

Ofgem
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12th January 2022

**Ofgem Ref Adapting the Price Cap Methodology for Resilience in Volatile Markets
E Ref: Reg.435**

For the attention of Medium-Term Price Cap Adaption Team.

E (Gas and Electricity) Ltd is a medium challenger UK energy retailer focussing on serving prepayment customers through our UK base call centre. We are currently ranked 6th on the Citizen's Advice Supplier (rating for July to September¹), which is the highest ranked prepayment specialist supplier in the market. Our smart delivery programme has helped us support a large percentage of our customer base through smart meter rollout and smart tariffs through which we provide our customers with zero standing charge product offering through block rate charges.

We welcome the opportunity to respond to this consultation.

We do not believe a price cap is necessary and refer to the areas which Ofgem have identified they must have regard to:

1. The need to create incentives for suppliers to improve efficiency – this is basic good business practice to be efficient as this ultimately leads to greater Enterprise Value
2. The need to set the cap at a level which enables suppliers to compete effectively for customers – the cap is currently set at a level which, particularly for a prepayment specialist does not deliver a reasonable profit level and therefore does not allow for effective competition.
3. The need to maintain incentives for customers to switch – if anything a cap suppresses this. Switching has never been easier and customers have further confidence with the Guaranteed Standards re 15 day switching.
4. The need to ensure efficient suppliers are able to finance activities – this is not achievable at the moment and will impact a supplier's ability to innovation to achieve net zero.

We do however appreciate the legislative framework in which Ofgem is operating within in the short term.

¹ <https://www.citizensadvice.org.uk/consumer/energy/energy-supply/get-a-better-energy-deal/compare-domestic-energy-suppliers-customer-service1/>

Our approach would be to manage each element of the cost stack in the most efficient way – thereby reducing the overall risk and hence cost to the consumer. It is essential that suppliers are able to fully recover efficiently incurred costs through the cap and that the cap does not ignore significant cost categories that are not currently considered under the methodology.

Question 1: what is your view on the nature and scale of the volume risk facing suppliers, and the case for changing the current price cap methodology?

The volume risk is material particularly at times of rapidly rising or rapidly increasing wholesale costs; this can be mitigated by determining a finite group of eligible customers, see below. If this cannot be achieved then an allowance is required within the Default Cap to cover this risk.

Question 2: what is the best way to tackle this issue whilst protecting consumer interests?

Our view is that the options mooted for consideration are too complicated and that we should focus our efforts (and financial support) on those who most need it and accept that unless Policy Costs are recovered through general taxation and Wholesale Costs are influenced downwards by government policy, consumers will have to accept higher energy prices.

Question 3: which adaptations to the price cap are preferred and why, including any additional options not set out in this paper? (Please provide an outline description of how any alternatives would work).

Option 1 – we do not believe this is necessary and is already covered by the Consultation on the process for updating the Default Tariff Cap methodology and setting maximum charges.

Option 2 - there is a misalignment between a tariff change every 6 months based on an annual hedge vs the actual fuel cost incurred & this creates risks and costs which are not currently included in the cap. Any price cap methodology has to reflect tradeable products. To minimise some of these risks and reduce costs the tariff should be set every 6 months based on a 6 month hedge or every 12 months based on a 12 month hedge.

Setting the tariffs every 3 months based on a 12 month forward view does not solve the problem of the misalignment between what is hedged and how the price is set; so does not reduce many of the risks. We also fundamentally challenge setting prices every 3 months due to the increase cost of communicating with customers and for prepayment customers, the cost of updating the meters more regularly. We would also challenge Ofgem's interpretation of the Unilateral Variation clause which results in some customers who switch being retained on their old tariffs for up to 7 weeks after the effective date of the new tariff.

Option 3 – we do not support this as it hugely complex for both customers and suppliers and does not solve the underlying issue of misalignment between hedge costs and the price cap level.

Our preferred option would be to identify a group of UK consumers who are eligible to be on the Cap and for them to be 'marked' centrally. These customers would be protected by the Default Tariff Cap. On the basis that the Cap is in place to ensure customers do not pay a loyalty bonus it could be argued that any customer who has not switched for eg. 3 years should be protected by the Cap. Our preferred option though would be to take the opportunity to protect the more financially vulnerable customers and identify any customer in receipt of the Warm Home Core and Broader Group payments and protect this group with the Cap. This would mitigate the volume risk to a great extent, as a pre-defined group of customers (and hence volume) would be eligible. This would also allow for a targeted approach and possibly allow for a greater level of financial support to be provided.

Please contact me in the first instance should you require any further information.

Yours sincerely

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