Consultation

Making a positive difference for energy consumers

Energy price cap wholesale costs review

Publication date:	15 December 2023
Response deadline:	17 January 2024
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We are seeking views on our minded-to position of making no adjustment to the price cap for wholesale costs incurred between October 2022 and September 2023.

We also ask for initial thoughts to help inform the scope of future reviews relevant to the wholesale allowances. Finally, we are also consulting on minor technical changes to the structure of Annex 2, to improve the transparency of the demand weightings used to inform the backwardation allowance, and to account for a change of inputs used in the Capacity Market Cost Allowance Methodology.

We welcome views from all stakeholders with an interest in the domestic retail energy supply market, including consumer groups, charities and suppliers, on any of the proposals and considerations set out in this consultation.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

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Executive Summary

We introduced the default tariff cap ('cap') on 1 January 2019 to protect households on standard variable and default tariffs (which we refer to collectively as 'default tariffs'). The cap ensures that default tariff customers pay a price for their energy that reflects its reasonable underlying costs. Customers who are disengaged or in vulnerable situations have been more likely to be on default tariffs than customers in general, so the cap plays a particular role in protecting these customers.

Allowances in the cap are set ahead of time (ex-ante). We make after the fact (ex-post) adjustments to allowances if we identify that in previous cap periods there were material and systematic differences between allowances and efficient costs. In this review, we have considered wholesale costs incurred between October 2022 and September 2023. We conclude that these costs did not systematically differ from the allowances available under the price cap methodology. As a result, we do not propose to make any adjustment to the level of the cap.

Data on total wholesale costs between October 2022 and September 2023, collected from 11 suppliers representing 96% of the retail market, show a wide variety of wholesale costs relative to allowances. Some suppliers appear to have experienced costs below the level assumed in the cap, while others experienced higher costs.

Much of the divergence occurred over the two winter cap periods (October 2022 to March 2023). During these periods customers faced unprecedently high energy bills and average temperatures were higher than seasonal norms, making it difficult for suppliers to forecast customer demand. The move to a quarterly cap also meant suppliers had to adapt their hedging strategies with the supply of the contracts needed to execute those strategies, such as quarterly and peak power products, potentially limited. In the face of these challenging conditions, suppliers had to make choices about the optimal way to manage these various and competing risks.

It is our judgement that the variation in supplier wholesale cost outcomes relative to allowances principally reflects the impact of these choices. As a result, we do not consider there to be evidence of systematic factors outside suppliers' control driving consistent under or over-recovery during this period. **We therefore propose to not make an adjustment to the cap to reflect differences between wholesale costs and allowances between October 2022 and September 2023.**

During the consultation process to date, some stakeholders raised concerns about the prospect of an ex-post downward adjustment to the cap. We agree that different considerations apply to downward adjustments compared to upward adjustments. Ex-

post adjustments in either direction risk altering suppliers' incentives in ways that are detrimental to customers over time. However, suppliers can choose to price below the cap. Ex-post downward adjustments could reduce the incentives for suppliers to do this, with potential impacts on customers and competition.

We will continue to consider the case for adjustments where material and systematic differences between costs and allowances are identified. However, one key driver of such differences, price volatility, has diminished as markets have calmed relative to recent highs. Additionally, as supplier financial resilience improves due to market reforms or otherwise, and therefore the cost of supplier failures reduces, then adjustments are less likely to be in customers' interests. Taken together we currently do not expect the frequency of adjustments seen over the last two years to continue.

In this document we also introduce a range of topics which could be covered by future reviews of the wholesale allowances. We encourage stakeholders to provide initial views on these topics, including whether they cover the correct set of priorities. More generally we welcome thoughts from stakeholders on the detail of what they would like future wholesale reviews to cover over the medium term.

Finally, we are also consulting on minor technical changes to the structure of the Annex 2 model, to improve the transparency of the demand weightings used to inform the backwardation allowance, and to account for a change of inputs used in the Capacity Market Cost Allowance Methodology.

We have decided not to cover questions related to the recovery period for backwardation costs in this consultation. The choice of recovery period will instead be included as part of our medium-term plans to review the enduring wholesale cost allowances.

We welcome stakeholders' views on these positions, with responses requested by 17 January 2024. If, following consideration of stakeholder submissions, our position on the case for an adjustment remains unchanged, we will publish a decision document in early 2024 confirming that no wholesale cost adjustment will be made.

1. Consultation process and next steps

Consultation purpose and structure

1.1 We are seeking views on our position of making no adjustment to future cap periods to account for any difference between wholesale allowances and wholesale costs between October 2022 to September 2023 (cap period 9a to 10b).

1.2 Additionally, we seek early stakeholder views on planned reviews of the enduring wholesale allowances, evaluation of the move to a quarterly price cap and the implication of market-wide half hour settlement (MHHS) for the wholesale allowances.

1.3 Finally, we also seek stakeholder feedback on minor technical changes to the structure of the Annex 2 - 'the wholesale cost allowance methodology' model. These are set out in Appendix 4 of this document.

1.4 This document is split into five chapters:

- Chapter 1: Consultation process
- Chapter 2: Introduction
- Chapter 3: Framework for considering an adjustment
- Chapter 4: Wholesale allowance adjustment
- Chapter 5: Next steps

Consultation stages

1.5 To date we have published an open letter, an update letter, issued a Request for Information (RFI) with additional guidance and completed a 'putback' exercise:

- July 2023
  - Open letter - outlining the case and scope for this review.
  - Draft RFI – sent to all in scope suppliers for comment.
- August 2023
  - Final RFI – used to gather information and data required to conduct this review. Further guidance also provided to suppliers.
- October 2023
  - Update letter – provided updated timings for the review and asked for feedback on questions related to identifying systematic costs.

- Calculation 'putback' process – shared with each supplier our calculation of allowances relative to their costs, providing an opportunity to comment on our analysis and interpretation of their data.

1.6 Following consideration of response to this consultation, should our minded-to position remain unchanged we will seek to publish a short decision document confirming this in early 2024. If we decide not to make a decision in line with our minded-to position we will undertake a new consultation on a different minded-to position. Under this scenario, any changes to the price cap will, at the very earliest, be made as part of the update for the July to September 2024 cap period.

Related publications

1.7 The main general documents relating to the cap are:

- Domestic Gas and Electricity (Tariff Cap) Act 2018: https://www.legislation.gov.uk/ukpga/2018/21
- 2018 decision on the cap methodology ('2018 decision'): https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview
- Energy Prices Act 2022: https://www.legislation.gov.uk/ukpga/2022/4

1.8 The main documents relating to this publication are:

- August 2022 decision on changes to the wholesale methodology: https://www.ofgem.gov.uk/publications/price-cap-decision-changes-wholesale-methodology
- April 2023 update to the price cap programme of work: https://www.ofgem.gov.uk/publications/price-cap-programme-work-update
- July 2023 CEO letter on changes in the energy supply market and Ofgem's approach to regulation: https://www.ofgem.gov.uk/publications/changes-energy-supply-market-and-ofgems-approach-regulation
- July 2023 open letter on reviewing additional wholesale costs: https://www.ofgem.gov.uk/publications/price-cap-open-letter-reviewing-additional-wholesale-costs

- October 2023 update letter on reviewing additional wholesale costs: https://www.ofgem.gov.uk/publications/price-cap-update-reviewing-additional-wholesale-costs
- December 2023 Call for input on power market liquidity: https://www.ofgem.gov.uk/publications/call-input-power-market-liquidity

How to respond

1.9 Please send your response to priceprotectionpolicy@ofgem.gov.uk **by close of business on 17 January 2024.**

1.10 We've asked for your feedback on each of the questions throughout. Please respond to each one as fully as you can.

1.11 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.12 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.13 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.14 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.15 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we

receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

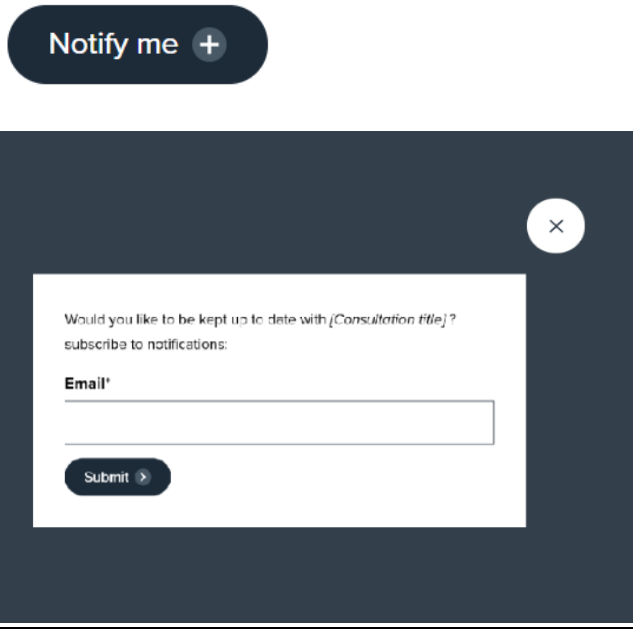
1.16 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Introduction

Section summary

This chapter provides context on the default tariff cap and the wholesale allowances provided under the cap. It explains the motivation for and scope of the consultation, sets out the statutory framework, and provides a high-level summary of the engagement we have undertaken with market participants.

What are we consulting on?

The default tariff cap

2.1 The cap was introduced on 1 January 2019 and protects existing and future domestic customers on standard variable and default tariffs, ensuring that customers pay a fair price for their energy that reflects the efficient underlying cost to supply that energy. The cap is set under the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the 'Act').[1]

The issue

2.2 Following continued and unusually high volatility in wholesale prices over the past year, we wished to examine whether suppliers experienced material and systematically different wholesale costs compared to the allowances designed to allow suppliers to recover those costs, and consequently whether an adjustment to future cap periods to account for those differences was required.

2.3 While indicated as in scope of this review in our previous open letters, this consultation does not cover the topic of whether the current six-month recovery period for backwardation costs should be changed. This will instead form part of a future review of the enduring wholesale allowances.

Context

Wholesale cost allowances in the cap

2.4 Wholesale costs are the costs to suppliers of buying the energy needed to meet customer demand and are the largest single contributor to customers' bills. Our assessment of wholesale costs in the cap includes the following allowances:

[1] Domestic Gas and Electricity (Tariff Cap) Act 2018. https://www.legislation.gov.uk/ukpga/2018/21

- **Core direct fuel allowance**: we estimate the majority of wholesale costs based on forward contracts for electricity and gas. We measure the prices of these contracts over a period of time before a cap period, which we refer to as an observation window.
- **Additional direct fuel allowances**: we uplift the core direct fuel allowance by an additional set percentage. This set percentage is based on:
    - *Shaping and imbalance costs:* costs of converting less granular forward contracts to more granular contracts closer to delivery, forecast error and imbalance.
    - *Transaction costs*: costs incurred by suppliers when they trade energy.
    - *Additional risk and uncertainty*: set at 1% of direct fuel costs and reflect uncertainty and volatility in market.
    - *Unidentified gas (UIG) and Electricity transmission losses.*

2.5 We calculate and update the core direct fuel allowance each time we update the cap. The additional direct fuel allowances are applied as a fixed percentage uplift to direct fuel costs, rather than recalculated.

2.6 At the time we introduced the cap, we estimated the costs associated with shaping, forecast error and imbalance costs, based on historical cost data. We set out more detail on how we calculated these additional direct fuel allowances in Appendix 4 to our 2018 decision.[2]

Previous adjustments to wholesale cost allowances

2.7 We have previously made two temporary adjustments to recognise increased wholesale costs:

- In our February 2022 wholesale decision, we made an adjustment for increased wholesale costs during cap period 7 (October 2021 to March

[2] Ofgem (2018), Default tariff cap: Decision – overview. Appendix 4 – Wholesale. https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview

2022).[3] This adjustment resulted in a cap level increase of £61 per dual fuel customer at benchmark consumption.[4]

- In our August 2022 wholesale adjustment decision, we made an adjustment for increased wholesale costs during cap period 8 (April to September 2022).[5] This adjustment resulted in a cap level increase of £41 per dual fuel customer at benchmark consumption.

2.8 These adjustments covered three areas:

- Both adjustments included unexpected standard variable tariff (SVT) demand costs. Suppliers incur these costs when more customers than expected move to or remain on SVTs, to the extent that they need to buy additional energy at a cost above the cap wholesale allowance.
- The February 2022 wholesale decision additionally included an adjustment for shaping and imbalance costs for electricity being above the allowance in the cap. Suppliers incur shaping and imbalance costs from refining their hedged positions to meet customers' demand.
- The February 2022 wholesale decision also included an adjustment for backwardation costs. However, we have since changed the cap methodology to include backwardation costs on an ongoing basis.

2.9 These previous adjustments were significant interventions at a time of intense market volatility. We made these adjustments following careful consideration of prevailing circumstances at the time, and with an emphasis on improving resilience in the market.

Motivation for current review

2.10 In our April price cap programme of work update, we signalled that, following a delay to the wider wholesale cost review, we would consider carrying out a short-term review of wholesale costs by winter 23/24. The intention was that such a

[3] Ofgem (2022), Price Cap – Decision on the potential impact of increased wholesale volatility on the default tariff cap. https://www.ofgem.gov.uk/publications/price-cap-decision-potential-impact-increased-wholesale-volatility-default-tariff-cap

[4] We use the term benchmark consumption to refer to the average annual consumption values we use when setting the cap (3,100kWh for single rate electricity and 12,000kWh for gas).

