



Making a positive difference
for energy consumers

To all market participants and
interested parties

Email: RetailPriceRegulation@ofgem.gov.uk

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Energy price cap (default tariff) update from 1 January 2024

Dear colleagues,

Today we have published the updated cap levels for charge restriction period ("cap period") 11b, covering the three months from 1 January 2024 to 31 March 2024.¹ Alongside the cap levels we have also published the updated versions of the cost allowance models / annexes. All figures in this letter reflect the latest (2023) Typical Domestic Consumption Values (TDCV)².

Energy price cap (default tariff)

The level of the dual fuel, direct debit cap³, for cap period 11b (1 January 2024 to 31 March 2024) will increase to £1,928 for a typical customer. This represents an increase of £94 (5%) compared to the previous level (1 October 2023 to 31 December 2023). For electricity only customers on Economy 7 meters, the direct debit cap level will increase to £1,272 which is an increase of £53 (4%) compared to the previous level.

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 increased from £898 to £985. In August and early September wholesale prices increased due to concerns about prolonged Norwegian gas outages and possible strikes at Australian gas export facilities. After this subsided, damage to a gas interconnector in the Baltic Sea and the outbreak of conflict in the Middle East in October caused a sudden price rise due to the potential disruptions that war and sabotage could cause for

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 [Decision for Typical Domestic Consumption Values 2023 | Ofgem](#)

³ The level of the cap shown is for a dual fuel, direct debit customer, calculated using the 2023 Typical Domestic Consumption Values (TDCVs). All values are rounded to the nearest £.

global gas supplies. Prices remain much lower than the record highs seen in 2022, but the wholesale market for gas remains volatile.

- In line with our previous policy decision on changes to the wholesale methodology,⁴ wholesale costs (Direct Fuel and Backwardation) and CfD costs have been updated. Costs that scale with the overall level of the price cap such as Payment method uplift, EBIT and Headroom have also updated. All other cap components have remained the same as October 2023.⁵

Figure 1 below shows the changes in the components making up the direct debit level of the current cap update (Cap Period 11a) and forthcoming cap period coming into effect on 1 January 2024 (Cap Period 11b) (shown for dual fuel):⁶

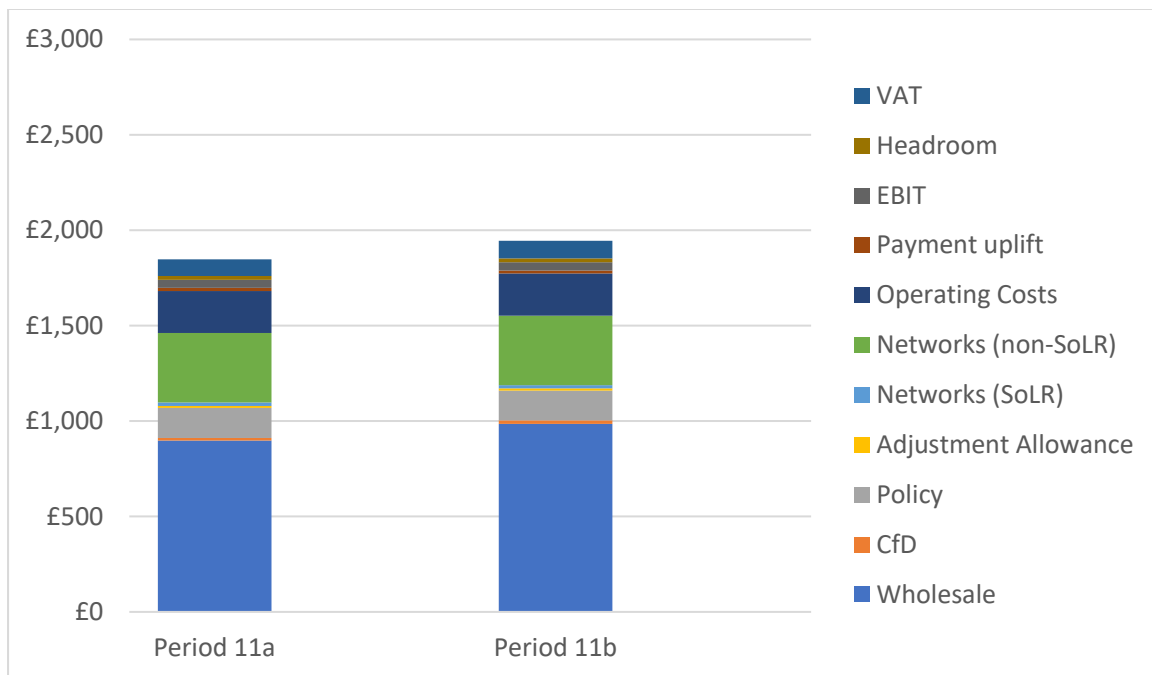


Figure 1: Breakdown of the previous and current Energy Price Cap components, direct debit, dual fuel

