

Over50smoney Response to EBIT Consultation – 03 January 2023

<p><i>Question 1: Are there any issues we should consider in relation to our proposed 1 July 2023 implementation?</i></p>	<p>Yes, please consider the following points:</p> <ul style="list-style-type: none"> • The increase in the number of consumers on SVTs compared to Summer 2021 figures • How the MSC and BAT have stopped removed competition in the market, removing incentives for suppliers to manage costs efficiently • Significant support has already been provided to suppliers by Ofgem policy changes during 2022, as we begin to exit the energy crisis Ofgem support needs to be given back to consumers • Public money is being wasted through the EPG to pay for excessive supplier profits
<p><i>Question 2: Do you agree with our assessment on the case for change?</i></p>	<p>Yes, so long as the other risk-mitigating policy changes are taken into consideration, meaning that the EBIT formula change should be reviewed without taking into account increased risks to suppliers, which have been dealt with through other consultations and policies.</p>
<p><i>Question 3: Do you agree with our proposal to include fixed assets as a component of capital employed and the suggested level?</i></p>	<p>No. Including fixed assets as part of capital employed would increase the percentage of the EBIT margin. Suppliers receive depreciation and amortisation allowances, which eventually recoups a fair amount of the initial capital investment.</p> <p>We oppose any change that results in an increase in EBIT. However, we'd have no problems with including fixed assets as part of capital employed if the hybrid model proposed in our response to question 17 is employed.</p>
<p><i>Question 4: Do you agree that our estimate of fixed assets for a notional supplier is representative of current market conditions?</i></p>	<p>No, a more detailed explanation of how £85 per customer has been reached is needed. Why is the assumed lifetime 6 years? What are the exact depreciation and amortisation figures? How does this relate to the number of customers on SVTs and how that will change over time? Are the reported depreciation schedules for fixed assets available for review online?</p>
<p><i>Question 5: What do you see as the minimum level of working capital required for a supplier to be able to operate and which method should we use to set it?</i></p>	<p>N/A</p>
<p><i>Question 6: How can the relationship between wholesale prices and their volatility, and working capital be quantified?</i></p>	<p>N/A</p>

<p><i>Question 7: Do you agree with our proposal to include wholesale cost volatility and unexpected demand shock as key drivers of volume risk when calculating suppliers' risk capital requirements?</i></p>	<p>We oppose any change that results in an increase in EBIT.</p>
<p><i>Question 8: Do you agree with our assessment that backwardation, bad debt, and shaping and imbalances costs are accounted for in the existing cap allowances and that their inclusion within the EBIT allowance could lead to double counting?</i></p>	<p>Yes.</p>
<p><i>Question 9: Do you propose an alternative approach for measuring risk capital which is preferable to the approach we describe in this section and Appendix 1? In your approach, how do you model the relationship between wholesale price volatility and risk capital under stress test scenarios?</i></p>	<p>N/A</p>
<p><i>Question 10: Do you have a view on a preferred approach with regards to the treatment of collateral under the cap?</i></p>	<p>N/A</p>
<p><i>Question 11: How are the collateral requirements calculated? Is it possible to quantify the relationship between collateral, wholesale prices and volatility?</i></p>	<p>N/A</p>
<p><i>Question 12: Do the wholesale collateral requirements mechanisms differ for trading on exchange vs trading over-the-counter?</i></p>	<p>N/A</p>

Question 13: Does posting collateral affect the level of risk capital employed?	N/A
Question 14: Should the cost of capital allowance compensate for inflation risk? If so, how?	N/A
Question 15: Do you have a strong preference between setting the risk-free rate using recent data, forward rates or recent data but with indexation?	No
Question 16: Should the tax rate be updated? If yes, how frequently?	N/A
Question 17: Do you agree that a hybrid approach strikes an appropriate balance between cost reflectivity and simplicity? Do you agree that it is the most appropriate approach to implement in practice?	<p>Yes and no. We agree with a hybrid approach being adopted but the proposed hybrid suffers the same problems that the current fixed percentage model does, it rewards energy suppliers with higher profits when costs are high, disincentivising suppliers from becoming more efficient and lowering costs. Having a linear model between EBIT and the Price Cap pits the supplier against the customers; suppliers will want higher costs so they can charge more for profit (as all costs get passed onto the customer anyway) and customers will want lower costs but can't control how the supplier sets the prices. The proposed hybrid model will not benefit consumers and more than the current fixed percentage model.</p> <p>We propose a hybrid model that rewards energy suppliers for working to lower costs, providing a normal relationship between cost and profit, i.e. lower costs = higher profits.</p> <p>To achieve this, we suggest looking at a hybrid model with a high fixed element that is reduced by a fixed percentage of costs. This means that suppliers would receive more profit per customer when costs are lower, and suppliers will struggle during a crisis along with the consumers. It puts the customer and supplier on the same side.</p>
Question 18: Do you agree that fixed assets and potentially RO ringfencing should be considered as part of the fixed components?	Yes

<i>Which other components may be fixed?</i>	
<i>Question 19: Should the EBIT calculation include a component that adjusts based on market volatility? How could such an approach be quantified and implemented?</i>	No
<i>Question 20: Do you agree that Ofgem should not schedule periodic reviews for the EBIT allowance methodology? If you disagree, how frequent should those reviews be?</i>	No, we do not agree with this. Annual reviews would be appropriate to ensure market conditions allow for fair profit levels without abusing the consumer.
<i>Question 21: Do you agree with the conditions we identified as constituting significant changes to the context in which suppliers operate? Are there any other conditions that should be included?</i>	Yes.
<i>Question 22: Do you agree with our proposal to apply the EBIT allowance in a way that does not change the ratio of standing charges to unit charges?</i>	Yes.