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This response is not classed as confidential.

Ecotricity Response to Ofgem's minded decision to make no adjustment to the price cap for wholesale costs incurred between October 2022 and September 2023

Dear Colleagues,

As a pioneer in the green energy sector since 1995, with over 165,000 domestic and non-domestic supply accounts and more than 100MW of self-developed renewable generation capacity, Ecotricity's commitment to providing fair and transparent pricing aligns with measures that protect consumers.

We note the minded to decision from Ofgem to make no adjustment to the price cap for wholesale costs incurred between October 2022 and September 2023. We do not hold a strong position in terms of this decision, however, would highlight the challenges for suppliers created through an exceptionally volatile wholesale market (in relation to balancing and shaping costs) and significant consumer behavioural changes leading to demand destruction. The combination of these factors made it challenging to accurately balance short term demand with both a risk and reward opportunity in any trading decision due to the high levels of variance in wholesale market price; both in short term markets and within day actions.

We welcome the opportunity to provide Ofgem with our views on the topics identified for a medium-term wholesale review. We agree with the broad principles highlighted with respect to action required on the basis of further changes to the wholesale market.

The wholesale allowance methodology is an area that should be regularly reviewed to ensure that risks are adequately covered, but in turn that they are reflective of the market status. We are currently in a period of tempered wholesale market stability, with the risk of a single event causing market spikes (or drops), creating high potential for a continuing volatility in the market when trended over a longer period.

The move to a quarterly cap has created challenges with wholesale market liquidity, particularly when trying to align product purchases with those observed within the cap methodology. Quarterly products, in particular, have a wide bid-offer spread, due to limited trade activity, which in turn leads to higher risk premiums placed on prices by counterparties; creating a challenge with regards achieving a similar hedge price as calculated through Ofgem's cap methodology.

Market-wide half-hourly settlement will provide the opportunity for greater flexibility in terms of propositions and tariffs, many of which would not be possible under the current cap methodology and

conditions. As such, we foresee this being an area that will require significant change in the cap policy and methodology, to ensure that innovation is not stifled.

One area not highlighted for potential medium-term review is the backwardation allowance methodology, which remains a major challenge for us, and we would advise that is included, as a topic for consultation, in any future wholesale reviews.

The addition of this allowance, fundamentally leads to a shorter hedging window of three months being favourable, limiting the ability for suppliers to effectively de-risk against the macro-economic environment.

Adoption of a longer-term hedging strategy provides greater prudence in hedging as it enables volatility of the market to be more smoothly incorporated into price, leading to greater price stability for consumers. We find it concerning that the current methodology encourages a short hedging timeline, given the challenges faced by numerous suppliers following the energy crisis, in which the consequence of many of the suppliers' financial burden was due to a lack of hedging strategy or a hedging strategy that was too short. We maintain our position that suppliers should be incentivised to follow strategies providing pricing certainty to customers and financial stability.

We firmly believe that a review of the current cap calculation methodology, particularly in terms of hedging practices over a longer period, would contribute to greater de-risking of macro-economic impacts and result in a more reflective and less volatile pricing structure for the end consumer.

We appreciate your ongoing engagement on this matter and remain open to further discussions to ensure the fair and transparent functioning of the energy market.

Thank you for your attention to this important issue.

Should you require any further information, please do not hesitate to get in touch.

Yours faithfully

Nicola

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Head of Regulation and Compliance
For and on behalf of Ecotricity