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“Energy price cap benchmark review” – So Energy Response

Dear Danny,

So Energy is a leading energy supplier providing great value renewable electricity to homes across Great Britain. We supply over 300,000 customers and as one of the last challenger suppliers left in the market and one that is backed by ESB Group’s resources and expertise, So Energy is able to provide a unique view of price protection in today’s energy market.

We welcome Ofgem’s review of benchmark consumption in the energy price cap. With regards to the proposals, we wish to make the following key points:

- We welcome and support Ofgem’s proposal to update the benchmark consumption assumptions used in the price cap from January 2025.
- We agree with Ofgem’s recommendation to update the benchmark using 2023 TDCVs. We agree with Ofgem’s rationale and would add that there are benefits to applying a single interpretation of how much a typical consumer uses across the piece. This helps avoid unintended consequences owing from mismatches between benchmarks.
- It is essential that in future Ofgem updates the benchmark price cap inputs in line with TDCV updates. The delay in updating the benchmark has led to a loss of revenue and undermines investor confidence. A strong commitment with regards to future updates would be welcome.
- Ofgem must recommit to reviewing the TDCVs every two years. We consider it highly likely that TDCVs will continue to fall, due to climate change and the adoption of new technologies, such as solar and battery.
- We oppose splitting benchmark consumption by payment method. Doing so would unearth volatility the current approach smooths out:
  - Direct Debit (DD) customers are far more likely to take up solar and battery, meaning there is a disproportionate downward pressure on their energy use. This downward pressure is permanent as it is technologically driven, rather than a temporary response to energy price spikes.
  - As we have observed through the energy crisis, DD customers are far more likely to switch onto the cap and away from the cap. This distorts the usage of DD customers who remain on the cap as it is unlikely that the usage of sticky and active DD customers is identical.
  - Volatility in price cap inputs equates to uncertainty, uncertainty equates to risk and risk discourages investment in energy retail.
- We advise Ofgem to investigate risks associated with mismatches between benchmark price cap consumption and warmer winters wrought by climate change. TDCV reviews look backwards in order to forecast forwards but this is an increasingly unreliable approach. It may be prudent to accept this volatility and insure the market against future warm winters. An allowance could be made available to insure price capped customers against weather risk. This would allow suppliers to better manage risk on behalf of their customers and create a more attractive framework for investment in energy retail.

We’d be more than happy to discuss this with you further. Please don’t hesitate to get in touch.

## Part A Questions

### 1. Do you agree that benchmark consumption in the price cap should be updated?

Yes. Benchmark consumption has deviated substantially from real-world energy use and, therefore, it makes sense to update it.

### 2. Do you agree with our minded-to proposal to update the benchmark consumption level using the latest TDCV?

Yes, this approach makes the most sense. It does not make sense to deploy multiple consumption benchmarks across different use cases. TDCV should be kept up to date and representative of real-world consumption. Once a representative benchmark has been developed, deploying other benchmarks to represent what is in essence the same thing will only generate confusion and unintended consequences.

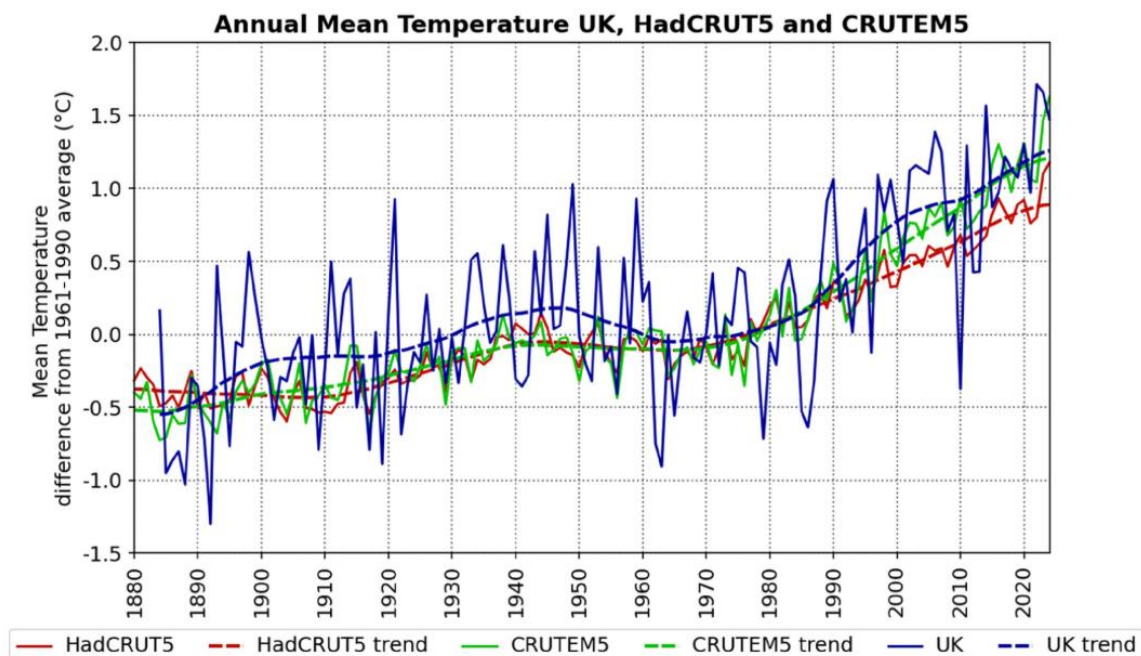
### 3. What are your views on the alternative approach of using 2023 DESNZ median consumption data?