[5] Ofgem (2022), Price Cap - Decision on possible wholesale cost adjustment. https://www.ofgem.gov.uk/publications/price-cap-decision-possible-wholesale-cost-adjustment

review could consider whether wholesale costs incurred over winter 22/23 were materially and systematically different to the allowances.[6]

2.11 On 4 July 2023, we published an open letter on changes in the energy supply market. As part of this letter, we set out that we expected the sector to move into profit this year. As this happens, we highlighted that we would continue to monitor and adjust the cap to ensure it continues to protect customers and reflects the efficient costs of supply. We said we would examine areas where risks that led to increased costs in 2022 may contribute to a benefit in 2023.[7]

2.12 In the context of this wider motivation, the open letter on additional wholesale costs, published on 18 July 2023, set out several specific reasons why wholesale costs may have differed from allowances over the cap periods 9a to 10b (October 2022 – September 2023). For periods 9a (October 2022 – December 2022) and 9b (January 2023 – March 2023) we noted that wholesale prices remained volatile, which may have influenced shaping and imbalance costs in ways not necessarily accounted for in the allowances.

2.13 For period 10a we highlighted that the extension of the Energy Price Guarantee (EPG) at £2,500 per year for a further 3 months with limited notice may have left suppliers with unhedged SVT customers. In a declining price environment this may have translated to a benefit for suppliers relative to the wholesale allowances. Similarly for period 10b we noted the low switching to fixed tariffs and set out our intention to consider whether this had led to unexpected SVT demand.

2.14 Overall, the reasons for conducting this review mirror those which resulted in the previous two reviews. The wholesale prices used to set the wholesale allowances over the period October 2022 to September 2023 were subject to an unprecedented rise and then fall, followed by a stabilisation at a level much higher than historical norms.[8] This level of volatility is unusual and was not envisioned when developing the wholesale allowance methodologies. It is therefore right that we consider the extent to which, over this period, the

[6] Ofgem (2023), Price Cap – Programme of Work: Update, Table A1.1. https://www.ofgem.gov.uk/publications/price-cap-programme-work-update
[7] Ofgem (2023), Changes in the energy supply market and Ofgem's approach to regulation. https://www.ofgem.gov.uk/publications/changes-energy-supply-market-and-ofgems-approach-regulation
[8] See wholesale price charts from August 2023 price cap press release https://www.ofgem.gov.uk/publications/energy-prices-fall-again-winter

allowances met their objective of allowing a notional efficient supplier to recover their costs while protecting customers.

Review scope

2.15 The review focuses on wholesale costs over the cap periods 9a to 10b (October 2022 – September 2023). These periods are our focus as earlier cap periods, notably 7 and 8, have already been the subject of reviews and adjustments and we see no rationale for reopening these.

2.16 As set out above, in previous reviews of wholesale costs we have focused on specific drivers of costs – such as unexpected SVT demand, shaping and imbalance costs and backwardation. In the open letter we described our intention to consider whether unexpected SVT demand or shaping and imbalance costs had driven material and systematic differences between costs and allowances.

2.17 However, as set out in detail in chapter four, we have decided instead to compare total wholesale costs against the overall level of wholesale allowances. This change in approach reflects the difficulties in disaggregating supplier wholesale and shaping and imbalance costs from other purchasing costs ('bulk' costs), as well as in differentiating between expected and unexpected SVT demand.

Open letters, RFI and putback process

July open letter

2.18 On 18 July 2023, we published an open letter outlining the case for, and scope of, a review of additional wholesale costs. The open letter sought comments from stakeholders on the proposed review and closed on 14 August 2023.

2.19 The letter received responses from 16 stakeholders – seven suppliers, one trade body, one consumer group and seven individuals. Non-confidential responses are published on our website.[9]

2.20 In general, stakeholders welcomed the review and agreed with the importance of ensuring the allowances fairly reflect wholesale costs, while at the same time delivering benefits for customers. However, some suppliers raised concerns about the pace of the review and the importance of ensuring robustness in the analysis and data used to make a decision on whether to adjust the wholesale allowance.

[9] Ofgem (2023), Price cap – Open letter on reviewing additional wholesale costs, https://www.ofgem.gov.uk/publications/price-cap-open-letter-reviewing-additional-wholesale-costs

2.21 We listened to supplier concerns about the pace and robustness of the review, and as a result, rescheduled the timing and implementation of the review. This led to a rescheduling of this follow-up consultation, from late September to December.

2.22 Some suppliers stressed that the methodology and benchmarking of supplier costs should be logical and consistent with previous reviews, however, there was a mixed response from stakeholders on what type of benchmarking should be used.

2.23 Several suppliers flagged that the review should be careful to not undermine supplier financeability and commercial decisions in risk management. We sought initial views on our framework for considering an adjustment, including consideration of commercial decisions, in our October open letter, and have expanded on these considerations in chapter three.

2.24 Some suppliers suggested that underlying data and Impact Assessments should be published ahead of any decision, to enable an adequate consultation. In addition to the putback process, outlined in the next section of this document, we have explained the underlying rationale and detailed the calculation steps used to come to our minded-to position in this consultation. We welcome views on the methodology and calculation steps used.

RFI and putback process

2.25 On 18 July 2023, we sent a draft RFI to all suppliers with at least 100,000 default tariff customer accounts. The purpose of the draft RFI was to help suppliers in preparing for the final RFI and to ensure they had a chance to comment on the intended questions. Suppliers were asked to respond by 25 July 2023, and we considered their comments when drafting of the final RFI.

2.26 On 4 August 2023, we sent a final RFI to all suppliers. We accompanied this with additional guidance on 15 August, to help clarify some of the questions. Data submitted as part of these RFIs has been used to come to a minded-to position on whether an adjustment is appropriate. Throughout this document, we explain our rationale for gathering data and how we have used the RFI data as evidence in reaching our position.

2.27 Following the RFI, we implemented a putback process, providing suppliers with our analysis of the data they provided to us. This process has given suppliers an opportunity to comment on our calculations, analysis and interpretation of their data, which we have taken into consideration in reaching our minded-to position.

October update letter

2.28 On 3 October 2023, we published an open letter providing an update on the timings for the wholesale review and seeking views on a framework for considering whether an adjustment to the cap is appropriate. In particular, the letter sought views on how we interpret and disaggregate commercial decision making within any impacts we assess prior to any decision.

2.29 The letter also highlighted that initial analysis suggested realised wholesale costs may have been lower than the provided allowance over the period. We have since conducted further evidence gathering and analysis to test this further.

2.30 The letter received responses from 29 stakeholders – nine suppliers, one trade body, two consumer groups and 17 individuals. Non-confidential responses are published on our website.[10] We also held a roundtable with consumer groups and charities on 20 October 2023, to capture their verbal comments on the questions outlined in the open letter.

2.31 In general, consumer groups and individuals welcomed the review and noted the potential for downward adjustment. Suppliers voiced concerns around the possibility of a retrospective adjustment which would result in a downwards adjustment to the cap.

2.32 A majority of responses to the letter agreed that we should be symmetrical in its approach, ie adjusting for both net costs and net benefits relative to allowances. In addition, many agreed that suppliers should not retain benefits which have accrued due to overall market movements outside of their control were this was unlikely to net off over time. However, several stakeholders flagged concerns around the methodology for distinguishing between commercial decisions and overall market movements, suggesting that it is very difficult to do.

2.33 Subsequent to these responses we have also received correspondence directly from some stakeholders which raises concerns about the impact of ex-post adjustments in general and downwards adjustments in particular. Further detail on stakeholder comments on the proposed framework can be found in chapter three of this document.

[10] Ofgem (2023), Price cap – update on reviewing additional wholesale costs, https://www.ofgem.gov.uk/publications/price-cap-update-reviewing-additional-wholesale-costs

Review of enduring wholesale allowances

2.34 A number of stakeholders had specific comments on elements of wholesale costs not covered by this review, such as on the level of unidentified gas (UIG) losses allowance. In our Programme of Work publication, we identified a review of wholesale costs allowances as a medium-term workstream priority. In chapter five of this document, we set out some broad areas for potential review and encourage stakeholders to provide their initial thoughts on these.

Technical changes to improve transparency of Annex 2

2.35 We are also consulting on technical changes to the structure of Annex 2 – 'the wholesale cost allowance methodology' to improve the transparency of the demand weightings used to calculate the backwardation allowance.

2.36 In particular, we want to ensure Annex 2 more clearly sets out when different demand shares are used to inform a given backwardation recovery period, currently six-monthly. We also account for a change of inputs used in the Capacity Market Cost Allowance Methodology. These changes do not impact the level of the price cap, but we consider the benefits of transparency warrant consultation as part of this review.

2.37 We set out further detail on proposals for technical changes to improve transparency in Appendix 4 of this document.

3. Framework for considering an adjustment

This chapter provides an overview of the approach we have taken to considering whether an adjustment to the wholesale costs allowance is appropriate. It sets out stakeholder responses to the principles we proposed in our October update letter and details the practicalities and considerations of our decision-making framework.

Context

3.1 There are a number of reasons why a supplier may not meet, or may exceed, the wholesale cost allowance set by the price cap, including things such as:

- Supplier efficiency, eg how accurately a supplier can forecast their customer demand;
- Temporary market shocks, eg a large increase or decrease in costs due to supply or demand factors;
- Commercial decisions, eg decisions to use a bespoke strategy to manage risks; and
- Underlying errors in the allowance methodology, eg misestimation or miscalculation of a cost could impact the overall allowance.

3.2 The cap sets allowances for the costs of a notional efficient supplier. As a result, we do not expect that these allowances will equal every supplier's costs in every period. That is one of the reasons why we do not expect to adjust for all differences between costs and allowances.

3.3 However, we may judge it reasonable to make a time limited adjustment to some allowances where evidence suggests that costs deviated materially and systematically from the cap over some period of time, as this suggests allowances temporarily did not meet the costs of a notionally efficient supplier.

3.4 When considering whether an adjustment to the wholesale allowances is appropriate, a key task is distinguishing between systematic and non-systematic differences between allowances and costs. In our October update letter, we set out some theoretical and practical considerations in differentiating between the two.

3.5 In the following sections, we reaffirm our theoretical and practical approaches to considering this question in this case and elaborate on the specific considerations relevant to this review, in light of stakeholder responses.

When to make adjustments

Context

3.6 We have set out our policy related to adjustments in previous publications, including the 2018 price cap decision. The proposed approach detailed below is consistent with those previously stated policy positions and aligns with the considerations set out in our October update letter.

3.7 These are therefore not new positions or principles but a summary of our current policy as applied to the specifics of this review, after having considered stakeholder response to the update letter. The principles referred to are consistent with, and provide a useful framework for applying, previously stated policy.

Proposal

3.8 We reaffirm the existing principle, set out in our original 2018 price cap decision, that we would consider an adjustment appropriate where we identify a systematic error which is unforeseen, clear, material and necessitated change.[11] In practice assessing whether an "error" is systematic and material are the two main judgements.

3.9 By systematic, we mean something that leads to the allowances generally misstating the efficient levels of costs across the market and in an on-going way. In the case of a temporary adjustment, on-going implies a one-off difference which is unlikely to net-off over time and therefore the impact continues into the future.

3.10 In addition, we will only make adjustments where costs are materially different from allowances, in addition to systematic. While we do not set an explicit threshold for materiality, we have made a number of adjustments and methodology changes in the past, the magnitude of each of which we considered material.

3.11 We also consider that suppliers should manage the outcomes of their commercial decisions, irrespective of whether these result in gains or losses relative to the price cap. This helps ensures that suppliers retain incentives to run their businesses efficiently and to manage costs appropriately.

[11] Ofgem (2018), Default tariff cap: decision – overview, "Annex 3 – Updating the cap methodology" https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview

3.12 It emerges from these positions that we are more likely to make an adjustment to reflect the cost implications of a development that means that suppliers, as a group, incur higher or lower costs, as this suggests a movement outside of suppliers' individual control. Or put another way, we are more likely to consider market wide shocks, which shift the majority of suppliers' costs in one direction, as being systematic.

3.13 As with any policy, our approach to assessing whether something is material and systematic is part of how we comply with our statutory framework and may change over time. In deciding on the appropriateness of any adjustment or other change to the price cap methodology, we act in accordance with the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act'), which requires us to exercise our functions under the Act with a view to protecting existing and future domestic customers who pay standard variable tariffs (SVTs) and default tariff rates. Specifically, the Act requires us to have regard to five matters when setting the cap.

- the need to create incentives for holders of supply licences to improve their efficiency;
- the need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts;
- the need to maintain incentives for domestic customers to switch to different domestic supply contracts;
- the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence;
- the need to set the cap at a level that takes account of the impact of the cap on public spending.[12]

3.14 The requirement to have regard to the five matters identified in section 1(6) of the Act does not mean that we must achieve all of these. In setting the cap, our primary consideration is the protection of existing and future customers who pay default tariffs. In reaching decisions on particular aspects of the cap, the weight to be given to each of these considerations is a matter of judgement and may differ between different circumstances.

3.15 In the context of this wholesale allowance review, having considered all those matters and applied our material and systematic policy, we are proposing that no

[12] Domestic Gas and Electricity (Tariff Cap) Act 2018, section 1(6)

adjustment should be made. However, it of course remains possible that there may be other circumstances where an ex-post adjustment would be reasonable.

Overview of stakeholder responses

3.16 In our October update letter, we sought stakeholders' views on a framework for considering whether an adjustment to the cap is appropriate. The letter set out three principles that would guide decision making:

- Principle 1: Protection of customers;
- Principle 2: Any adjustment should be appropriate across suppliers; and
- Principle 3: We would be more likely to adjust where costs or benefits were the result of external factors, rather than suppliers' commercial choices.

3.17 These were not instead of, nor in addition to, our material and systematic tests or the matters set out in the Act. These were to help describe a set of considerations relevant to this review in particular which we sought stakeholders views on.

3.18 In general, most stakeholders agreed with the high-level principles set out in the framework but raised concerns as to how they would be implemented and interpreted.

Short and long-term impacts

3.19 Regarding principle 1 (protection of customers), a few stakeholders flagged that this principle needed to take account of both current and future customers, and that Ofgem should consider what impact any decision to make a short-term adjustment to the wholesale allowances might have on customers over the medium-long term. These stakeholders raised concerns about the impacts on investor confidence and incentive to price below the cap level, which could impact customers over a longer timeframe.

