



Consumer Champion for the Over-50s

Dan Norton,  
Ofgem,  
10 South Colonnade,  
Canary Wharf,  
London  
E14 4PU

11 October 2023

Dear Dan,

**Over50smoney response to Open letter on the review of Additional Wholesale Cost Allowance**

Please see below for my answers to the questions listed in the open letter posted for the review of the additional wholesale cost allowance.

I'm sure my responses will provide no surprise, as I have been vocal on my desire to get the price cap allowances to drop and on my disappointment at each decision taken to increase allowances.

The general tone of this open letter indicates that there is a likelihood that the allowance will drop, which I welcome wholeheartedly. I'd like to take this opportunity to thank you personally Dan for discussing with me on previous occasions the correct way to influence change on a price cap allowance consultation. When the consultation opens I hope it is a policy consultation rather than a statutory consultation, so that we might have chance to further influence any decisions before they are taken.

I would like to also take this opportunity to raise concern on the putback process Ofgem initiated in response to stakeholders request for sharing underlying data. You've taken a one-sided approach of allowing suppliers to review and comment on the analysis but not consumer groups. Either both sides should get to provide feedback or neither side should, suppliers have been given the opportunity to have influence over the analysis Ofgem are using to make decisions but consumer groups and charities have not, this seems unfair and likely to result in an outcome unfavourable for consumers.

Going forward, I'd like to request symmetrical treatment of data and analysis, either allow everyone to have input and opportunity to review or allow no one to and inform suppliers that they must trust Ofgem's analysis of data provided in the same way consumer groups have to.

If you have any questions on the answers provided below, please contact me at [richard@over50smoney.com](mailto:richard@over50smoney.com).

Kind regards,

**Richard Winstone**  
**Director**  
**Over50smoney**

## Answers to questions provided in the wholesale review open letter

1. *To what extent do you agree or disagree with the overarching principles we have set out? Are there any additional principles you think we should consider when making a decision? Please fully explain your answer.*

I fully agree with the first overarching principle of protecting customers. As you have stated further in the document, you've previously made many upward adjustments of the cap in support of suppliers in the last 2 years, if a downward adjustment is identified as necessary then we expect Ofgem to make said adjustment as quickly as possible.

I believe that the adjustment should be taken focused on ensuring the big 6 suppliers are being incentivised to improve efficiencies as far as possible. These big 6 represent over 90% of UK households, if the smaller suppliers are being more efficient then the big 6 need an allowance that forces them to become more efficient or pay the cost of being inefficient.

I agree that suppliers should reap both the rewards and costs of commercial choices, however, as you state in this document, it may be difficult to discern how much of a benefit/cost is to be attributed to business decisions and how much is attributed to external factors. It may be best to ignore whether the causes of changes are attributed to external or internal factors and just assess if, across the sample of suppliers, the allowance has been too high or too low and then make the appropriate adjustment. In this way, over time, it is likely that the good and bad commercial decisions across samples of suppliers will balance out and the only remaining factors are external.

2. *Given that Ofgem must exercise its functions under the Act with a view to protecting existing and future customers on standard variable and default tariffs, to what extent should suppliers be able to retain benefits or bear costs from (relating to principles 1 and 3):*
  - a. *overall market movements (eg in SVT demand or price driven demand destruction), that are outside of their control?*
  - b. *commercial decisions (eg hedging strategies), that deviate from the assumed behaviour in the price cap? Does your answer differ whether the impact is a cost or a benefit to suppliers? If so, why?*

I do not agree with the structure of the cap, in which all of a suppliers costs can be passed on to consumers, but this is not the place to try to overhaul the price cap mechanism. Working under the fact that the cap has to remain in place, I'd say that external market forces should be passed on to consumers, whether they are negative or positive but commercial decisions should be borne by the suppliers, whether negative or positive.

With my above statement being true, it does lead me to believe that added padding in allowances should be removed, otherwise the consumer is consistently overpaying. This refers to things like the 1% additional risk and uncertainty allowance built into this allowance, the headroom allowance and other forms of padding built into allowances in the cap.

