



Making a positive difference  
for energy consumers

The Rt Hon Rishi Sunak MP  
Chancellor of the Exchequer  
HM Treasury

The Rt Hon Kwasi Kwarteng MP  
Secretary of State for Business, Energy &  
Industrial Strategy

**BY EMAIL ONLY**

24 May 2022

Dear Chancellor and Secretary of State,

As the energy regulator, our primary duty is to protect the interests of existing and future consumers. We are very aware that rising energy bills, caused by the unprecedented increase in global gas prices, are a source of real worry for many households – and we are continuing to do everything within our power to protect consumers.

As you will know, the level of the energy price cap is next due to be updated in October 2022. Ofgem is due to announce this new level in August 2022. The price cap ensures that energy suppliers can only charge consumers on their default tariff a fair price, based on the true cost of supplying electricity and gas – and no more.

There is still significant uncertainty about the exact level of the price cap in the next cap period – particularly because we are only halfway through the observation window which determines the wholesale costs element of the price cap, and because Ofgem is currently consulting on changes to the detail of the underlying price cap methodology. **I should therefore be clear that this is our current assessment, and not a definitive prediction of the exact level of the next price cap.**

However, as we have indicated previously, we are expecting another significant increase in the level of the price cap. As I explained to the Business, Energy and Industrial Strategy Committee today, based on our current forecasts, we expect that the price cap is likely to increase from its current level of £1,971 to approximately £2,800 in October 2022. This estimate is for a consumer with average consumption and paying by direct debit.

As with the increase to the level of the price cap that took effect in April 2022, the increase is driven primarily by the rise in global gas prices. In particular, conditions have worsened considerably in the international gas market since Russia's invasion of Ukraine. As a result, while more recently there have been some reductions in prices in the day-ahead market for energy, forward prices for this winter, which the level of the next price cap is based upon, have continued to be exceptionally high and volatile. In Appendix A, I have included a breakdown of the costs in the energy price cap in further detail.

Given the legitimate and very understandable public interest in the cost of energy, and the scale of the likely increase in the level of the energy price cap in the autumn, we believe it is important to provide this update on the likely level of the price cap in October 2022, before it is formally announced in the summer. While we fully appreciate that this will be unwelcome news for consumers, we hope it will at least provide greater certainty about likely future energy costs and help government provide the support that might be needed.

The price cap will still only allow energy companies to pass on reasonable costs, ensuring that consumers pay no more than a fair price for their energy, and stopping energy suppliers from making excessive profits. Nonetheless, we fully understand that this rise will be extremely worrying for many people, especially those who are struggling to make ends meet.

Ofgem will continue to do all it can to protect the interests of consumers – but, as I know you will appreciate, the affordability challenge that many people will face is not something that either Ofgem or the industry can tackle alone. It will therefore be very important that Ofgem, the industry, government and other stakeholders continue to work together to address the difficulties facing consumers, especially for the most vulnerable.

We look forward to working with HM Treasury and the Department of Business, Energy & Industrial Strategy on this, and understand that Ministers stand ready to do more. Ofgem, as the energy regulator, will do whatever it can to help achieve this.

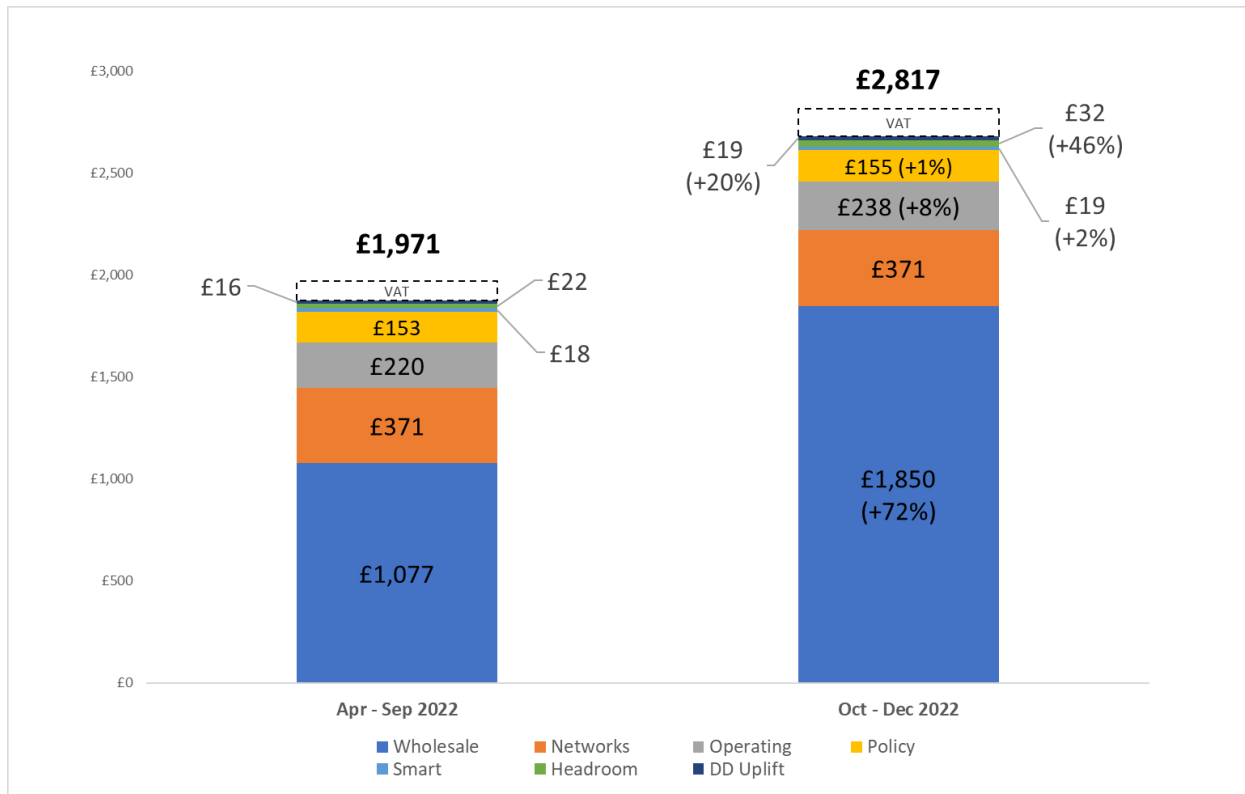
Yours sincerely,

A handwritten signature in black ink, appearing to read 'JBearley', written in a cursive style.

Jonathan Brearley  
**Chief Executive**

cc: Darren Jones MP, Chair, Business, Energy and Industrial Strategy Committee

**Appendix A – Breakdown of costs in the energy price cap and current estimate of October 2022 price cap level**



Estimate of October 2022 price cap as of 18 May 2022, for a direct debit, dual fuel customer at Typical Domestic Consumption Values. The cap is set ex-VAT but VAT at the prevailing rate is shown for consistency. Nearly half of the wholesale price observation period is remaining, so cap level estimates are indicative at this stage. Volatility in the wholesale market adds to this uncertainty. This includes the changes under consultation in our statutory consultation on updates to the wholesale methodology, which are subject to change.