Representative data

3.20 Some stakeholders highlighted that in implementing principle 2 (any adjustment should be appropriate across suppliers), Ofgem should consider how it determines a fair industry view of the data provided, which benchmarks suppliers appropriately.

Practical concerns

3.21 At a high level, many stakeholders agreed with principle 3, and that suppliers should not retain benefits which have accrued due to overall market movements

outside of their control. However, several concerns were raised around the implementation of this principle and how Ofgem would distinguish between external events and commercial decisions.

Considerations

Short and long-term impacts

3.22 We agree with stakeholders that any decision to make an adjustment must consider the short and medium-long term impacts, and, in line with our statutory duties, should be taken with a view to protecting existing and future default tariff customers.

3.23 Upward and downward adjustments may have different impacts. Upward adjustments, which increase the price cap, represent an immediate cost to customers but may be necessary to enable suppliers to recover efficiently incurred costs. Not making an upward adjustment for efficiently incurred additional costs could negatively impact the ability of suppliers to finance their activities. This may have implications for the long-term health of the sector with consequences for customers through channels such as lower investment and supplier failures. However, there is also a risk that upward adjustments reward suppliers for non-systematic cost drivers such as inefficiency or the negative outcomes of commercial decisions. This creates moral hazard, reducing the incentive on suppliers to be efficient and raising costs in the long run.

3.24 Downward adjustments, which lower the price cap, represent an immediate gain to customers through lower prices. We recognise that this may be particularly valuable to customers experiencing financial pressures. If a downward adjustment is made to reflect a genuine one-off unexpected outturn of costs below allowances, then this may not negatively affect supplier incentives to be efficient or to effectively manage risks. However, if a supplier had already passed on these savings to customers by pricing below the cap, then any negative adjustment risks that supplier would make a net loss for that element of the cap and over a particular period of time. This is an inherent limitation associated with setting a single cap level.

3.25 There is also a risk that downward adjustments recover savings relative to allowances, which reflect efficiencies or the upside of commercial risks. In these circumstances a downward adjustment may discourage suppliers from seeking to outperform the cap.

3.26 Such adjustments may also act as a barrier to suppliers offering tariffs below the cap. If, over a given period, suppliers achieve costs savings relative to the cap they may choose not pass these savings onto customers if they consider there to be a risk that the cap will be adjusted to recover those cost savings through a downwards adjustment in a future period. We note there is limited evidence of suppliers as a whole pricing below the cap currently.

3.27 Another key asymmetry between upward and downward adjustments is how they affect competition, relevant to two of the five matters we must have regard to when setting the cap (section 1(6) of the Tariff Cap Act). An upward adjustment, which temporarily increases the cap above the efficient level of on-going costs, should not negatively affect the incentives of suppliers to compete or the incentives for customers to switch. Downward adjustments, however, lower the cap temporarily below the efficient level of on-going costs. Depending on the size of the downward adjustment, this could reduce competition between suppliers and switching among customers, holding all else equal, by making it harder for suppliers to price products below the cap level.

3.28 From the considerations above it is clear that different factors may apply, or have different weight, for both upward and downward adjustments. However, the core principle that suppliers always carry some risk and, in particular, should bear the risk of their commercial decisions remains. The cap will never be (and was never designed to be) an accurate reflection of costs for any particular supplier and so in considering any adjustment (whether positive or negative) we will always have to carefully balance the different factors, including considering whether differences between costs and allowances are systematic, otherwise adjustments in either direction can have negative effects on supplier incentives, potentially causing detriment to customers in the long-term. This harm may disproportionately affect some customers, depending on levels of engagement and appetite for switching.

Representative data

3.29 We agree with stakeholders who told us we must seek to ensure that the evidence we are using to decide on an adjustment is robust and representative. In the case of this review, we have sought to do this through a transparent RFI process, aided by guidance and supported through extensive supplier engagement to confirm the nature of the data provided and our interpretation of it.

3.30 Even with reliable and consistently estimated cost data, it may be necessary to exclude some suppliers from any analysis due to circumstances or characteristics which render their data unrepresentative of the wider market and therefore liable to skew any conclusions. In chapter four, we set out in detail the reasons for our decision to exclude one supplier from our analysis and why we consider that this has a negligible impact on our conclusions.

Practical concerns

3.31 We agree with stakeholders that, in general, suppliers should face both the gains and losses from commercial decisions. We set out in the following section considerations related to how, in practice, the impact of commercial decisions may be distinguished from other drivers of costs, such as external events, and the difficulties of doing so.

Practical approach

Context

3.32 While we have set out an approach for considering the appropriateness of an adjustment, we acknowledge that, in practice, it can be difficult to identify the exact causes of differences between costs and allowances.

Proposal

3.33 We do not seek to quantify the relative contributions of external events and commercial decisions to the differences between allowances and costs we observe. Nor do we seek to describe or model the detailed actions of a notional supplier and their presumed reactions to the wholesale market conditions, given actions suppliers take will depend on both the market situation and their own business need.

3.34 As set out in our October letter, to understand the role of market events relative to supplier choices we have considered factors such the pattern of cost recovery across suppliers and between different cap periods, wholesale market indicators, and supplier narratives about the likely causes of observed differences between allowances and costs.

Overview of stakeholder responses

3.35 Our October update letter sought views from stakeholders on the practicalities of determining whether an adjustment is appropriate. The letter outlined the following practical considerations:

- Differentiating between commercial decisions and external events;
- Considering the symmetrical nature of previous adjustments; and
- Considering positions taken in previous wholesale adjustment decisions.

3.36 Both consumer groups and suppliers raised concerns around the practicalities of differentiating between commercial decisions and external events. A few stakeholders suggested that these issues were intertwined, and therefore Ofgem needed to be transparent on the methodology used to differentiate between the two, in giving reasons for any decision to make an adjustment to the wholesale costs allowance.

3.37 Most stakeholders agreed that an adjustment should be made on the basis that a change in costs faced by suppliers was 'material' and 'systematic' but sought more clarity on the definition of these characteristics and how they interact with the differentiation of commercial decisions from external events.

3.38 In general, stakeholders agreed that Ofgem should be symmetrical in its approach, ie adjusting for both gains and losses. However, some stakeholders stressed the extreme external events associated with previous wholesale adjustments and how these provided a clear motivation for considering the case for an adjustment. Suppliers suggested Ofgem should consider the case for adjustments primarily in the context of external events which generate clear hypotheses as to why costs and allowances may have diverged – doing so would help to ensure any decision to make an adjustment was appropriate and proportionate.

3.39 A number of stakeholders raised concerns that distinguishing between commercial decisions and external events would be a departure from the methodology used in previous decisions to adjust the wholesale allowance.

3.40 Stakeholders were mixed in their views of the most appropriate benchmark to use for an adjustment. Some stakeholders suggested that we should demonstrate analysis based on a number of different benchmarks so that they could meaningfully comment on the choice of benchmark.

Considerations

Systematic and material definitions

3.41 As described in an earlier section, we may consider differences between allowances and costs to be systematic when those differences apply broadly across the market and their impacts are not expected to net off over time. These

features are important as they suggest that differences are not supplier specific (therefore less likely to be the result of active supplier choices) and are not part of normal fluctuations - neither of which would warrant an adjustment. The cap does not seek to, nor can it, align costs with allowances across all suppliers for all time periods. It is set to allow a notional efficient supplier to finance their activities over the medium term.

3.42 The distinction made between external events and commercial decisions is one important example of the difference between systematic and non-systematic differences between allowances and costs. In general, we would not expect all suppliers to benefit from commercial decisions in a particular cap period. Some may not take any decisions, while others may take decisions which result in losses. We do not consider there to be a reason to expect commercial decisions to consistently result in average gains or average losses across the market. The impact of commercial decisions should therefore not generally be considered systematic.

3.43 In contrast, we would expect external events, particularly unexpected ones, to affect all suppliers, even if to different extents. There may also be no reason ahead of time to expect the cost impact of one event to be undone by a future event. Differentiating commercial decisions from external events is therefore not separate from identifying systematic differences between allowances and costs, the former is one important example of the latter.

3.44 Also, as described earlier, we do not think it would be appropriate to set a monetary threshold for the definition of 'material', as this might vary depending on the period and allowance being reviewed. Stakeholders can see from previous adjustment decisions and wider price cap decisions the magnitude of values that have previously been considered material.

Practical approach to identifying systematic variations in costs

3.45 As set out in the earlier section on our policy towards adjustments, making adjustments for non-systematic variations between costs and allowances risks damaging market incentives. It is therefore important that we are reasonably confident that observed differences between allowances and costs are systematic before seeking to recover those differences, whether positive or negative. Coming to a reasonable degree of confidence in this judgement can be difficult, given the wide range of factors that can drive costs, but this is a necessary part of our role in setting an appropriate cap level.

3.46 Where we have done so for wholesale costs in the past, the unprecedented nature of movements in wholesale prices gave us a reasonable degree of certainty that the additional costs observed were systematic. These were costs driven by a market wide event which affected all suppliers and were outside of the normal range of circumstances it would be reasonable for supplier to foresee or be able to fully mitigate. There was also no reason to expect market conditions would arise in the future that would produce an offsetting benefit.

3.47 In the context of this review, we initially considered that the on-going high levels of wholesale price volatility, as well as one-off events like the extension of the EPG, may have led to systematic differences between wholesale allowances and costs. We hypothesised that these systematic impacts may present themselves through the likes of cost savings driven by the combination of unexpected SVT demand and falling prices; and exceptional costs from greater shaping and imbalance activities caused by high price volatility.

3.48 In line with previous additional wholesale cost reviews, we collected cost data from suppliers in a way that would allow us to isolate costs associated with unexpected SVT demand and shaping and imbalance. For methodological and practical reasons set out in detail in chapter four, we have instead decided to consider supplier costs at an aggregated total wholesale cost level.

3.49 In summary this choice reflects our judgement that, given methodological differences in approach, supplier submitted costs were more comparable at an aggregated level. As a result, we considered variation between suppliers, and over time, was more explainable at a higher level of aggregation. Attempting to compare more granular data risked spurious interpretations.

3.50 Variations in total wholesale costs relative to total wholesale allowances will reflect the combined impact of a wide set of factors, even more than specific wholesale costs like those associated with shaping or unexpected SVT demand. We therefore need to understand potential explanations as to why impacts might or might not be systematic.

3.51 Reasonable conclusions can be drawn as to whether there have been systematic differences between allowances and costs when considering allowances and costs at an aggregate level. We can do this by examining the degree of variation between supplier outcomes and by considering suppliers' accounts of the drivers of their costs, verified, where possible, with reference to market wide data and suppliers own more granular data.

3.52 The degree of variation across suppliers in the differences between allowances and costs provides evidence of the relative importance of supplier specific versus market wide factors. The lower the dispersion in outcomes, the more likely it is that differences between allowances and costs reflect the impact of market wide factors. The wider the dispersion, the more likely it is that factors specific to individual suppliers played a major role.

3.53 High dispersion in outcomes does not necessarily mean that all the variation is within suppliers' own control. In our previous reviews we considered that suppliers' initial share of fixed term contract (FTC) customers affected the degree of unexpected SVT demand costs they faced, and that this was not a factor in their control over the short-term. These "non-efficiency" factors can help explain how common shocks translate into different magnitude of impacts across suppliers. However, when outcomes are not only widely spread in magnitude but also vary in direction, the scope for "non-efficiency" factors to explain the variation is diminished. While not impossible, we do not consider it likely that common wholesale market events will affect suppliers' costs in directly opposite ways as a result of inherent characteristics, like business model or existing customer mix.

3.54 Consequently, all else being equal, we consider that a narrow dispersion of costs relative to allowances outcomes suggests a greater role for systematic drivers. A wide dispersion in outcomes, and, in particular, variation in the direction not just magnitude of outcomes, suggests a weaker role for systematic factors.

3.55 Narratives given by suppliers in response to RFI questions can also help distinguish between systematic and non-systematic factors. For example, if a wide and representative range of suppliers point to the same unexpected market event as a key cost driver then, combined with directionally similar outcomes, this might reinforce the importance of systematic cost drivers. Alternatively, if narratives across suppliers varied significantly in their descriptions of cost drivers and hedging choices, this would suggest a weak role for systematic factors.

3.56 Corroborating and testing the plausibility of supplier narratives using market data can further increase our confidence in their use to help distinguish systematic from non-systematic differences between allowances and costs allowances.

Other comments on the October update letter

Process concerns

3.57 Several respondents to our October open letter expressed concerns with the process we have used to carry out this review. They said that as part of our consultation we should have established a mechanism for stakeholders to have confidential access to all the underlying data that we obtained though RFIs (a confidentiality ring). We set out our approach to this question in chapter 4 when describing the putback process we undertook.

Power to make negative ex-post adjustments

3.58 Some stakeholders suggested that a decision to make a retrospective negative adjustment to recover excess amounts collected by suppliers in previous cap periods would be beyond Ofgem's powers.

3.59 Given our proposal to make no adjustment we do not seek to respond to these comments in full in this consultation, as they are not directly relevant to our policy proposal. This should not be taken as indicating anything about whether we accept these comments or not.

3.60 As discussed in the section on 'When to make adjustments' above, we also recognise that the considerations may be somewhat different for upward and downward adjustments.

4. Wholesale costs

Section summary:

We set out how we gathered information from suppliers and what we have estimated to be the differences between the wholesale allowances and costs incurred by each supplier across cap periods 9a to 10b (October 2022 – September 2023). We set out our postion on whether an adjustment would be justified.

Questions

Q1. Do you agree with our minded-to position to make no adjustment to the price cap for wholesale costs incurred between October 2022 and September 2023?

Context

4.1 The final RFI we sent to suppliers on 4 August 2023 requested that all suppliers with at least 100,000 default tariff customer accounts provide data and evidence on wholesale costs incurred between October 2022 and September 2023. The RFI covered the following areas:

- Bulk wholesale costs and Shaping and Imbalance costs for cap periods 9a, 9b, 10a and 10b (October 22 – September 23).
- Customer numbers and consumption data, broken down by customer group, fuel type and payment type, for cap periods 9a, 9b, 10a and 10b.
- Qualitative explanations and relevant evidence on hedging approaches, bulk wholesale costs and shaping and imbalance costs for cap periods 9a, 9b, 10a and 10b.

