



Making a positive difference
for energy consumers

To all market participants and
interested parties

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Default Tariff Cap update from 1 January 2023

Dear colleagues,

Today we have published the updated cap levels for charge restriction period ("cap period") 9b, covering the three months from 1 January 2023 to 31 March 2023.^{1,2} Alongside the cap levels we have also published the updated versions of the cost allowance models / annexes. Ofgem is required by law to publish the price cap level on a quarterly basis.

Energy Price Guarantee

In light of the increase in wholesale costs, the Government has announced the Energy Price Guarantee (EPG) which came into effect on 1 October 2022. The EPG protects consumers, reducing the unit cost of electricity and gas so that a typical dual fuel direct debit bill for a domestic consumer is £2,500 until 31 March 2023. The EPG sets maximum prices, not maximum bills. For an individual customer, the amount they will pay under the EPG varies depending on how much energy they use, where they live, and how they pay for their energy.

All information and figures provided within this letter represent the Default Tariff Cap level and do not represent what domestic consumers will pay on their bills under the EPG scheme.

Default Tariff Cap

The level of the dual fuel, direct debit cap^{3,4} for cap period 9b (1 January 2023 to 31 March 2023) has increased by 21% since the last update. From 1 January 2023, the

¹ The data used in this document is not intended for use as an index by reference to which the amount payable under a financial instrument or a financial contract, or the value of a financial instrument, is determined, or as an index that is used to measure the performance of an investment fund with the purpose of tracking the return of such index or of defining the asset allocation of a portfolio or of computing the performance fees. Such outputs may not be used as a benchmark with the meaning of the EU Benchmark Regulation, UK Benchmark Regulation or otherwise.

² In August 2022, Ofgem decided the Default Tariff Cap will be updated on a quarterly basis rather than every six months. For details on the reason for this change, please see the [decision on changes to the wholesale methodology](#).

³ The level of the cap shown is for a dual fuel, direct debit customer, calculated using the latest Typical Domestic Consumption Values (TDCVs). All values rounded to the nearest £.

⁴ On 1 April 2020 Ofgem decided to decrease the [Typical Domestic Consumption Values](#) (TDCVs) for electricity to reflect continued decreases in consumption for electricity and to keep the TDCV's for gas unchanged. From 1 April 2020, Ofgem has been using the new TDCVs to express the default tariff price cap and prepayment meter cap level in all publications. Previous publications on the levels of the caps will therefore not be the same / directly comparable.

level of the cap will increase to £4,279.^{5,6} For electricity only customers on Economy 7 meters, the direct debit cap level has increased to £2,988 (£759 increase). In line with our previous policy decision on changes to the wholesale methodology,⁷ wholesale costs (Direct Fuel and Backwardation), CfD costs, the percentage element of Payment method uplift, EBIT and Headroom have been updated. All other cap components have remained the same as for October 2022.⁸

We are obliged to update the price cap level at intervals by applying updated inputs for items such as wholesale costs to the price cap formulae which have been determined by our previous decisions. That is what we have done today. In updating the price cap in this way, we are not making a policy decision or exercising a judgment.

The main factors which have produced the change in the cap level are updates in the model inputs for:

- **Wholesale Costs** – Wholesale costs have increased by £669 since the last cap update. During the beginning of the observation period we saw Russia’s invasion of Ukraine, and since then rising prices caused by a series of reductions in Russian gas flows to Europe and strong demand to fill underground gas storage in time for winter. Though more recently near-term prices have fallen due to mild temperatures, high LNG deliveries and high storage levels being reached, prices for gas for next year have continued increasing amid concerns for filling storage in time for the following winter. Additionally, issues with French nuclear power generation continue to push up power prices for winter periods, as France is likely to rely more on imports from the UK to meet demand when temperatures are very cold.
- **Indexed allowances** – The indexed components of the cap have increased in line with the overall increase in the level of the cap. These costs include EBIT (£76), Payment Method Uplift (£25), Headroom (£53), VAT (£204) and Operating costs (£214).
- **Contract for Difference (CfD)** – CfD costs for this period have decreased by £17 compared to cap period 9a (1 October 2022 – 31 December 2022), which takes into account generator payments and higher power prices.

Changes in the components making up the direct debit level of the cap (shown for dual fuel) are shown in Figure 1 below:⁹

⁵ The Default Tariff Cap sets maximum prices, not maximum bills. For an individual customer, the amount they will pay under the cap varies depending on how much energy they use, where they live, and how they pay for their energy. The cap level will not depend on who a customer’s energy supplier is.

⁶ We do not set a ‘dual fuel’ cap. Caps are set for each fuel separately. When we express the dual fuel ‘cap level’ for a typical customer, this is the combined effect of the gas cap at typical consumption and the electricity cap at typical consumption.