Other payment methods

From 1 January 2024, the standard credit cap level will also increase and will be £2,058, a £99 (5%) increase compared to the previous level for the reasons set out above. Customers who pay by standard credit (cash or cheque) will pay an additional £130 compared to those who pay by direct debit for the forthcoming cap period. For electricity only customers on Economy 7 meters, the standard credit cap level will increase to £1,352 (a £55 (4%) increase compared to the previous level). This is an additional £81 compared to paying by direct debit for the forthcoming period.

⁴Ofgem (2022), Price Cap – Decision on changes to the wholesale methodology, <https://www.ofgem.gov.uk/publications/price-cap-decision-changes-wholesale-methodology>

⁵Please see previous default tariff cap update letter for further information on the cap components that have not been updated in this announcement - <https://www.ofgem.gov.uk/publications/energy-price-cap-default-tariff-1-october-31-december-2023>

⁶All values shown are for a dual fuel, direct debit customer, calculated using the current Typical Domestic Consumption Values (TDCVs). All values rounded to the nearest £.

The prepayment meter (PPM) cap level will also increase and will be £1960, a £99 (5%) increase compared to the previous level. The PPM cap level will be £32 higher compared to direct debit cap level. 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 will increase to £1,283 (a £52 (4%) increase compared to the previous level), which means they'll pay £11 more compared to paying by direct debit.

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 fell below the level of the EPG set by government and the cap level announced today remains below the EPG. This means that from 1 January – 31 March 2024, it will continue to be the Price Cap set by Ofgem and not the EPG that determines the maximum price⁷ for domestic consumers paying by Direct Debit and standard credit on default tariffs.

In the Spring Statement⁸ the Chancellor announced that the EPG will provide further help to customers who pay by prepayment meters, from 1 July 2023, to mitigate the higher prices they pay compared to a typical Direct Debit customer. Customers on prepayment meters will continue to receive EPG support to address this cost differential until 31 March 2024, ahead of longer-term measures Ofgem are considering. The EPG prepayment meter 'levelisation' support rates will shortly be published by the Department for Energy Security and Net Zero (DESNZ).

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 EPG scheme. 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

⁷ 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.

⁸ The Spring Statement refers to the Announcement from the Chancellor which can be found [here](#).

Annex

All bill values presented in this document are calculated using the current Typical Domestic Consumption Values (TDCVs), 2,700kWh for electricity, 11,500 kWh for gas and 3,900 kWh for multi-register meters, such as Economy 7 customers. All values are rounded to the nearest £.

Annex 1 – Breakdown of Energy Price Cap components, direct debit, dual fuel.

Cost component	Period 11a (Oct 23 – Dec 23)	Period 11b (Jan 24 – March 24)
Wholesale	£898	£985
<i>of which CfD</i>	£14	£16
Policy	£157	£157
Adjustment allowance ⁹	£11	£11
Networks	£381	£381
<i>of which SoLR</i>	£18	£18
<i>of which non-SoLR</i>	£363	£363
Operating costs ¹⁰	£221	£221
Payment uplift	£16	£16
EBIT	£42	£43
Headroom	£20	£21
VAT	£87	£91
Total	£1,834	£1,928

Annex 2 – Changes to the Energy Price Cap split by payment method and meter type.

Cap level	Period 11a (Oct 23 – Dec 23)	Period 11b (Jan 24 – March 24)
Direct Debit	£1,834	£1,928
Standard Credit	£1,959	£2,058
Prepayment	£1,861	£1,960
Economy 7 (DD at 3,900 kWh)	£1,219	£1,272

⁹ An allowance covering bespoke adjustments to the Energy Price Cap. For cap period 11a and 11b this includes costs related to additional debt-related costs during COVID-19.

¹⁰ Includes costs associated with the roll out of Smart meters