4.2 We received data from 11 suppliers. Having concluded an initial assessment of suppliers' responses, we consulted directly with them on the information they provided, aiding our understanding and interpretation of the data and evidence provided.

Putback process

4.3 Some suppliers suggested that we should share underlying data, either through a confidentiality ring or by other means. A full disclosure process requires suppliers to employ third-party consultants to examine the disclosed materials on their behalf, as it includes commercially-sensitive material from other suppliers. As a result, a full disclosure process involving a confidentiality ring can be a costly and time-consuming exercise.

4.4 Taking into consideration the nature of this review, we considered that a putback process, together with a full explanation of our analysis methodology and calculations, would give sufficient information for a meaningful consultation.

4.5 We judged that there was likely to be minimal additional insight suppliers could gain from the disclosure of a spreadsheet model with all supplier data included, as mediated through a third party, compared to a spreadsheet model with only their own data included. This is because the calculations are the same across suppliers.

4.6 A full disclosure process would not cover the comparability of the data provided by different suppliers. To do so would require the disclosure of not just suppliers written RFI responses, but also the significant amount of correspondence between Ofgem and suppliers to clarify methodologies and seek resubmissions. This would go well beyond the scope of any disclosure exercise we have carried out to date. The prospect of correspondence being shared with a third-party could discourage suppliers from participating in a full and open discussion with Ofgem, to the detriment of the overall quality of the review.

4.7 Sharing confidential and commercially sensitive information also comes with inherent risks – for example that information is spread further than envisioned. Even undertakings from professional advisors does not guarantee that sensitive commercial information isn't directly, or indirectly, shared between competitors.

4.8 For these reasons we decided instead to undertake a putback process. This involved sharing individually with each supplier our calculations and analysis of the data they had provided, alongside a detailed explanation of our methodology. We then engaged in discussion with each supplier to answer their questions, clarify our understanding of the data and other information they had provided. It also allowed suppliers to refine their submissions further to ensure and improve comparability of their costs against the cap allowances, and comparability between suppliers.

4.9 The putback process resulted in extensive further dialogue with suppliers, with a significant number of further iterations of data and evidence being submitted, highlighting data quality and comparability issues. In addition, five suppliers worked with Energy UK to commission a consultancy to collectively quality assure their RFI and putback submissions and consider their comparability. This led to another round of submissions from some suppliers.

4.10 By sharing our calculations, suppliers were also able to identify an inconsistency in the way we were calculating the weighted average gas allowance (£/MWh)

across unexpected and unhedged SVT customers and other SVT customers (weighted average by consumption rather than customer numbers). We have corrected this error.

4.11 Overall, we consider that the putback exercise has provided suppliers with sufficient information to meaningfully engage with this consultation and that a disclosure process would have added little or no value in this instance. We will continue to consider the merits of disclosure exercises for future reviews.

4.12 Throughout our various engagements with suppliers, most notably via the putback process, we've had extensive dialogue with suppliers to improve and contextualise the data we received to help with comparability. We don't consider further engagement would be likely to improve our confidence in our findings.

Comparison of wholesale allowances and costs

Methodology

4.13 For each supplier, price cap period, and fuel we have sought to calculate the difference between wholesale allowances and incurred aggregate wholesale costs, per SVT customer at benchmark consumption.

4.14 To do this, we calculated the wholesale allowances per SVT customer by multiplying the relevant allowance per unit (£/MWh) by the average consumption per customer in each quarter submitted by each supplier. Incurred costs per SVT customer are calculated as aggregate wholesale costs divided by the total number of SVT customers. We then subtract the second value (costs) from the first (allowances) to estimate whether allowances exceeded or fell short of incurred costs. More detailed breakdown of these calculations is provided in Appendix 1.

4.15 Below we discuss the key methodological choices we have made when calculating differences between wholesale allowances and costs.

Aggregate costs

4.16 We have decided to consider suppliers' wholesale costs at an aggregated level, rather than split by cost type (as per the RFI, where costs are split into bulk wholesale, shaping and imbalance) and by customer type (expected SVT and unexpected and unhedged SVT customers). Considerations related to how this affects our ability to interpret differences between allowances and costs are laid out in chapter three.

4.17 Suppliers will regularly adjust their hedged positions, as a result there is not always a clear distinction between bulk wholesale costs and shaping costs. In

response to our RFI, there was variation between the methodologies used by suppliers to apportion costs between bulk and shaping and imbalance. This creates uncertainty when comparing costs between suppliers, as some of the variation may simply reflect methodological differences.

4.18 We made use of suppliers' estimates of shaping and imbalance costs as part of our decision to adjust for additional wholesale costs experienced over cap period seven.[13] In considering the case to make an adjustment for shaping and imbalance costs over cap period eight, we highlighted variation in estimation methodologies as the main non-efficiency factor – this ultimately contributed to our decision not to make an adjustment for shaping and imbalance costs.[14]

4.19 For both decisions, we did not collect data on supplier's bulk wholesale costs and therefore did not have the option to compare aggregate wholesale costs. We consider that by doing so in this review, we overcome issues related to comparability with the allowances and comparability of costs between suppliers.

1.2 In addition to aggregating wholesale costs across cost type, we have also decided to aggregate across expected and unexpected and unhedged SVT customers. The motivation for doing so reflects similar concerns related to methodological variations between suppliers, as expressed above for shaping and imbalance costs.

4.20 Over the period of interest there were higher than normal changes in per customer demand. Differences in supplier approaches to disaggregating unexpected changes in demand between the intensive (demand per customer) and extensive (number of customers) margins therefore had more of an impact on comparability than in previous reviews.

4.21 In addition to considering total wholesale costs, we have also decided to consider suppliers experiences over the full year (October 2022 to September 2023). Suppliers' hedging strategies may result in the transfer of costs between cap periods, for example by using seasonal hedging products as a proxy for the quarterly products used in the wholesale allowance methodology. As a result, we consider that making individual adjustment decisions at a quarterly granularity could be misleading. We also expect there to be some seasonality in how well

[13] Ofgem (2022), Price Cap – Decision on the potential impact of increased wholesale volatility on the default tariff cap. https://www.ofgem.gov.uk/publications/price-cap-decision-potential-impact-increased-wholesale-volatility-default-tariff-cap
[14] Ofgem (2022), Price Cap - Decision on possible wholesale cost adjustment. https://www.ofgem.gov.uk/publications/price-cap-decision-possible-wholesale-cost-adjustment

allowances match efficient costs. For example, shaping costs are likely higher during winter periods and lower during summer ones. As the shaping allowance is static this may result in seasonality in recovery, with under-recovery in winter and over-recovery in summer.

4.22 Using a full year of data also allows us to consider in the round whether drivers are systematic. Suppliers were supportive of this approach. For information, quarterly results are presented in Appendices 2 and 3.

4.23 We have decided to aggregate wholesale costs for PPM and non-PPM customers. Most suppliers flagged through the RFI responses that they hedge at portfolio level, rather than split by payment type. Only one supplier reported actual PPM and non-PPM costs, with all the others apportioning them by volumes, customer numbers, or did not specify the methodology used. Again, considering the level of variations and difficulties in suppliers' methods used to apportion wholesale costs by payment type, we consider that aggregating wholesale costs for PPM and non-PPM customers is necessary to overcome issues related to comparability with the allowances and between suppliers.

Exclusion of a supplier

4.24 We are proposing to exclude one supplier from our analysis sample. The supplier was subject to a provisional order over most of the period in question. Among other requirements, the provisional order required the supplier to refrain from taking on new customers.

4.25 The supplier faced the order in light of a judgement that they were, or were likely to be, contravening financial responsibility principles. We therefore do not have confidence that the supplier's costs are likely to be representative of a typical supplier. For this reason, we are excluding it from our calculations.

4.26 The choice to include or exclude this supplier does not alter the fundamental pattern of the results. The sign and broad magnitudes of the weighted averages, lower and upper quartiles for both gas and electricity remain very similar under inclusion or exclusion. We do not present this explicitly in this document due to the risk of disclosing commercially sensitive information.

4.27 As a result of the limited impact, the case we make in favour of no adjustment in this consultation is not sensitive to this exclusion choice.

Exclusion and inclusion of certain costs and allowances

Contracts for Difference (CfD) hedges

4.28 We asked all suppliers to exclude the profit and loss impact of their CfD hedging activities from their reported wholesale costs, as those CfD hedges are not directly related to meeting SVT customer demand and they are covered by a bespoke CfD allowance under the cap wholesale methodology.

Supplier claimed commercial hedges

4.29 In their submissions, some suppliers said that it would not be appropriate to compare some elements of their wholesale costs against allowances. This was because the profit and loss impact related to hedging decisions they made for commercial reasons, which they stated was outside of meeting their SVT customer demand.

4.30 We have considered these representations carefully and our engagement with suppliers improved our understanding of differences in suppliers' outcomes. It was not our intention to strip out the impact of commercial decisions prior to comparing suppliers' incurred costs with allowances.

4.31 Suppliers' justifications of those commercial hedges being intrinsically different from meeting their SVT customer demand varied in quality, but they all had the effect of increasing incurred costs.

4.32 We do not think that most of those commercial hedges are distinct from normal SVT hedging activities. However, we note that the profit and loss impact of some of those hedges should be excluded from reported costs, particularly where they pre-date the observation window in question and it would be reasonable to anticipate the profit and loss impact to net off over time. As a result, we have considered exclusion/inclusion adjustments on a case by case basis.

Additional risk allowance

4.33 The Wholesale Additional Risk Allowance (1%) is included in the cap methodology to account for uncertainty and volatility in wholesale costs, beyond what is already provided for in the other wholesale allowances and headroom. It is intended to reflect costs over time, rather than costs in a specific cap period. As a result, the 1% risk allowance for a given cap period can be seen as partly for risks in that cap period, but largely for risks in other cap periods. Comparing the costs over the 12-month period of this review against this allowance would therefore create a mismatch.

4.34 We have previously said that one possible approximation would be to consider the 1% additional risk allowance in a given cap period as relating to risk over the life of the cap.[15] The cap has been in place for five years currently, as we are considering a one-year period this would set a floor of including just 20% of the 1% additional risk allowance. The materiality of whether this is included or not in our comparison with supplier costs is therefore quite small.

4.35 For simplicity we therefore excluded this allowance from our initial calculations. In previous adjustments we have considered the 1% additional risk allowance as a potential offset against any observed under recovery of costs. We may do so again as part of considerations relevant to any future adjustments.

Reconciliation of wholesale costs

4.36 A few suppliers raised concerns that their submitted wholesale costs and consumption volumes were not final at the time of submission, due to the length of the settlement processes (eg up to 14 months between delivery and final settlement runs). However, we note that the same suppliers did not raise this point as a concern in previous wholesale reviews, and we continue to consider that ex-post adjustments closer to delivery than the final reconciliation run are both in suppliers' and their customers' interests. Waiting for reconciliation processes to complete would imply an unacceptable delay to the wholesale allowance adjustment. It is also unlikely that, in this case, reconciliation would alter the pattern of results across suppliers to such an extent that it to lead us to alter our proposal to make no adjustment.

Results

4.37 To prevent the identification of individual suppliers we present results at an aggregated level. We have nonetheless attempted to illustrate the pattern of data between suppliers and over time using box plots showing the maximum, minimum, upper and lower quartiles, median and customer weighted average values.

4.38 As described in Chapter 3, we would expect a market wide event to drive the under or over-recovery experienced by suppliers in the same direction. We'd also expect the magnitude of the impact to broadly of a similar magnitude – although supplier specific factors (eg non-efficiency factors) will influence this.

[15] Ofgem (2022), "Price Cap - Decision on possible wholesale cost adjustment", paragraph 3.115 https://www.ofgem.gov.uk/publications/price-cap-decision-possible-wholesale-cost-adjustment

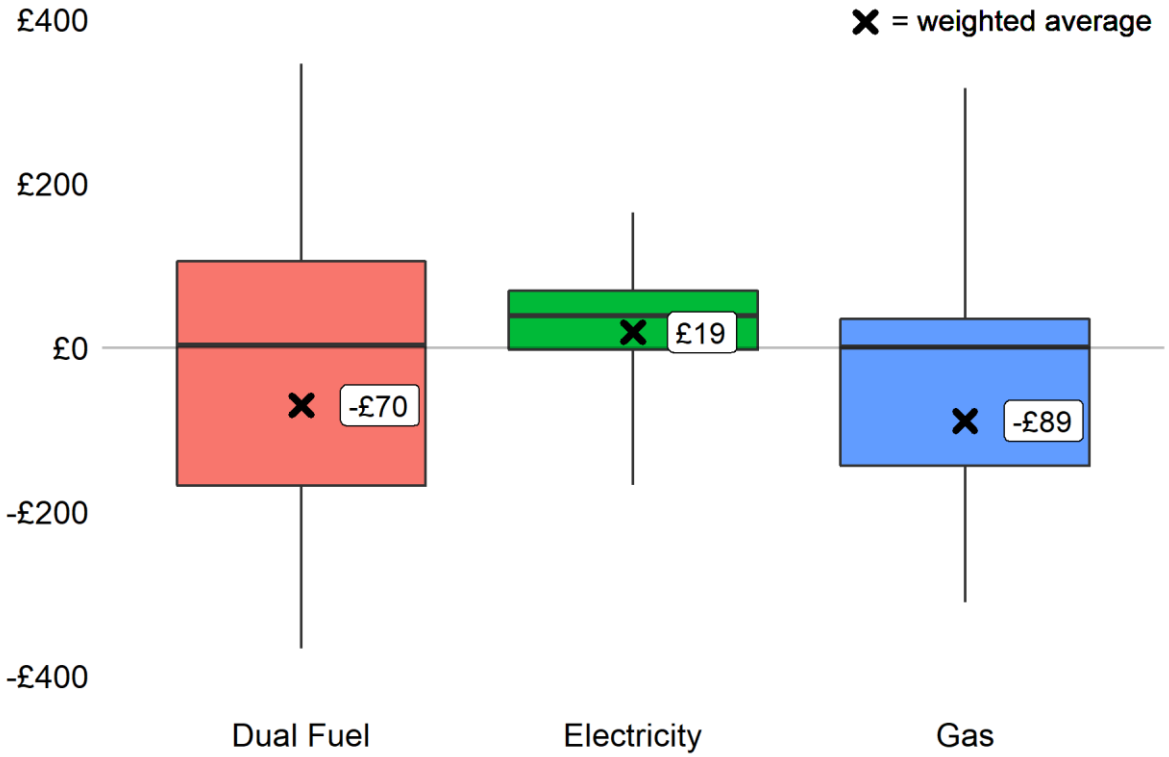
4.39 Alternatively, the lack of uniform direction combined with a high variance in suppliers' outcomes suggests a weaker role for systematic factors. The figure 4.1 highlights the wide distribution and the lack of uniform direction in suppliers' outcomes.

