



Department for
Business, Energy
& Industrial Strategy

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Jonathan Brearley, CEO
Ofgem
10 South Colonnade
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24 November 2022

Dear Jonathan,

The Government has introduced the Energy Price Guarantee (EPG) to protect households from extreme energy costs this winter. As you know, the default tariff cap which Ofgem operates plays a key role in delivering the EPG. The tariff cap reflects the cost of supplying households with energy and so enables us to calculate the support government needs to provide to discount prices for consumers.

Retaining and terminating the tariff cap

The Energy Prices Act 2022 updated The Domestic Gas and Electricity (Tariff Cap) Act 2018 to reflect the cap's new role. Primarily, the Act prevents the tariff cap licence conditions from lapsing prematurely and ensures they can remain in place throughout the EPG. More flexible arrangements for ending the cap have been introduced to ensure regulation can keep pace with the changing conditions in the energy market, which are now more volatile than when the original tariff cap legislation was written. We will take account of the fact that suppliers may have hedged in line with the cap and aim to give good notice before removing it. Hedging decisions remain a commercial decision for suppliers, however we understand having the latest available information may help inform those decisions.

Duties when setting the tariff cap

The Act updated Ofgem's duties to include an obligation to take account of the impact on public spending when considering modifications to the tariff cap conditions. This new duty does not supersede Ofgem's other obligations in managing the cap and was added to reflect the new environment in which it is operating.

Determining a fair methodology for the cap has always required trade-offs. When judging the soundness and size of proposed costs, Ofgem must first and foremost protect the interests of existing and future consumers. In forming its views on how to

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protect consumers' interests, Ofgem must also have regard to various factors listed in the Act, including ensuring suppliers who operate efficiently can finance their supply activities. With the EPG in place, a methodological change that results in a higher cap level will be borne in part by the Exchequer, so it is important that Ofgem are able to consider the impact on public spending. However, this is just one consideration and should be weighed up alongside the other factors Ofgem must have regard to.

The government is committed to the independent regulation of the retail energy market. That is why Ofgem remains the sole decision-maker over the default tariff cap methodology. The Government does not expect to issue guidance on how Ofgem have regard to public spending, but if we believe specific information is needed to clarify the impact to the exchequer, we will provide any such information in writing and expect that Ofgem would publish it.

Compliance and enforcement of the EPG scheme

As agreed, Ofgem will support BEIS with monitoring and enforcement activities concerning supplier compliance with aspects of the EPG framework. Ofgem will also use its existing powers and processes for gathering information from suppliers to ensure tariffs are set in accordance with EPG tariff levels, and for gathering information from suppliers about whether they have appropriate procedures in place to communicate the relevant tariff, meter, and billing information about the EPG to their customers.

BEIS will remain solely responsible for other areas of the EPG scheme. This would include monitoring and compliance of the payment (scheme) administrator role, auditing, assurance of financial reconciliation and settlements, and fraud checks. It would also include compliance and enforcement in relation to payment of monies to and from His Majesty's Government (HMG).

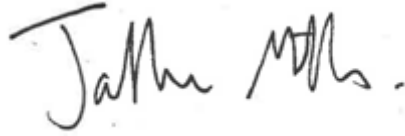
Communicating announcements about the tariff cap and EPG

It is of course vital that consumers, suppliers, and other stakeholders receive the information they need, in time for when they need it, to prepare their finances and activities. Our teams will therefore work together closely to ensure that, whenever possible, announcements about the EPG are communicated with good notice alongside publications of the default tariff cap.

The government believes a strong, vibrant, and competitive retail sector is the best means for ensuring households can benefit from fair prices and new, innovative products. We look forward to continuing working with Ofgem to support that.

Yours sincerely,

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A handwritten signature in black ink, appearing to read "Jonathan Mills". The signature is written in a cursive style with a horizontal line above the first few letters.

JONATHAN MILLS

Director-General, Energy Markets and Supply,
Department for Business, Energy and Industrial Strategy

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