⁷ Ofgem (2022), Price Cap – Decision on changes to the wholesale methodology, <https://www.ofgem.gov.uk/publications/price-cap-decision-changes-wholesale-methodology>.

⁸ Please see previous Default tariff cap update letter for further information on the cap components that have not been updated in this announcement, <https://www.ofgem.gov.uk/publications/default-tariff-cap-level-1-october-2022-31-december-2022>.

⁹ All values shown are for a dual fuel, direct debit customer, calculated using the latest Typical Domestic Consumption Values (TDCVS). All values rounded to the nearest £.

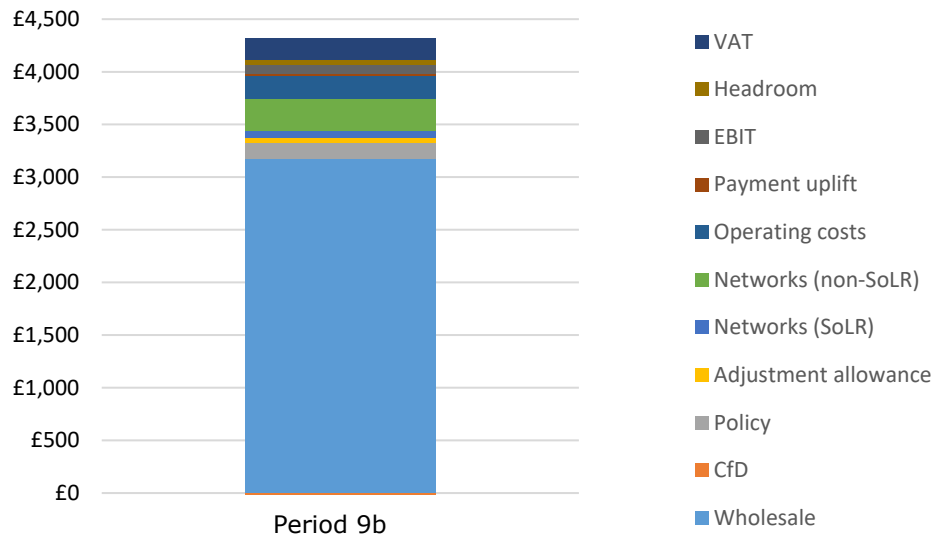


Figure 1: Breakdown of Default Tariff Cap components, direct debit, dual fuel

Other payment methods

The standard credit cap level has also increased and will be £4,533 (£769 increase) for the reasons set out above. Customers who pay by standard credit (cash or cheque) pay an additional £254 (compared to direct debit). For electricity only customers on Economy 7 meters, the standard credit cap level has increased to £3,160 (£799 increase), an additional £172 compared to direct debit.

The prepayment meter (PPM) cap level has also increased and will be £4,358 (£755 increase). Customers on prepayment meters pay an additional £80 compared to direct debit customers. This is primarily based on the higher cost for suppliers to serve them in comparison to customers paying by standard credit. For electricity only customers on Economy 7 meters, the PPM cap level has increased to £2,972 (£755 increase), £17 less than direct debit. This is primarily driven by the Adjustment Allowance being £21 for direct debit E7 customers whereas it is £4 for PPM E7 customers.

Compliance with the price caps

We expect suppliers to take seriously their obligations and comply with business-as-usual practices in line with Standard Licence Conditions and the Energy Price Guarantee (EPG) Scheme. Ofgem’s approach to compliance and enforcement matters in relation to the EPG scheme’s interaction with suppliers’ licence obligations will be pragmatic and proportionate whilst continuing to adhere to the principles of appropriate consumer protection. Ofgem will be closely monitoring supplier compliance and will continue to take firm action against suppliers who fall short of their requirements.

We expect any related data provided to Ofgem to be accurate, complete and provided in a timely manner. We will also continue to monitor the quality of service suppliers deliver to their customers and stand ready to take compliance and enforcement action in the event that any licence requirements or contract terms are not met.

Yours faithfully,

Dan Norton
Deputy Director, Price Cap

Annex

All bill values presented in this document are calculated using the latest Typical Domestic Consumption Values (TDCVs), 2,900kWh for electricity, 12,000 kWh for gas and 4,200 kWh for multi-register meters, such as Economy 7 customers. All values are rounded to the nearest £.

Annex 1 – Breakdown of Default Tariff Cap components, direct debit, dual fuel.

Cost component	Period 9a (Oct 22 – Dec 22)	Period 9b (Jan 23 – Mar 23)
Wholesale	£2,491	£3,137
<i>of which CfD</i>	-£23	-£40
Policy	£152	£152
Adjustment allowance ¹⁰	£46	£46
Networks	£372	£372
<i>of which SoLR</i>	£61	£61
<i>of which non-SoLR</i>	£311	£311
Operating costs	£214	£214
Payment uplift	£22	£25
EBIT	£63	£76
Headroom	£43	£53
VAT	£169	£204
Total	£3,549	£4,279

Annex 2 – Changes to the Default Tariff Cap split by payment method and meter type.