4.40 For gas, the high degree of variation and the lack of uniform direction across suppliers are particularly acute in cap periods 9a and 9b (see Appendix 2 for results at quarterly granularity). When considering 9a-10b in the round, in line with our approach set out in paragraph 4.14, four suppliers (34% market share) experienced an over-recovery within a narrow range of +£31 to +£51 per SVT gas customer, while four suppliers (49%) under-recovered with a significantly wider range of -£30 to -£189 per SVT gas customer. Two suppliers experienced more extreme outcomes. One supplier saw a -£311 under-recovery per SVT gas customer and another a +£316 over-recovery per SVT gas customer (see Appendix 2 for results at quarterly granularity).

4.41 For electricity, the differences between wholesale allowances and costs, and the variance, are lower compared to gas but remain significant. We see a narrower spread of outcomes between suppliers in cap periods 9a and 9b, with most suppliers under-recovering in 9a and over-recovering in 9b (see Appendix 3 for results at quarterly granularity). The weighted average recovery across these periods therefore broadly cancels out to zero. When considering 9a-10b in the round, in line with our preferred approach, six suppliers (65% market share) experienced an over-recovery with a range of +£10 to +£77 per SVT electricity customer, while two suppliers (32%) under-recovered with a range of -£6 to -£56 per SVT electricity customer. Two suppliers experienced more extreme outcomes: one with -£167 under-recovery per SVT electricity customer and the other with +£165 over-recovery per SVT electricity customer.

4.42 We did not observe this kind of non-uniformity in the direction of supplier outcomes for gas or electricity in the review of wholesale costs in cap periods 7 (October 2021 to March 2022) and 8 (April to September 2022).

Figure 4.1: Wholesale allowances minus costs, £ per SVT customer at benchmark consumption, total across cap periods 9a to 10b – dual fuel, gas & electricity (+ve indicates over-recovery, -ve under-recovery)



Notes: Boxes show the unweighted upper quartile, median and lower quartile values. Whiskers (vertical lines) show the maximum and minimum values among the 10 suppliers included. Bold crosses and labels show the customer weighted average values. Dual fuel weighted average calculated by summing gas and electricity weighted averages.

Table 4.1: Wholesale allowances minus costs (per SVT customer at benchmark consumption) between October 2022-September 2023 (cap periods 9a-10b)

Measure	Dual fuel	Gas	Electricity
Weighted average	**-£70**	**-£89**	**£19**
Minimum	*-£367*	*-£311*	*-£167*
Lower quartile	*-£168*	*-£144*	*-£2*
Upper quartile	*£105*	*£35*	*£69*
Maximum	*£346*	*£316*	*£165*

Case for adjustment

Context

4.43 The results presented above demonstrate that the wholesale costs incurred by some suppliers over this period materially differed from the allowances (for clarity, the £0 line represent a hypothetical situation where wholesale costs equal allowances). There is a wide range of reasons why this may be the case. As set out in chapter three, when considering whether an adjustment is appropriate, we are seeking to identify whether the causes of these differences are systematic.

4.44 In coming to a judgement about this question, we have considered the pattern of the differences between costs and allowances over time and between suppliers, suppliers' own descriptions of the drivers behind those differences, and wider market data.

Proposal

4.45 We are minded-to make no adjustment to the price cap for wholesale costs incurred between October 2022 and September 2023.

4.46 This reflects our assessment that, while measured differences between allowances and costs were material over the periods considered, we do not consider the drivers to be systematic.

4.47 We consider that both the lack of uniform direction combined with the wide range in outcomes across suppliers indicate that factors specific to individual suppliers played significant roles in driving costs outcomes. This suggests that any average over or under allowance is unlikely to be systematic. Therefore, we consider that no adjustment is warranted.

4.48 The lack of uniform direction and the wide variation in supplier outcomes are the primary considerations leading us to conclude that differences between allowances and costs in the cap periods under review were not systematic, and for this reason to reach our minded-to position of no adjustment. In the sections below, we consider in more detail the range of cost drivers highlighted by suppliers and whether the cause of differences between wholesale costs and allowances were systematic.

Summary of responses

Demand destruction

4.49 We use the term demand destruction to refer to a sustained decline in customers' consumption. Demand destruction can be weather-driven, in reaction to unseasonably cold or warm temperatures, or price-driven, in reaction to unprecedently high energy bills. We note that gas demand is more weather-sensitive than electricity demand, as gas is the primary source of household heating in GB. In other words, gas demand destruction can either be weather-driven, price-driven or both, while electricity demand destruction is likely to be primarily price-driven.

4.50 All suppliers told us that they observed demand destruction across some or all the cap periods. Some referred to price-driven demand destruction, while a few said that both price and weather factors were equally important, especially in cap periods 9a-b (October 2022 – March 2023). A few suppliers also mentioned demand uncertainty in 10a and 10b (April 2023 – September 2023).

4.51 Most suppliers responded to demand destruction by either adjusting their demand forecasts and/or their hedging strategies across some or all cap periods.

4.52 Some suppliers experienced unexpected long positions, had bought more energy than they needed, even after adjusting their positions in anticipation of demand destruction. Consequently, they reported to us that they incurred net losses, as they had to sell back those unexpected long volumes at prices significantly below the indexed prices observed during the observation windows.

4.53 A few suppliers told us that they sold back to the market a proportion of their previously-hedged energy during the observation window, at a higher price, in anticipation of demand destruction, leading to a net benefit.

4.54 Given the asymmetric risks of demand exceeding or falling short of seasonal norms, one supplier adopted a long hedging strategy (ie purchased slightly more gas volumes than suggested by their internal forecasts).

4.55 A supplier said that the government support schemes (EPG and EBSS) substantially mitigated the impact of price-driven demand destruction by reducing the need to sell back at lower than observed prices.

4.56 One supplier reported being particularly affected by demand destruction as they had customers with higher-than-average demand going into the energy crisis.

Unexpected SVT demand

4.57 Some suppliers didn't report any unexpected SVT demand costs across 9a-10b, while others did, either driven by more-than-anticipated customers reaching the end of their fixed term contract and rolling onto SVT, or due to changes in market rules, such as the EPG extension at the £2,500 level.

4.58 A few suppliers said that in cap periods 10a and 10b, the move to quarterly updates mitigated the impact of unexpected SVT demand. One supplier said that the Market Stabilisation Charge (MSC) and Ban on Acquisition only Tariffs (BAT), combined with the fact that the EPG scheme was in place for the entire observation window of cap periods 10a and 10b, gave them more certainty over customer switching behaviours, making SVT demand easier to predict.

4.59 A few suppliers told us that they adjusted their hedging to account for potential additional SVT volumes, in anticipation of customers remaining on SVT or rolling to SVT at the end of their FTC. While one supplier reported holding their volume forecasts constant for 9a, given the level of uncertainty going into the 9a observation window.

4.60 One said that their expectation, both prior to and after the 15 March 2023 EPG announcement, where the Government announced that the planned 20% increase in the EPG would be delayed from April to July 2023, was that there would be limited resurgence of the FTC market.

Other

4.61 Some suppliers said that following the introduction of the quarterly price cap, it was difficult to hedge quarterly power products, especially for 9a & 9b. Most of them said that they sourced seasonal product instead of quarterly products, reshaping these into quarterly products when liquidity improved.

4.62 A few suppliers flagged poor liquidity of peak power products. They said that they had to purchase baseload products, or even gas products, in lieu of peak products, with the intent of reshaping these into more granular products closer to delivery, when liquidity improved.

4.63 One supplier said that the unidentified gas (UIG) allowance in the price cap is too low, leading suppliers to consistently under-recover costs.

4.64 In response to a question asked during the put-back process, most suppliers told us they were satisfied that the calculation approach shared with them had resulted in a fair comparison between their wholesale costs and their associated allowances.

4.65 One of the consumer groups raised concerns around lack of visibility of the underlying data. The putback process allowed us to check and refine the data suppliers initially provided. This was part of the process of developing the inputs to our minded-to positions. We are now consulting on these minded-to positions. We consider that the information provided in this consultation is sufficient to enable all stakeholders, including consumer groups, to engage meaningfully in the consultation process.

Considerations

4.66 In this section, we respond to suppliers' evidence and discuss the nature of the factors (systematic or not) that could have affected their costs.

4.67 Several suppliers made a collective reference to gas and electricity rather than explicit references to one of the two fuels. Unless otherwise stated, considerations in the sections below refer to both fuels.

Demand destruction

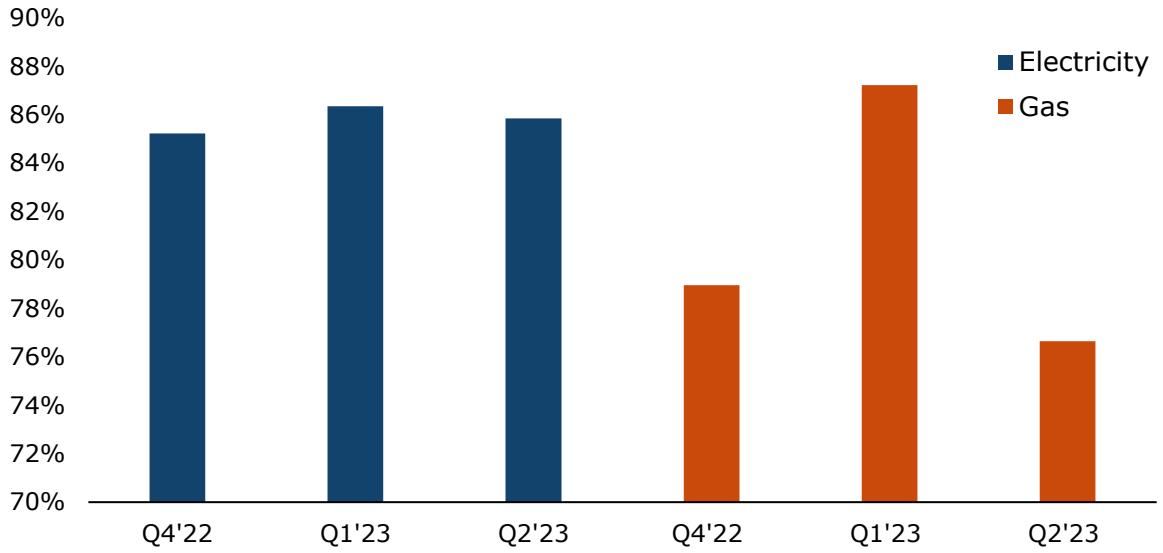
4.68 Data published by the Department for Energy Security and Net Zero (DESNZ), shown in Figure 4.2 below, support suppliers' narrative that residential demand for gas and electricity in cap periods 9a (October 2022 – December 2022), 9b (January 2023 - March 2023) and 10a (April 2023 – June 2023) was significantly lower than historical averages.[16] Unseasonably warm temperatures were observed in October 2022, November 2022 and February 2023. At the same time, unprecedently high retail prices were experienced across 9a, 9b and 10a.[17] The combination of weather and price induced demand destruction supports the claim that it was particularly challenging for suppliers to accurately forecast demand, particularly in cap periods 9a-b.

4.69 We generally expect suppliers to manage the risks associated with uncertainty in per customer demand, and we would normally expect any errors in forecasting demand to net off over time. However, as for unexpected SVT demand costs in previous adjustments, there is a case that costs associated with demand

[16] At the time of this publication, data was not available for cap period 10b. We expect DESNZ will publish Q3'23 data on 21 December 2023.
[17] See cheapest tariff chart on Ofgem data portal https://www.ofgem.gov.uk/energy-data-and-research/data-portal/retail-market-indicators

destruction that could have not been reasonably predicted or hedged for due to unprecedented market conditions could be considered systematic.[18]

Figure 4.2: Residential demand in cap periods 9a, 9b and 10a as a percentage (%) of 3 years average demand[19,20]



4.70 Our analysis of suppliers' submissions suggests that suppliers likely adopted different hedging approaches, adjusting their position at different times, in response to uncertain demand. It also suggests that these different approaches played a role in suppliers achieving different cost outcomes. Below, we describe a few illustrative examples:

- A supplier might have decided to under hedge its historical demand in anticipation of demand destruction. In a rising price scenario, this supplier might have decided to stop hedging and/or sell back some of the volumes previously hedged. In practice, this supplier would have avoided buying at higher prices and/or sold back volumes at higher prices, achieving lower wholesale costs compared to the cap allowance.

