



Making a positive difference
for energy consumers

To all market participants and
interested parties

Email: RetailPriceRegulation@ofgem.gov.uk

Date: 26 May 2023

Default Tariff Cap update from 1 July 2023

Dear colleagues,

Today we have published the updated cap levels for charge restriction period ("cap period") 10b, covering the three months from 1 July 2023 to 30 September 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 prices in 2022, the Government announced the Energy Price Guarantee (EPG) which came into effect on 1 October 2022. Since then, the EPG has protected consumers, reducing the unit cost of electricity and gas so that a typical dual fuel direct debit bill for a domestic consumer reaches a target level. From 1 July 2023, the price cap level will fall below the level of the EPG protection set by government. This means that the Price Cap set by Ofgem and not the EPG will once again set the maximum price³ for domestic consumers paying by Direct Debit and standard credit on default tariffs. The EPG remains in effect at a level of £3,000 until April 2024 and will therefore continue to offer protection to consumers in the event that future price caps increase above this level.

In the Spring Statement⁴ the Chancellor announced that the EPG will provide further help to customers who pay by prepayment meters, to mitigate the higher prices they pay compared to a typical Direct Debit customer. EPG discount rates for prepayment customers from 1 July 2023 will shortly be published by the Department for Energy Security and Net Zero (DESNZ).

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 (Regulation (EU) 2016/11 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds) 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 price cap sets maximum prices, not maximum bills. For an individual customer, the amount they will pay under the price cap varies depending on how much energy they use.

⁴ The Spring Statement refers to the Announcement from the Chancellor which can be found [here](#).

Default Tariff Cap

The level of the dual fuel, direct debit cap^{5,6} for cap period 10b (1 July 2023 to 30 September 2023) has reduced by 37% since the last update. From 1 July 2023, the level of the cap will decrease to £2,074. This will also be a decrease of £426 or 17% compared to the current EPG level (£2,500) for the April to June 2023 period.^{7,8} For electricity only customers on Economy 7 meters, the direct debit cap level has decreased to £1,400 (39% decrease since the last update).

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** – The wholesale cost allowance has more than halved from £2,170 to £1,051 (decrease of £1,119 or 52%). Wholesale gas and electricity prices have been in steady decline over the past few months, as winter came to an end with high amounts of gas still in European storage thanks to a mild winter and reduced demand across the continent. With gas storage remaining so high and significant imported shipments of liquified natural gas (LNG) still arriving, there is high confidence that gas storage will be refilled in time for next winter even with Russian gas flows remaining very low. However, though prices have fallen dramatically from the peaks seen in 2022, they are still over twice as high as historic averages. This is because without the historic Russian pipeline supply to Europe there are still globally tight margins between gas supply and demand, especially when considering the risks for next winter.
- **Contract for Difference (CfD)** – CfD costs (included within wholesale costs) for this period have increased from -£54 to £10 (increase of £64) compared to cap period 10a (1 April 2023 – 30 June 2023). This increase in CfD costs reflects the supplier payments now occurring due to decreasing power prices.
- **Networks costs** – Networks costs have increased marginally from £388 to £394 (increase of £6). This is driven by changes in the cost of balancing the electricity system and is due to the transition to the recovery of these costs on an ex-ante basis rather than ex-post.
- **Renewable Obligation (RO) Ringfencing** – Our decision on strengthening financial resilience⁹ includes a requirement for suppliers to ringfence their RO

⁵ The level of the cap shown is for a dual fuel, direct debit customer, calculated using the 2019 Typical Domestic Consumption Values (TDCVs). All values rounded to the nearest £.

⁶ From 1 April 2020, Ofgem has been using the 2019 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. Today we have published the latest 2023 TDCVs, which will come into effect from 1 October 2023. We will use these new TDCVs in our August price cap announcement with the 2019 TDCVs included for comparability.

⁷ 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.

⁸ 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.

⁹ Ofgem 2023, Decision on Strengthening Financial Resilience. [Financial Resilience and Controls - Decision on Strengthening Financial Resilience | Ofgem](#)

liability attributable to domestic supply beginning in scheme year 2023/24. It comes into effect from 1 July 2023, with the first requirement due in Q2. The costs associated with this are allowed for in the cap level and results in an annualised increase of £8. However, we consider it is in the best long term interests of consumers that payments they have made towards this scheme are recoverable in the event of supplier failure.