3. *To what extent should we align to the approach taken for previous wholesale decisions? Has suppliers' ability to mitigate risks changed over time, or are there*

*other relevant changes in circumstances which would impact suppliers' ability to mitigate risks?*

Suppliers have faced limited risks over the last year thanks primarily to heavy support from Ofgem. You've increased, added or altered the formulae of over a dozen allowances in the last 2 years to support energy suppliers and limit their risks. The switching market has effectively died and there appears to be no signs of a competitive landscape anywhere close to similar to what was available in the UK prior to the crisis.

Additionally, over 90% of the country is supplied by just 6 suppliers. These suppliers have the security of knowing they have almost no chance of losing a significant number of customers any time soon. Energy suppliers are sitting pretty.

I found it frankly insulting when the backwardation allowance gave suppliers the ability to recoup costs over 6 months rather than the usual 12, this was just an unnecessary extra pressure on households that was designed to further reduce supplier risks.

So, my views on aligning the approach taken for previous wholesale decisions? Don't. Suppliers have extremely limited risks at the moment that are almost entirely mitigated by excessive allowances in the cap, huge recouperations of backwardation costs, an increased profit allowance and a dampened competitive landscape. They are safe, they are protected, it is time to start using the cap to protect consumers from suppliers again.

4. *Are there other considerations we should have when differentiating between an overall market movement (eg customers remaining on SVT tariffs), as opposed to an individual supplier's risk management strategy (ie between systemic and idiosyncratic risks)? To what extent should this include consideration of the number of suppliers who adopted a particular strategy?*

I think it's important to note that customers staying on SVT tariffs is more of a supplier's risk management strategy than it is a market movement. Customers aren't staying on SVTs because they love paying price cap levels, they're staying there because the few fixed rate deals being offered by suppliers are poor and almost none of them are available for switching on price comparison websites, so it's hard for customers to track down good deals available to them at the moment.

5. *Do you agree with our high-level approach to differentiating between impacts caused by commercial decisions and external events? Where we see discrepancies between costs and allowances, what evidence should be considered to distinguish between the impact of commercial choices versus the impact of market movements outside of a supplier's control?*

As stated in my answer to question 1, I think it'll be too difficult to clearly discern between costs/benefits caused by commercial decisions and those caused by external market factors.

6. *Given the variability in supplier approaches, and that Ofgem can only set one price cap level, how should we weight the commercial decisions made by some, but not all, suppliers? For example, if all suppliers benefited from market movements outside their control but only some suppliers also took commercial decisions which created further benefit.*

If all suppliers benefited from market movements then these benefits should be passed on to consumers by reducing the allowance for that cost. If some suppliers took commercial decisions that added further benefit then they should reap that benefit, if some suppliers took commercial decisions that reduced the benefits of the market movements then they should suffer the impact of those commercial decisions.

- 7. Before adjusting for any gains or losses, are there any particular factors that we should consider offsetting through other allowances (eg headroom)? If suggesting an offsetting allowance, please explain why.*

I am confused as to why there is an additional risk and uncertainty allowance built into the wholesale allowance if the purpose of the headroom allowance is to cover additional risks and uncertainty in the market. It feels like double counting, either have the headroom allowance and remove padding from all other allowances, or remove the headroom allowance and keep specific padding in the other allowances.

I think it important for consumers to know they aren't double paying for inefficiencies, the additional risk and uncertainty allowance should be removed.

Although, I'd like to reiterate my earlier sentiment that I think both the padding and the headroom allowance should be removed, having additional allowances and "just-in-case" padding built in will inevitably mean consumers consistently over-pay for their energy, to the benefit of suppliers.

- 8. What benchmark approaches should we consider and why? Should the approach differ based on the direction of a potential adjustment?*

It is my very biased opinion that whichever benchmark offers the greatest reduction in costs to consumers should be used. The entire country is suffering from the energy crisis and the cost-of-living crisis, whilst suppliers are lapping up record profits. I request, on behalf of everyone, as much respite as Ofgem can give us. Let suppliers make a fair margin of profit, sure, but the profits are too high right now and the countries personal finances are too tight, cut the cap.

- 9. Please also provide any additional views that may not be captured by the outlined questions.*

Many of Ofgem's decisions of the last 2 years have been to upwardly adjust allowances and allow suppliers to recoup costs that weren't appropriately covered. If the review of the wholesale allowance shows suppliers have been given too much allowance then I ask that the allowance is reduced not simply to a level that covers costs more appropriately but to a further reduced level that allows consumers to recoup the over allowance suppliers have benefited from.