up costs for Covid-19, and the pre-payment end user categories in the default tariff cap consultation documents). We have provided some broad comments on aspects of the proposals, particularly around those relating to interim adjustments of the cap.

General Comments

The wholesale market volatility in recent months is an unprecedented and continuing event for the energy sector. While there may be a combination of factors that may have impacted on the ability for some energy suppliers to remain solvent during this time, we agree that these events represent an important opportunity to review the role and impact of the price cap in the short term. We also think it is appropriate, as Ofgem has indicated, to consider the longer-term role of the cap given its importance in relation to affordability, innovation and the journey to net zero.

Specific comments relating to the consultations

Exceptional circumstances

At present, the effect of the price cap is in some cases to keep the price below the cost of supply, which is clearly not the intent of the cap. While the cap has protected SVT consumers from short-term price increases, suppliers should be able to expect to recover their costs of supply where these are reasonable. We therefore support the proposal to enable Ofgem to respond more quickly and adjust the price cap outside of the standard review cycle in exceptional circumstances. Setting the exceptional circumstances threshold as having to fulfil the conditions of an event:

- being rare; and
- that is likely to have a high impact, such as irreversible effects or systemic consequences to the energy market without urgent action.

seems a sensible and reasonable approach to a guiding definition. However, we wonder if there is an opportunity to provide more detail of examples of what might constitute exceptional circumstances. Whilst we do appreciate that it is impossible to provide a comprehensive list of situations that would meet the exceptional



circumstances definition, we think identifying some examples may be helpful in managing expectation of suppliers and consumers alike. Upfront clarity would, in our view, help mitigate the risk of challenge further down the line which might not be helpful when situations like this arise and there is a need to act quickly.

We agree that adjustments should not replace the need for suppliers to proactively manage their risks, nor be an opportunity to allow costs to be passed through to consumers where risks could have been mitigated.

We think it is right that the mechanism should allow for downward adjustments too, and similarly we think some clarity on potential scenarios where this might happen would be beneficial.

Impact on consumers

We think it is important to consider the impact that any change to the price cap will have on consumers, and in particular those who might be most affected by changes in the price of their tariff. This also needs to be considered within the wider context of what is happening in the sector, for example the lasting effects of the covid pandemic and current effects of supplier exit.

We agree that any changes to the price cap need to factor in fairness and affordability for consumers. This may involve wider policy decisions being made about how to provide the necessary support, in an agile way, to consumers who need it most if more frequent changes to the price cap are to take place.

Open and transparent reasoning

There are a range of factors and costs that could be included in amending the price cap in exceptional circumstances, as shown by the connected consultations published, such as the true-up process for Covid-19. We think it is therefore important that reasons for amending the cap are open, transparent, clearly set out and evidenced. We appreciate that the consultation documents do point to getting an accurate figure to support any price cap adjustments, for example, what is the true covid-related debt that energy suppliers have faced and for what reasons. Clarity on the methodology of price cap changes will be important for all stakeholders.

Please do not hesitate to contact us if you would like further information regarding our response. Our response is not confidential.

Your sincerely,



Ed Dodman
Director of Regulatory Affairs

For more information regarding this consultation please contact:

David Pilling
Head of Policy Public Affairs
Ombudsman Services
3300 Daresbury Park
Daresbury
Warrington
WA4 4HS

t: 07595449366

e: dpilling@ombudsman-services.org