Changes in the components making up the direct debit level of the previous cap update (Cap Period 10a) and forthcoming cap period (Cap Period 10b) (shown for dual fuel) is shown in Figure 1 below:¹⁰

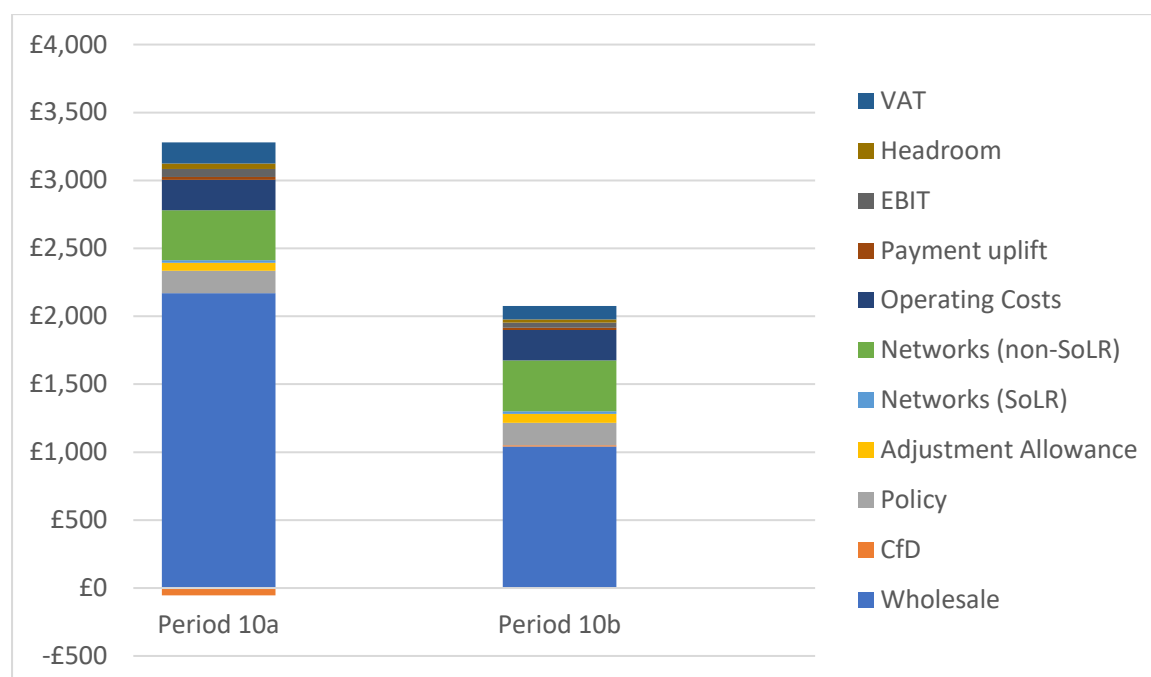


Figure 1: Breakdown of the previous and current Default Tariff Cap components, direct debit, dual fuel

Other payment methods

The standard credit cap level has also decreased and will be £2,211 (£1,270 decrease) for the reasons set out above. Customers who pay by standard credit (cash or cheque) pay an additional £137 compared to direct debit; this is a reduction of £65 compared to the previous update. For electricity only customers on Economy 7 meters, the standard credit cap level has decreased to £1,488 (£929 decrease), an additional £88 compared to direct debit.

The prepayment meter (PPM) cap level has also decreased and will be £2,077 (£1,247 decrease). Customers on prepayment meters pay an additional £3 compared to direct debit customers. This is primarily based on the higher cost for suppliers to serve them in comparison to customers paying by direct debit. For electricity only customers on Economy 7 meters, the PPM cap level has decreased to £1,385 (£878 decrease), £15 less than direct debit. This is primarily driven by the Adjustment Allowance being £38 for direct debit E7 customers whereas it is £15 for PPM E7 customers. This is because the additional wholesale cost adjustment from our August 2022 decision, was only included

¹⁰All 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 £.

for non-PPM customers.¹¹ In our February 2023 COVID-19 true-up decision, we also did not set a COVID-19 true-up allowance for PPM customers, given evidence that any debt they hold was typically accrued on credit meters.¹²

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) contract terms. 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

¹¹ Ofgem (2022), Decision on possible wholesale cost adjustment.

[Price Cap – Decision on possible wholesale cost adjustment | Ofgem](#)

¹² Ofgem (2023), Decision on the true-up process for COVID-19 costs.