[18] In our two previous ex-post wholesale adjustments, we did recognise additional costs associated with unexpected demand which we considered could not have been reasonably predicted or hedged for. In both cases, this was demand associated with an unexpectedly high number of customers moving onto standard variable tariffs (ie unexpected SVT demand).
[19] DESNZ (last update 30 November 2023), Energy Trends: UK gas – September 2023, Natural gas supply and consumption (ET 4.1 - quarterly)
https://www.gov.uk/government/statistics/gas-section-4-energy-trends
[20] DESNZ (last update 30 November 2023), Energy Trends: UK electricity – September 2023, Supply and consumption of electricity (ET 5.2 - quarterly)
https://www.gov.uk/government/statistics/electricity-section-5-energy-trends

- A supplier might have decided to under hedge its historical demand in anticipation of demand destruction but still ended up with a long position (ie demand destruction was higher than it forecast). In a falling price scenario, the supplier would have had to sell those unexpected long volumes at lower prices, achieving higher wholesale costs compared to the cap allowances.

4.71 Suppliers are therefore likely to have achieved different cost outcomes depending on whether, how and when they adjusted their demand forecasts and hedging strategies to account for demand destruction. Different decisions or different timing of decisions, when combined with the prevailing wholesale market conditions (ie prices rising or falling or price volatility during the observation window and/or during the cap delivery period), could have lead to different cost outcomes. We therefore consider there is evidence that non-systematic factors (ie factors within suppliers' control) have likely played a role in suppliers' outcomes when trying to mitigate risks associated with demand destruction.

4.72 As discussed in paragraph 4.69, demand destruction has the potential to be systemic in nature. However, the high variation in costs outcomes and the lack of uniform direction both suggest that the overall outcome was dominated by other non-systematic factors.

Unexpected SVT demand

4.73 In previous ex-post adjustments, we considered costs associated with unexpected SVT customers that could have not reasonably predicted or hedged for, and that had a consistent impact on suppliers' outcomes, as systematic.

4.74 In cap periods 9a-10b, only some suppliers said they experienced unexpected SVT costs. Those that experienced it also experienced different outcomes (ie over or under recovering compared to the cap allowance). This weakens the case for considering unexpected SVT demand as a systematic driver in cap periods 9a-10b.

4.75 Suppliers have likely achieved different cost outcomes depending on whether, how and when they adjusted their customer number forecasts and hedging strategies to account for unexpected SVT demand (for those suppliers that did experience it). When combined with the prevailing wholesale market conditions (ie prices rising or falling or price volatility during the observation window and/or during the cap delivery period) these differences will have resulted in different realised costs. While suppliers' strategies are within their control, the context was uncertain. This may have reduced the extent to which suppliers could control their cost outcomes.

4.76 In addition, in our previous decisions on adjustment of the wholesale allowance, we have made it clear that we consider this is now a well-known risk and something suppliers should, in the absence of one-off issues, be able to manage themselves.

Other: electricity-specific drivers

4.77 Our analysis of power market liquidity across cap periods 9a and 9b corroborate suppliers' narrative. We observed the traded volumes for these cap periods was significantly lower than historical averages (excluding during the Covid 19 pandemic), prices were volatile and bid offer spreads continued to be higher. Together this points to lower liquidity. This does not mean suppliers could not access the products they wanted to purchase, rather those products were less available, prices were volatile and higher. Our analysis suggests that, overall, liquidity improved in cap periods 10a and 10b, but did not return to the level observed in cap periods prior to the changes to the wholesale methodology (introduction of a quarterly cap).

4.78 The lack of liquidity for certain products left suppliers with a choice between pursuing alternative hedging strategies or remaining partly unhedged. Several suppliers said they purchased seasonal products in lieu of quarterly products and reshaped these into quarterly products when liquidity improved. Similarly, suppliers could also have purchased baseload instead of peak products, to reshape later. Like the above-mentioned examples, the decision suppliers took could have resulted in net costs or net benefits depending on the specifics and timings of the actions taken.

4.79 One supplier told us that unexpected benign power market conditions in 9b meant base-to-peak shaping generated one-off gains, as power prices closer to delivery were significantly lower than the average price during the 9b observation window. We note that this 9b over-recovery contrasts with our expectation that an under-recovery is more likely in winter periods due to seasonality in shaping costs.

4.80 Our analysis of suppliers' responses supports that both outcomes, net costs or net benefits, were achievable when managing power market illiquidity. Suppliers' decisions on when and what to buy or sell led them to achieve outcomes in different directions. We have not seen evidence that suppliers achieving net benefits did so as a result of greater efficiency.

Conclusion

4.81 We accept that over the periods considered, particularly winter 22/23, suppliers faced market wide conditions which are likely to have affected their realised wholesale costs. These included higher than normal uncertainty about demand per SVT customer and the illiquidity of certain wholesale power products. However, analysis of the data and information provided by suppliers about their costs show that these factors did not affect suppliers in a uniform direction. This suggests supplier specific factors dominated any market wide factors.

4.82 We judge that the primary supplier specific factors that help explain the directional variance in outcomes relate to individual supplier risk management and hedging strategies. Differences in these strategies may reflect different commercial choices and risk appetites rather than differences in efficiency. Strategies may have different results in practice, even if there was not a reason to prefer one strategy upfront. We consider that suppliers making active decisions to manage their risks is a normal and healthy part of their role in the retail market, and so the lack of uniform direction in suppliers' outcomes is an indication of market health, which is in customer interest.

4.83 It is demonstrably the case, from the data we have received, that it was possible to face these market conditions and still meet costs implied by the benchmark set by the wholesale allowances over this period, or even to have lower costs.

4.84 We have also considered whether the variation in the direction of the impacts of these market conditions across suppliers reflects differences outside their control (ie so called 'non-efficiency' factors). These might include methodological differences in the data submitted or intrinsic factors about suppliers which cannot be changed over the short to medium term, like business model or customer mix.

4.85 On the first of these, our approach of using aggregated total wholesale costs and our extensive engagement with suppliers through the putback process leaves us confident that the directional variation in outcomes is unlikely to be a methodological artifact rather than something real.

4.86 On the second, we have not found any strong correlations between whether a supplier's costs exceeded or fell below the allowances and characteristics, such as the share of total wholesale costs accounted for by shaping and imbalance costs or unexpected SVT demand. It therefore does not seem likely that suppliers that under-recovered their costs did so because they were more exposed to potentially systematic cost drivers like unexpected SVT demand or excess shaping and imbalance costs.

4.87 In summary, the lack of uniform direction in outcomes, with no clear explanation outside of the impact of suppliers' different responses to market conditions, strongly suggests that the average under-recovery for gas and average over-recovery for electricity do not reflect either unavoidable additional costs or windfall gains. We therefore do not consider it appropriate to make an adjustment to the additional wholesale costs allowance.

Benchmarking considerations

4.88 Our judgement is that there has been no systematic difference between allowances and costs. Benchmarking in these circumstances becomes redundant. This is because the aim of benchmarking is to help assess what notionally efficient costs may be, while recognising the uncertainty around whether costs have or have not been efficiently incurred.

4.89 Finding no systematic differences between costs and allowances implies that allowances were sufficient to allow the recovery of efficiently incurred costs and so benchmarking is not needed to assess notionally efficient costs. We can just refer to the allowances. For this reason, we do not provide a discussion of benchmarking considerations.

5. Next steps

This chapter sets out the immediate next steps for this consultation and medium-term priorities for our review of the enduring wholesale allowances.

Questions

Q2. Are the three topic areas identified for medium-term review the right priorities? If not, what alternative topics should be considered?

Q3. What is the relative order of priority between the three broad areas identified for review?

Q4. Within each topic, are there any specific areas of focus you consider should be in scope?

Q5. Do you have any initial views to share on the topics identified, or more broadly?

Decision

5.1 We welcome views on the proposals and considerations discussed in this consultation, including on the methodology and calculations used to consider whether an adjustment is appropriate. Please send your response to priceprotectionpolicy@ofgem.gov.uk by close of business 17 January 2024.

5.2 Following this consultation, we intend to publish our final decision in February 2024.

Medium-term wholesale review

5.3 We set out in our programme of work publication that a review of the wholesale cost allowance was a medium-term priority. We consider that there are three broad areas, covering both the current and the future functioning of the wholesale costs allowances, which may be worth exploring.

5.4 These are:

i. Wholesale allowance methodologies

- Updating the additional wholesale allowances using up to date data. Considering any other methodological changes which could improve the functioning of the allowances.

ii. Review of the policy to move to quarterly cap updates

- How have customers experienced and understood the move to quarterly updates? How did the change affect wholesale market

liquidity? Does the approach to recovering backwardation costs, including the recovery period, remain appropriate?

iii. Wholesale methodology under market-wide half hourly settlement (MHHS)

- Do the wholesale allowances need to be changed considering the move to MHHS? If so, how?

5.5 The scope and timing of any reviews looking into the above topics are yet to be decided. As a result, we would welcome stakeholder feedback on:

- Whether these are the most valuable three areas for investigation.
- The relative priority to be given to each topic.
- Within each topic, any specific areas of focus you consider should be in scope.
- Any initial thoughts on each topic.

5.6 We would welcome feedback on the above, or any more general feedback on the wholesale allowances, as part of your response to this consultation or separately early in the new year. Early feedback on these topics will help us to set the scope for future reviews.

Appendices

Appendix 1 – Methodology to compare the wholesale allowances and costs

Variable indices

i= supplier

j = cap period

p = {Electricity, Gas}

q = {non-PPM, PPM}

r = {Other SVT, Unexpected SVT}

s = region

Costs per SVT customer

A1.1 We calculate the cost per SVT customer simply as the total wholesale costs divided by the total number of SVT customers for each supplier (**i**), cap period (**j**) and fuel (**p**).

$$Cost\_per\_customer_{i,j,p} = \frac{\sum_{qr} Total\_Wholesale\_costs_{i,j,p,q,r}}{\sum_{qr} Customers_{i,j,p,q,r}}$$

Where;

$$Total\_Wholesale\_costs_{i,j,p,q,r} = Bulk\_wholesale_{i,j,p,q,r} + Shaping_{i,j,p,q,r} + Imbalance_{i,j,p,q,r}$$

Allowance per SVT customer

A1.2 We calculate the wholesale allowances per SVT customer for each supplier (**i**), cap period (**j**), fuel (**p**) and payment type (**q**) by multiplying the allowance per unit (£/MWh) by the average consumption per customer.

$$Allowance\_per\_customer_{i,j,p,q} = Allowance\_per\_MWh_{j,p,q}\ Average\_consumption_{i,j,p,q}$$

A1.3 As allowances differ by payment type (**q**) we calculate the allowance per customer for each payment type and then take a customer weighted average.

$$Allowance\_per\_customer_{i,j,p} = \frac{\sum_q Allowance\_per\_customer_{i,j,p,q} Customers_{i,j,p,q}}{\sum_q Customers_{i,j,p,q}}$$

A1.4 Where average consumption is a weighted average across SVT customer segments (**r**) (unexpected and other);

$$Average\_consumption_{i,j,p,q} = \frac{\sum_r Average\_consumption_{i,j,p,q,r} Customers_{i,j,p,q,r}}{\sum_r Customers_{i,j,p,q,r}}$$

A1.5 And where the allowance per unit is calculated as below;

$$Allowance\_per\_MWh_{j,p,q} = direct\_fuel\_index_{j,p,q}(1 + Uplifts_{j,p})$$

Where;

$$Uplifts_{j,p} = \sum \big(shaping\_allowances_{j,p} + imbalance\_allowance_{j,p} + transaction\_costs_{j,p} + losses_{j,p}\big)$$

And;

$$losses_{j,p} = I_p\, UIG_j + (1 - I_p)\left|1 - \frac{\sum_s power\_losses_{j,s}}{14}\right|;\ I_p = \begin{cases} 1\ if\ p = Gas \\ 0\ otherwise \end{cases}$$

A1.6 The allowance variables are taken from the sources below for each cap period (**j**) and fuel (**p**) and payment type (**q**)

Variable	Source(s)
$direct\_fuel\_index_{j,p,q}$	For cap period 9a (October 2022-December 2022) and 9b (January 2023 – March 2023) we use the Annex 2 model v1.15[21] as published on the 27 February; sheet "8a(iii) Backwardation calc"; reference AB16:AC19 For cap periods 10a (April 2023 – June 2023) and 10b (July 2023 – September 2023) we use the Annex 2 model v1.171[22] as published on the 25 May 2023; sheet "8a(iii) Backwardation calc"; reference H136:I139
$shaping\_allowances_{j,p}$	Annex 2 model v1.171[22]; sheet "3a allowances" Electricity Single-Rate Metering Arrangement: Seasonal to monthly shaping + Monthly peak/baseload to hourly shaping + Rehedging day ahead Gas non-PPM & PPM: Quarterly to monthly shaping + Rehedging day ahead
$imbalance\_allowance_{j,p}$	Annex 2 model v1.171[22]; sheet "3a allowances"; Imbalance
$transaction\_costs_{j,p}$	Annex 2 model v1.171[22]; sheet "3a allowances"; Transaction costs
UIG_j	Annex 2 model v1.171[22]; sheet "3a allowances"; Unidentified gas
$power\_losses_{j,s}$	Annex 2 model v1.171[22]; sheet "3a allowances"; Tab 3c Electricity Losses; Single-Rate Metering Arrangement

Comparison between costs and allowances

A1.7 We calculate the difference between costs incurred and the allowances simply by subtracting the former from the latter for each supplier (**i**), cap period (**j**) and fuel (**p**).

