

## Price cap: Consultation on reflecting the planned ECO+ scheme

February 2023

### About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

### Energy UK's response

Energy UK supports the proposed approach by Ofgem to use the same methodology to calculate the ECO+ allowance as the ECO4 allowance.

It is positive that the ECO+ allowance will commence from cap period 10a onwards, as this aligns with the anticipated start date for the scheme. Thereafter, we support the proposal that each cap period take into account any changes to BEIS's estimates on costs for the scheme, and that Ofgem have provision to correct any under or over allowance. With reference to BEIS's approach to supporting early delivery ([as set out on page 15 of the consultation](#)), it is important to also ensure that in the event that the legislation is delayed or fails, any costs incurred by suppliers from April 2023 are recoverable.

### More clarity on the final ECO+ scheme design is needed

We have concerns over the lack of clarity provided by BEIS to Ofgem, and industry, on key aspects of the final policy design. Against the backdrop of an energy retail market that is currently extremely exposed to both volatile wholesale international gas prices and the impacts of accommodating a fast-moving regulatory environment, it is essential that suppliers are provided with absolute clarity on the policy approach to new obligations, such as ECO+, especially with regards to how they will be funded and their interaction with the price cap.

That Ofgem states it needs to determine the cap level by the end of February 2023 for the ECO+ costs to be included from cap period 10a onwards means that the government must bring forward the publication of their response to the ECO+ consultation so that the cap level

can be accurately informed by the government's decision on budget setting. This will lead to the fairest outcomes, in terms of changes to the price cap, for consumers.

There are two further areas in which more clarity is needed. These include:

1. A lack of confirmation from government regarding whether it will cover the costs of year one of ECO+ in a scenario where the cap level was lower than the Energy Price Guarantee (EPG) (with reference to consultation paragraph 2.18).

With the level of the EPG set to be increased from April 2023, and [analysis by Energy UK](#) showing that energy bills are likely to start falling from summer 2023, as a result of the drop in wholesale energy prices in December 2022, it is essential that suppliers have clarity as to the approach by government to covering the costs of ECO+ in scheme year one in the scenario where the cap level is lower than the EPG.

2. That the payment arrangements for ECO+ costs in scheme year two and three have still not been confirmed (with reference to consultation paragraph 2.19).

More information is needed as soon as possible on how ECO+ will be funded post-April 2024, and Energy UK would welcome engagement between industry and government on identifying the various options. If additional costs are added to the price cap, then sufficient time for Ofgem to consult further will be necessary.

Energy UK would welcome this opportunity to start a conversation with government about how supplier obligations can be funded in a more progressive way. The costs of these policies on energy bills means that households living in the least efficient homes pay disproportionately more, and these typically tend to be lower-income or vulnerable households. Energy UK supports the potential for a centrally-funded scheme supported by general taxation in place of the current model of support.

Energy UK would be pleased to host discussions between government and industry in the near future, so that the decision on payment arrangements in scheme year two and three can be made by government well in advance of the point at which suppliers begin to plan their direct debits for April 2024. Clarity on this issue will also be essential to informing suppliers' hedging and buying strategies and acquisitions, which are currently exceedingly challenging given the wider economic context.

Finally, the government should be aware of the potential impact of this lack of clarity on scheme delivery, as some suppliers have provided feedback that it is hard to build momentum behind delivery if there is not absolute certainty in the pay structure.

#### Adjustments for inflation

While Energy UK welcomes the proposal to adjust the annualised cost for inflation, we do not support the approach of using a GDP deflator.

[Data from the ONS shows that](#) monthly real gross domestic product (GDP) is estimated to have grown by 0.1% in November 2022, following growth of 0.5% in October 2022. By contrast, the [Consumer Price Index including owner occupiers' housing costs \(CPIH\)](#) rose by 9.3% in November 2022, following a rise of 9.6% in October 2022.

The costs associated with the delivery of ECO, such as construction materials, are more closely linked to the CPIH rate of inflation than GDP. Ofgem should therefore review its approach, and use a CPIH deflator instead of GDP to adjust for the annualised cost of



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inflation. This is Ofgem's standard practice, and it will ensure that the cap allowance is keeping pace with growing costs.

**For more information**

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