[Price Cap – Decision on the true-up process for COVID-19 costs | Ofgem](#)

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 10a (April 23 – June 23)	Period 10b (Jul 23 – Sept 23)
Wholesale	£2,170	£1,051
<i>of which CfD</i>	-£54	£10
Policy	£165	£165
Adjustment allowance ¹³	£58	£66
Networks	£388	£394
<i>of which SoLR</i>	£19	£19
<i>of which non-SoLR</i>	£369	£375
Operating costs	£223	£223
Payment uplift	£22	£17
EBIT	£59	£37
Headroom	£39	£23
VAT	£156	£99
Total	£3,280	£2,074

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

Cap level	Period 10a (Apr 23 – June 23)	Period 10b (July 23 – Sept 23)
Direct Debit	£3,280	£2,074
Standard Credit	£3,482	£2,211
Prepayment	£3,325	£2,077
Economy 7 (DD at 4,200 kWh)	£2,282	£1,400

¹³ 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 10b (1 July 2023 to 30 September 2023). This table includes VAT.

Charge Restriction Region	Single Rate Electricity (2900 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£1,056	£1,008	£2,064
Northern	£1,057	£998	£2,055
Yorkshire	£1,052	£999	£2,051
Northern Scotland	£1,084	£1,002	£2,086
Southern	£1,060	£1,019	£2,079
Southern Scotland	£1,085	£1,002	£ 2,087
N Wales and Mersey	£1,127	£1,012	£2,139
London	£1,044	£1,008	£2,052
South East	£1,068	£1,011	£2,079
Eastern	£1,050	£994	£2,044
East Midlands	£1,039	£992	£2,030
Midlands	£1,056	£998	£2,054
Southern Western	£1,081	£1,032	£2,113
South Wales	£1,073	£1,026	£2,099
GB average	£1,067	£1,007	£2,074

Annex 4 - Regional breakdown of the dual fuel, PPM Default Tariff Cap for cap period 10b (1 July 2023 to 30 September 2023). This table includes VAT.

Charge Restriction Region	Single Rate Electricity (2900 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£1,044	£ 1,021	£2,065
Northern	£1,046	£ 1,015	£2,061
Yorkshire	£1,040	£ 1,016	£2,056
Northern Scotland	£1,073	£ 1,017	£2,090
Southern	£1,048	£ 1,034	£2,082
Southern Scotland	£1,073	£ 1,017	£2,091
N Wales and Mersey	£1,115	£ 1,023	£2,138
London	£1,032	£ 1,023	£2,055
South East	£1,056	£ 1,025	£2,081
Eastern	£1,038	£ 1,014	£2,052
East Midlands	£1,027	£ 1,008	£2,035
Midlands	£1,044	£ 1,011	£2,055
Southern Western	£1,069	£ 1,054	£2,123
South Wales	£1,061	£ 1,038	£2,099
GB average	£1,055	1,023	£2,077

Annex 5 - Regional breakdown of the dual fuel, standard credit Default Tariff Cap for cap period 10b (1 July 2023 to 30 September 2023). This table includes VAT.

Charge Restriction Region	Single Rate Electricity (2900 kWh consumption)	Gas (12000 kWh consumption)	Dual Fuel
North West	£1,126	£1,075	£2,201
Northern	£1,127	£1,065	£2,192
Yorkshire	£1,121	£1,066	£2,187
Northern Scotland	£1,156	£1,069	£2,224
Southern	£1,130	£1,087	£2,217
Southern Scotland	£1,157	£1,069	£2,226
N Wales and Mersey	£1,201	£1,079	£2,280
London	£1,113	£1,075	£2,188
South East	£1,139	£1,078	£2,217
Eastern	£1,120	£1,061	£2,180
East Midlands	£1,108	£1,058	£2,166
Midlands	£1,125	£1,065	£2,190
Southern Western	£1,152	£1,100	£2,253
South Wales	£1,144	£1,094	£2,238
GB average	£1,137	£ 1,074	£2,211

Annex 6 - Regional breakdown of multi-register metering arrangement over different payment methods for cap period 10b (1 July 2023 to 30 September 2023). This table includes VAT.

Charge Restriction Region for Multi Register Electricity (4200 kWh consumption)	Direct Debit	Standard Credit	PPM
North West	£1,386	£1,473	£1,371
Northern	£1,385	£1,472	£1,370
Yorkshire	£1,382	£1,468	£1,367
Northern Scotland	£1,419	£1,508	£1,404
Southern	£1,395	£1,482	£1,379
Southern Scotland	£1,415	£1,503	£1,399
N Wales and Mersey	£1,468	£1,559	£1,452
London	£1,384	£1,471	£1,368
South East	£1,405	£1,493	£1,390
Eastern	£1,387	£1,474	£1,371
East Midlands	£1,370	£1,456	£1,355
Midlands	£1,388	£1,475	£1,373
Southern Western	£1,411	£1,499	£1,395
South Wales	£1,407	£1,495	£1,391
GB average	£1,400	£1,488	£1,385