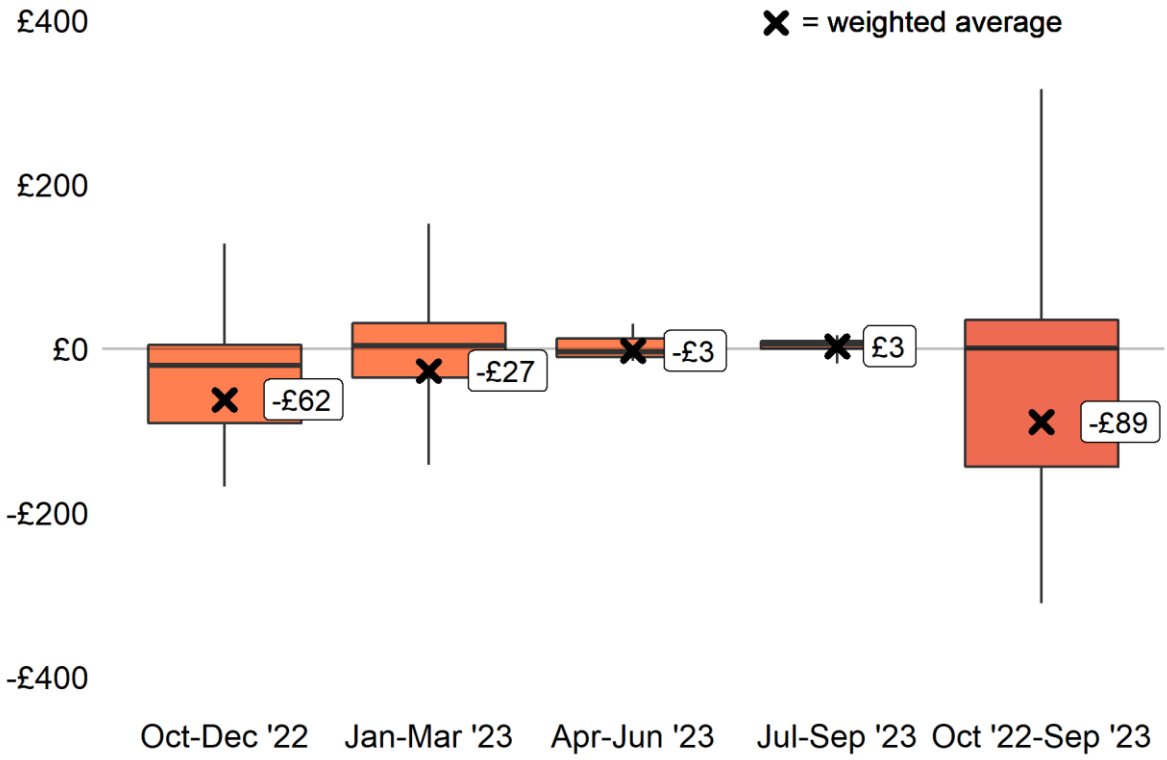
$$Delta_{i,j,p} = Allowance\_per\_customer_{i,j,p} - Cost\_per\_customer_{i,j,p}$$

[21] Ofgem (2023), "Default tariff cap level: 1 April 2023 to 30 June 2023" , https://www.ofgem.gov.uk/publications/default-tariff-cap-level-1-april-2023-30-june-2023
[22] Ofgem (2023), "Default tariff cap level: 1 July 2023 to 30 September 2023", https://www.ofgem.gov.uk/publications/default-tariff-cap-level-1-july-2023-30-september-2023

Appendix 2 – Detail on gas analysis

A2.1 In this appendix, we discuss differences between the gas wholesale allowances and suppliers' incurred costs, at quarterly granularity.

Figure A2.1: Wholesale allowances minus costs, £ per SVT customer at benchmark consumption - gas



Cap period 9a & 9b (October 2022 – March 2023)

A2.2 As mentioned in Chapter 4, differences between wholesale allowances and suppliers' costs in cap period 9a and 9b show a lack of uniform direction and a particularly high degree of variation across suppliers.

A2.3 In cap period 9a, five suppliers (33% market share) experienced an over-recovery with a wide range of +£0.01 to +£128 per SVT gas customer. Five suppliers (67%) under-recovered with a wide range of -£41 to -£168 per SVT gas customer. Similarly, in cap period 9b five suppliers (35%) experienced an over-recovery with a wide range of +£17 to +£152, while five suppliers (64%) under-recovered with a wide range of -£10 to -£142.

A2.4 Data published by the National Gas Transmission[23] supports suppliers' narratives that cap period 9a and 9b have been characterised by unseasonably warm temperatures in October 2022 and November 2022 (9a) and February 2023 (9b). Historically high retail prices were also present across both periods. It is likely that a combination of these two factors made it particularly challenging for suppliers to accurately forecast demand in cap periods 9a and 9b.

A2.5 As explained in Chapter 4, suppliers have likely adopted different risk management and hedging strategies, adjusting their positions at different times, in response to uncertain demand. These different approaches have likely led suppliers to achieve the different outcomes as illustrated in Figure A2.1.

A2.6 As the chart shows, the weighted average in cap period 9b is less negative than in 9a. It suggests that suppliers, after experiencing demand uncertainty in 9a, mitigated some of the impacts in cap period 9b. Suppliers' responses also suggest that, in some cases, they could not adjust their forecasts and/or hedging strategies for 9a, as the observation window had already closed. Such changes would have instead been reflected in 9b, in some cases, leading to lower costs.

Cap period 10a & 10b (April 2023 – September 2023)

A2.7 Differences between wholesale allowances and suppliers' costs in cap periods 10a and 10b also show a lack of uniform direction, but a much narrower degree of variation across suppliers than in cap periods 9a and 9b.

A2.8 In cap period 10a, four suppliers (29% market share) experienced an over-recovery with a narrow range of +£6 to £+30 per SVT gas customer, while six suppliers (70%) under-recovered with a narrow range of -£2 to -£15 per SVT gas customer. In 10b, seven suppliers (67%) experienced an over-recovery with a narrow range of +£1 to +£16, while three suppliers (32%) under-recovered with a narrow range of -£1 to -£18.

A2.9 A combination of factors has likely made it easier for suppliers to forecast demand more accurately in cap periods 10a and 10b. Gas demand is more weather-sensitive than electricity demand, as gas is the primary source of household heating in GB. However, weather changes are less likely to affect demand levels during summer cap periods, such as 10a and 10b. Suppliers' responses also suggest that certain market conditions, like the EPG extension at the £2,500 level, gave them more certainty over

[23] National Gas Transmission, Data Item Explorer, select Composite Weather Variable Actual & Normal. https://data.nationalgas.com/find-gas-data/

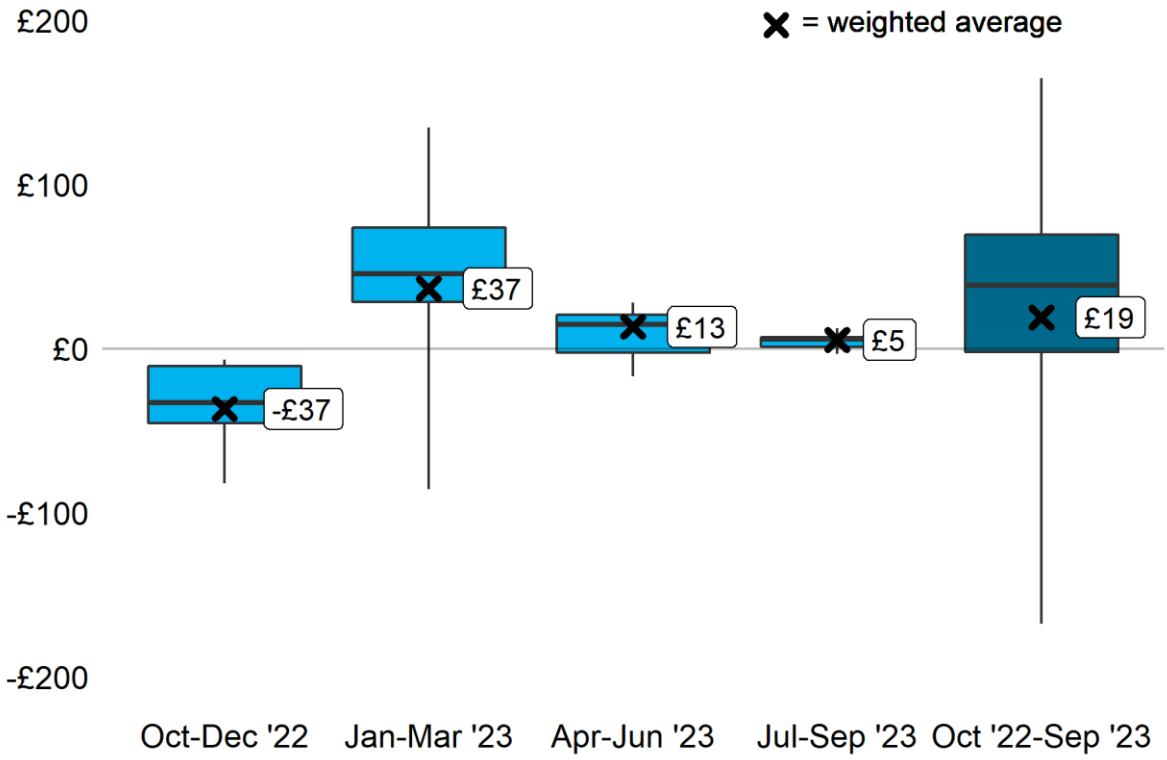
customers' behaviour. Lastly, the move to quarterly updates might have helped suppliers mitigating the impact of unexpected SVT demand.

A2.10 The factors mentioned above, combined with a decrease in price volatility, have likely made it easier for suppliers to forecast demand across 10a and 10b, leading them to incur costs that are closer to the cap allowances, and reducing the degree of variation.

Appendix 3 – Detail on electricity analysis

A3.1 In this appendix, we discuss differences between the electricity wholesale allowances and suppliers' incurred costs, at quarterly granularity.

Figure A3.1: Wholesale allowances minus costs in £ per SVT customer at benchmark consumption – electricity



Cap period 9a & 9b (October 2022 – March 2023)

A3.2 In cap period 9a, differences between wholesale allowances and suppliers' costs point to a singular outcome, ie all suppliers under-recovered their costs, and show a narrow degree of variation. In cap period 9b, suppliers' differences instead do not point to a uniform direction and show a wide degree of variation.

A3.3 In cap period 9a, all suppliers experienced an under-recovery with a range of -£7 to -£82 per SVT gas customer. In cap period 9b, instead, eight suppliers (79% market share) experienced an over-recovery with a wide range of +£27 to +£135, while two suppliers (21%) under-recovered with a wide range of -£2 to -£86.

A3.4 As explained in Chapter 4, suppliers have likely adopted different risk management and hedging strategies, adjusting their positions at different times, in response to liquidity issues and volatility that were particularly acute throughout the observation windows and delivery periods of cap periods 9a and 9b. These different

approaches have likely led suppliers to achieve the different outcomes illustrated in Figure A3.1

A3.5 It is likely that in cap period 9b, most suppliers over-recovered since unexpected benign power market conditions meant base-to-peak shaping generated one-off gains. The fact that some suppliers still under-recovered corroborates the claim that different approaches to manage illiquidity and volatility have led to different outcomes.

Cap periods 10a & 10b (April 2023 – September 2023)

A3.6 Differences between wholesale allowances and suppliers' costs in cap periods 10a and 10b also show a lack of uniform direction but a much narrower degree of variation across suppliers than in cap periods 9a and 9b.

A3.7 In cap period 10a, seven suppliers (87% market share) experienced an over-recovery with a narrow range of +£5 to £+28 per SVT gas customer, while three suppliers (13%) under-recovered with a narrow range of -£5 to -£17 per SVT gas customer. In 10b, eight suppliers (89%) experienced an over-recovery with a narrow range of +£1 to +£12, while two suppliers (10%) under-recovered with a narrow range of -£2 to -£3.

A3.8 As mentioned in Chapter 4, our analysis suggests liquidity improved in cap periods 10a and 10b, even though it did not return to historic level.

A3.9 A reduction in illiquidity has likely made it easier for suppliers to achieve costs that are closer to the cap allowances, reducing the degree of variation across suppliers.

Appendix 4 – Technical Changes to 'Annex 2 - Wholesale Cost Allowance Methodology' Model

A4.1 In this appendix, we propose two minor technical changes to the Annex 2 – Wholesale Cost Allowance Methodology model. The first proposed change relates to how demand shares are communicated in the annex to improve transparency. The second proposed change is to communicate a requisite change of input related to the Capacity Market Cost Allowance Methodology. Subject to feedback, we expect both proposed changes to take effect from April 2024 (ie from Charge Restriction Period 12a) onwards.

Changes to demand shares for historical transparency

A4.2 In this section, we propose a minor technical change to the format of tab '3b Demand' in the Annex 2 Wholesale Cost Allowance Methodology model.

Current methodology

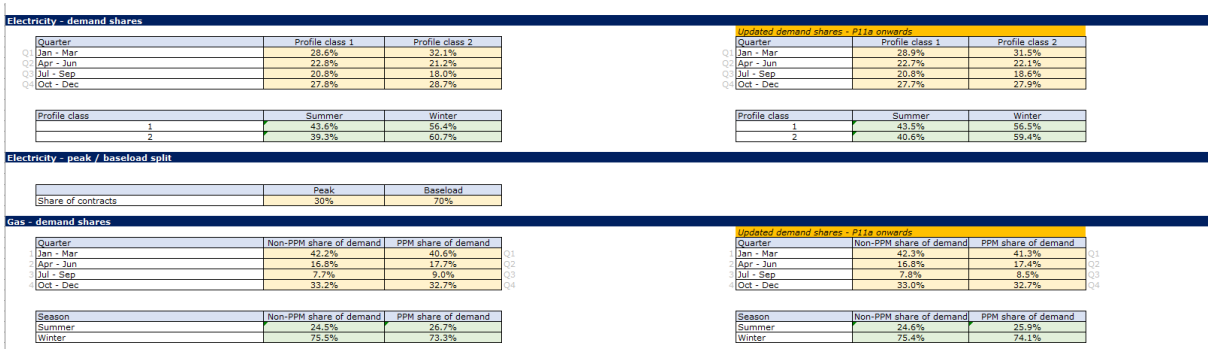
A4.3 Under the current Annex 2 model format, in tab '3b Demand', demand shares are provided in a single table which is updated when new demand shares become available.

Identified transparency risk

A4.4 We have identified a potential transparency risk affected by simply updating the table in '3b demand' in Annex 2 or adding a new table when demand shares are available. At present, when updated demand shares become available, previous demand share values are overwritten, leaving no historic record of any previous demand shares, and causing historic adjustments in demand data. This has no impact on the final published price cap but does impact historic demand figures.