Cap level	Period 9a (Oct 22 – Dec 22)	Period 9b (Jan 23 – Mar 23)
Direct Debit	£3,549	£4,279
Standard Credit	£3,764	£4,533
Prepayment	£3,608	£4,358
Economy 7 (DD)	£2,230	£2,972

¹⁰ An allowance covering any adjustments to the Default Tariff Cap. For cap period 9a and 9b this includes costs related to unexpected SVT demand incurred during period 8 and costs related to backwardation incurred during period 7.

Annex 3 – Regional breakdown of the dual fuel, direct debit Default Tariff Cap for cap period 9b (1 January 2023 to 31 March 2023). This table includes VAT.

Charge Restriction Region	Single Rate Electricity (2900 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£2,094	£2,153	£4,247
Northern	£2,076	£2,137	£4,213
Yorkshire	£2,108	£2,143	£4,250
Northern Scotland	£2,106	£2,147	£4,253
Southern	£2,126	£2,168	£4,294
Southern Scotland	£2,138	£2,147	£4,285
N Wales and Mersey	£2,204	£2,155	£4,359
London	£2,137	£2,175	£4,311
South East	£2,152	£2,149	£4,301
Eastern	£2,131	£2,151	£4,281
East Midlands	£2,088	£2,142	£4,230
Midlands	£2,130	£2,154	£4,284
Southern Western	£2,139	£2,165	£4,304
South Wales	£2,134	£2,161	£4,295
GB average	£2,126	£2,153	£4,279

Annex 4 - Regional breakdown of the dual fuel, PPM Default Tariff Cap for cap period 9b (1 January 2023 to 31 March 2023). This table includes VAT.

Charge Restriction Region	Single Rate Electricity (2900 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£2,083	£2,242	£4,325
Northern	£2,065	£2,233	£4,298
Yorkshire	£2,096	£2,236	£4,332
Northern Scotland	£2,095	£2,239	£4,334
Southern	£2,114	£2,258	£4,372
Southern Scotland	£2,126	£2,239	£4,365
N Wales and Mersey	£2,191	£2,242	£4,434
London	£2,125	£2,263	£4,388
South East	£2,140	£2,240	£4,380
Eastern	£2,119	£2,246	£4,365
East Midlands	£2,077	£2,234	£4,310
Midlands	£2,118	£2,243	£4,361
Southern Western	£2,127	£2,258	£4,386
South Wales	£2,122	£2,246	£4,368
GB average	£2,114	£2,244	£4,358

Annex 5 - Regional breakdown of the dual fuel, standard credit Default Tariff Cap for cap period 9b (1 January 2023 to 31 March 2023). This table includes VAT.

Charge Restriction Region	Single Rate Electricity (2900 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£2,219	£2,280	£4,499
Northern	£2,200	£2,264	£4,464
Yorkshire	£2,233	£2,270	£4,502
Northern Scotland	£2,231	£2,274	£4,505
Southern	£2,252	£2,297	£4,549
Southern Scotland	£2,265	£2,274	£4,539
N Wales and Mersey	£2,334	£2,282	£4,617
London	£2,264	£2,303	£4,567
South East	£2,280	£2,276	£4,556
Eastern	£2,257	£2,278	£4,535
East Midlands	£2,212	£2,269	£4,481
Midlands	£2,256	£2,281	£4,538
Southern Western	£2,266	£2,293	£4,559
South Wales	£2,261	£2,289	£4,549
GB average	£2,252	£2,281	£4,533

Annex 6 - Regional breakdown of the dual fuel, multi-register metering arrangement Default Tariff Cap for cap period 9b (1 January 2023 to 31 March 2023). This table includes VAT.

Charge Restriction Region	Multi Register Electricity (4200 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£2,949	£2,153	£5,102
Northern	£2,918	£2,137	£5,055
Yorkshire	£2,963	£2,143	£5,106
Northern Scotland	£2,962	£2,147	£5,109
Southern	£2,992	£2,168	£5,161
Southern Scotland	£3,000	£2,147	£5,146
N Wales and Mersey	£3,087	£2,155	£5,241
London	£3,016	£2,175	£5,190
South East	£3,020	£2,149	£5,169
Eastern	£2,997	£2,151	£5,148
East Midlands	£2,941	£2,142	£5,082
Midlands	£2,996	£2,154	£5,150
Southern Western	£2,998	£2,165	£5,162
South Wales	£3,000	£2,161	£5,161
GB average	£2,988	£2,153	£5,142