Sent via email: RetailPriceRegulation@ofgem.gov.uk
Sent by: Nicola.meyrick@ecotricity.co.uk

Ecotricity Group Ltd
Lion House
Rowcroft
Stroud
GL5 3BY

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Ecotricity Response to Amending the Methodology for setting the EBIT Allowance

Dear Colleague

Ecotricity were the world's first green energy company when we established in 1995 and we now have over 165k domestic and non-domestic supply accounts, alongside over 100MW of self-developed renewable generation capacity. We continue to invest in new sources of renewable generation, with two new solar parks recently commissioned, our first green gas mill due to be commissioned imminently and an energy storage site currently under construction.

We welcome the continued engagement from Ofgem on this topic and note the amendments introduced throughout the consultation process to date.

As detailed in our previous response we fundamentally agree with the case for change and in turn the need for a review of the EBIT component of the price cap. The change in market dynamics and subsequent risk profile has created a shift in the outlook for suppliers when considered against the outlook when the EBIT methodology was initially developed.

In line with a review of EBIT, we would also support a wider review of the methodologies of other cap components. The evolving market picture, coupled with policy changes since the framework and calculation methodologies were first employed, will impact the operation of energy suppliers and as such needs to be adequately reflected within the calculations; we note that this is under consideration from Ofgem and would welcome engagement, particularly around how each component review will align to ensure that any subsequent amendments do not adversely impact other changes.

The EBIT calculation needs to remain responsive to both increases and drops in the wholesale price and therefore agree that there should be regular review of both the methodology and output. This will ensure that cost to the end consumer remains at a minimum and reflective of the market. It is important the regularity of review does not create ongoing logistical challenges and as such we would continue to propose that anything more regular than bi-annual would be a challenge.

Whilst we appreciate that there has been progressive movement throughout the consultation process, we still foresee that the proposed method of adoption could lead to inequity between suppliers. As an example, as a vertically integrated business, utilising a figure of £90 per meter for fixed assets remains low based on our internal analysis.

Further to this, the estimation of working capital has been determined based on a non-vertically integrated supplier, as such, does not account for wider Group costs associated with those suppliers that are vertically integrated. Cost elements such as bad debt remain a topic of debate, however we understand the reason for exclusion from the working capital equation to mitigate any potential double counting; that said we would stress the need to fully consider the evolving impact of costs such as this within any wider cap review.

We appreciate that estimating collateral values is not easy given the non-linear relationship between wholesale market conditions and counterparty requirements; as such we are minded to agree with the approach as outlined. For reference we have seen no short-term material changes to our collateral requirements.

On this basis of the points highlighted above we continue to encourage that consideration is paid to how the EBIT calculation methodology could be adapted to account for differentiations between suppliers, to ensure that there is a level playing field and a continued competitive market.

We welcome collaborative engagement with Ofgem and would be happy to discuss any of the material within our response in more detail.

Sent on behalf of the Ecotricity team