A4.5 In the August 2023 announcement for Charge Restriction Period 11a (Oct - Dec 2023), we made a requisite change to Annex 2 '3b Demand' whereby an additional table displaying historical demand shares was inserted adjacent to revised demand shares. This is shown in Figure A4.1.

Figure A4.1: The inserted secondary table in tab '3b Demand' in the current version of Annex 2.



Electricity - demand shares

	Quarter	Profile class 1	Profile class 2
Q1	Jan - Mar	28.6%	32.1%
Q2	Apr - Jun	22.8%	21.2%
Q3	Jul - Sep	20.8%	18.0%
Q4	Oct - Dec	27.8%	28.7%

Profile class	Summer	Winter
1	43.6%	56.4%
2	39.3%	60.7%

Updated demand shares - P11a onwards

	Quarter	Profile class 1	Profile class 2
Q1	Jan - Mar	28.9%	31.5%
Q2	Apr - Jun	22.7%	22.1%
Q3	Jul - Sep	20.8%	18.6%
Q4	Oct - Dec	27.7%	27.9%

Profile class	Summer	Winter
1	43.5%	56.5%
2	40.6%	59.4%

Electricity - peak / baseload split

	Peak	Baseload
Share of contracts	30%	70%

Gas - demand shares

	Quarter	Non-PPM share of demand	PPM share of demand	
1	Jan - Mar	42.2%	40.6%	Q1
2	Apr - Jun	16.8%	17.7%	Q2
3	Jul - Sep	7.7%	9.0%	Q3
4	Oct - Dec	33.2%	32.7%	Q4

Season	Non-PPM share of demand	PPM share of demand
Summer	24.5%	26.7%
Winter	75.5%	73.3%

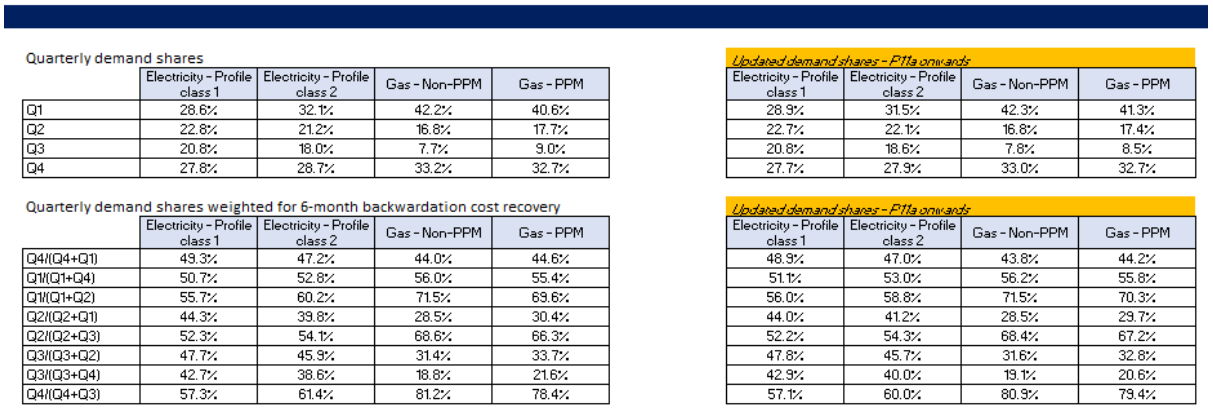
Updated demand shares - P11a onwards

	Quarter	Non-PPM share of demand	PPM share of demand	
1	Jan - Mar	42.3%	41.3%	Q1
2	Apr - Jun	16.8%	17.4%	Q2
3	Jul - Sep	7.8%	8.5%	Q3
4	Oct - Dec	33.0%	32.7%	Q4

Season	Non-PPM share of demand	PPM share of demand
Summer	24.6%	25.9%
Winter	75.4%	74.1%

A4.6 An additional table was also inserted into tab '8a Backwardation' to show weighted demand shares over the six-month Backwardation recovery period, as shown in Figure A4.2. The relevant formula has been updated to reflect the new table.

Figure A4.2: The inserted secondary table and calculations in tab '8a Backwardation' in Annex 2



Quarterly demand shares

	Electricity - Profile class 1	Electricity - Profile class 2	Gas - Non-PPM	Gas - PPM
Q1	28.6%	32.1%	42.2%	40.6%
Q2	22.8%	21.2%	16.8%	17.7%
Q3	20.8%	18.0%	7.7%	9.0%
Q4	27.8%	28.7%	33.2%	32.7%

Updated demand shares - P11a onwards

Electricity - Profile class 1	Electricity - Profile class 2	Gas - Non-PPM	Gas - PPM
28.9%	31.5%	42.3%	41.3%
22.7%	22.1%	16.8%	17.4%
20.8%	18.6%	7.8%	8.5%
27.7%	27.9%	33.0%	32.7%

Quarterly demand shares weighted for 6-month backwardation cost recovery

	Electricity - Profile class 1	Electricity - Profile class 2	Gas - Non-PPM	Gas - PPM
Q4/(Q4+Q1)	49.3%	47.2%	44.0%	44.6%
Q1/(Q1+Q4)	50.7%	52.8%	56.0%	55.4%
Q1/(Q1+Q2)	55.7%	60.2%	71.5%	69.6%
Q2/(Q2+Q1)	44.3%	39.8%	28.5%	30.4%
Q2/(Q2+Q3)	52.3%	54.1%	68.6%	66.3%
Q3/(Q3+Q2)	47.7%	45.9%	31.4%	33.7%
Q3/(Q3+Q4)	42.7%	38.6%	18.8%	21.6%
Q4/(Q4+Q3)	57.3%	61.4%	81.2%	78.4%

Updated demand shares - P11a onwards

Electricity - Profile class 1	Electricity - Profile class 2	Gas - Non-PPM	Gas - PPM
48.9%	47.0%	43.8%	44.2%
51.1%	53.0%	56.2%	55.8%
56.0%	58.8%	71.5%	70.3%
44.0%	41.2%	28.5%	29.7%
52.2%	54.3%	68.4%	67.2%
47.8%	45.7%	31.6%	32.8%
42.9%	40.0%	19.1%	20.6%
57.1%	60.0%	80.9%	79.4%

Proposal

A4.7 Our proposed change is to expand the current demand tab to encompass all historic and future periods for relevant demand share values for each fuel and meter type (where the relevant data is available), as well as for the corresponding six-month backwardation recovery share within tab '3b Demand' (Figure A4.3). This would align the '3b Demand' tab with other models by adding a time series in place of a single table. As a consequence of this change, the following tabs will have updated formula in order to capture the relevant demand shares: '2a(iii) Elec 3-1.5-12', '2b(iii) Non-PPM gas 3-1.5-12', '2c(iii) PPM gas 3-1.5-12', '8a(i) Backwardation', '8a(i) Backwardation (2)', '8a(iii) Backwardation calc', '8b(ii) Elec 3-1.5-12', '8b(iv) Elec 3-1.5-3', '8c(ii) Non-PPM

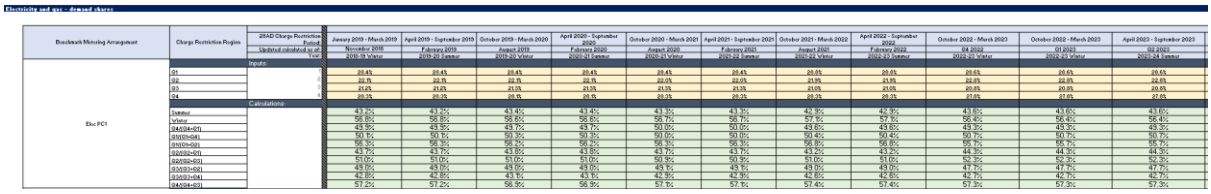
gas 3-1.5-12', '8c(iv) Non-PPM gas 3-1.5-3', '8d(ii) PPM gas 3-1.5-12', '8d(iv) PPM gas 3-1.5-3'

Figure A4.3: Our proposed format for the updated demand shares section of '3b Demand' in Annex 2

Benchmark Metering Arrangement	Charge Restriction Region	28AD Charge Restriction Period:	January 2013 - March 2013	April 2013 - September 2013
		Updated calculated as of:	November 2018	February 2019
		Year:	2018-19 Winter	2019-20 Summer
Elec PC1		Inputs:		
	Q1	1	28.4%	28.4%
	Q2	2	22.1%	22.1%
	Q3	3	21.2%	21.2%
	Q4	4	28.3%	28.3%
		Calculations:		
	Summer		43.2%	43.2%
	Winter		56.8%	56.8%
	Q4/(Q4+Q1)		49.9%	49.9%
	Q1/(Q1+Q4)		50.1%	50.1%
	Q1/(Q1+Q2)		56.3%	56.3%
	Q2/(Q2+Q1)		43.7%	43.7%
	Q2/(Q2+Q3)		51.0%	51.0%
	Q3/(Q3+Q2)		49.0%	49.0%
	Q3/(Q3+Q4)		42.8%	42.8%
	Q4/(Q4+Q3)		57.2%	57.2%
Elec PC2		Inputs:		
	Q1	1	31.0%	31.0%
	Q2	2	21.1%	21.1%
	Q3	3	18.4%	18.4%
	Q4	4	29.5%	29.5%
		Calculations:		
	Summer		39.5%	39.5%
	Winter		60.5%	60.5%
	Q4/(Q4+Q1)		48.7%	48.7%
	Q1/(Q1+Q4)		51.3%	51.3%
	Q1/(Q1+Q2)		59.6%	59.6%
	Q2/(Q2+Q1)		40.4%	40.4%
	Q2/(Q2+Q3)		53.3%	53.3%
	Q3/(Q3+Q2)		46.7%	46.7%
	Q3/(Q3+Q4)		38.5%	38.5%
	Q4/(Q4+Q3)		61.5%	61.5%
Gas non-PPM		Inputs:		
	Q1	1	41.3%	41.3%
	Q2	2	16.3%	16.3%
	Q3	3	7.8%	7.8%
	Q4	4	33.4%	33.4%
		Calculations:		
	Summer		24.7%	24.7%
	Winter		75.3%	75.3%
	Q4/(Q4+Q1)		44.4%	44.4%
	Q1/(Q1+Q4)		55.6%	55.6%
	Q1/(Q1+Q2)		71.2%	71.2%
	Q2/(Q2+Q1)		28.8%	28.8%
	Q2/(Q2+Q3)		68.4%	68.4%
	Q3/(Q3+Q2)		31.6%	31.6%
	Q3/(Q3+Q4)		18.9%	18.9%
	Q4/(Q4+Q3)		81.1%	81.1%
Gas PPM		Inputs:		
	Q1	1		
	Q2	2		
	Q3	3		
	Q4	4		
		Calculations:		
	Summer		0.0%	0.0%
	Winter		0.0%	0.0%
	Q4/(Q4+Q1)		#DIV/0!	#DIV/0!
	Q1/(Q1+Q4)		#DIV/0!	#DIV/0!
	Q1/(Q1+Q2)		#DIV/0!	#DIV/0!
	Q2/(Q2+Q1)		#DIV/0!	#DIV/0!
	Q2/(Q2+Q3)		#DIV/0!	#DIV/0!
	Q3/(Q3+Q2)		#DIV/0!	#DIV/0!
	Q3/(Q3+Q4)		#DIV/0!	#DIV/0!
	Q4/(Q4+Q3)		#DIV/0!	#DIV/0!

A4.8 The demand shares table will also be extended out to 2030 to account for all future demand share updates, as shown in Figure A4.5. This approach is consistent with other sections in Annex 2, where values are updated quarterly and have been extended to 2030.

Figure A4.5: a brief section of the historic and future extension of the demand shares table in '3b Demand' in Annex 2



A4.9 We welcome stakeholder views on the proposed technical changes outlined in this section.

Input change to Capacity Market Cost Allowance Methodology

Identified Issue

A4.10 The government issued a consultation in May 2023[24] where it proposed exempting Energy Intensive Industries (EIIs) from 100% of their Capacity Market (CM) charges. The government subsequently confirmed in September 2023[25] its intention to go ahead with the implementation of this policy. As a result, the input to CM calculations called 'peak gross demand' will no longer be provided by Low Carbon Contracts Company (LCCC).

Proposal

A4.11 The LCCC will be publishing a new measure called 'peak relevant demand' to account for this policy change from April 2024. We propose to incorporate this successor data source from charge restriction period 12a (commencing 1 April 2024), due to be announced in February 2024. This change will necessitate a minor structural change to Annex 2[26]. We consider this proposal accurately reflects the government's policy change in the CM allowance. We do not consider that any other inputs would deliver the policy

[24] Department for Business & Trade (2023), Consultation on the British Industry Supercharger package for strategic Energy Intensive Industries (EIIs). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1168041/consultation-on-the-british-industry-supercharger-package-for-strategic-energy-intensive-industries.pdf

[25] Department for Business & Trade (2023), Government consultation response for British Industry Supercharger package for strategic Energy Intensive Industries (EIIs): Capacity Market exemption. https://www.gov.uk/government/consultations/british-industry-supercharger-capacity-market-consultation-and-eiis-government-response/outcome/government-consultation-response-for-british-industry-supercharger-package-for-strategic-energy-intensive-industries-eiis-capacity-market-exemption#summary-of-the-consultation

[26] Ofgem (2023), Wholesale cost allowance methodology (Annex 2), tab 6d Winter peak demand. https://www.ofgem.gov.uk/publications/energy-price-cap-default-tariff-1-january-31-march-2024

intent, therefore we do not give consideration to alternative options to replace 'peak gross demand'.

A4.12 We welcome stakeholder views on the proposed technical changes outlined in this section.

Appendix 5 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name, address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We may share consultation responses with officials from the Department for Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 6 months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it

- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our "ofgem privacy promise".[27]

[27] https://www.ofgem.gov.uk/ofgem-privacy-policy