We do not support the alternative approach. Instead, Ofgem should adopt the current TDCVs into the price cap from January but also update the TDCVs and incorporate revised figures within the next 12 months. We have several reasons to believe that consumption has fallen still further from the 2019 and 2021 benchmark data that was used to inform the 2023 TDCVs:

- It continues to get warmer and warmer each year and this is suppressing wintertime demand. The acceleration in the growth in UK temperatures is clear to see:<sup>1</sup>



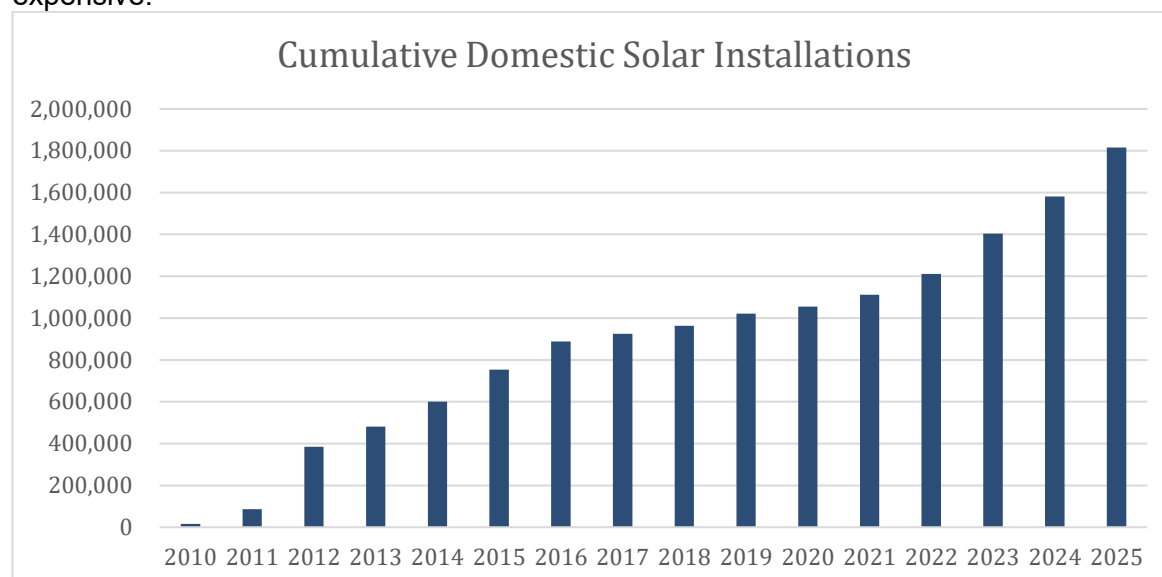
Source: HadUK-Grid / HadCRUT5 / CRUTEM5 18/02/2025 17:42 © Crown copyright



- Prices, while lower than the peak of the energy crisis, remain lower than the UK average. In addition to this, the perception that energy prices are very high has taken root in public discourse.
- High energy prices (real and perceived), paired with steep falls in the cost of solar panels and batteries, has driven a significant upswing in subsidy-free domestic solar installations. Importantly, based on our experience as an installer of solar panels and batteries, we expect the vast majority of the customers availing of solar and battery will also pay by Direct Debit. As this trend continues to accelerate the fall in energy use should be especially acute among Direct Debit customers. Interestingly, even as prices have fallen back from the peak

<sup>1</sup> [State of the UK Climate in 2024 - Kendon - 2025 - International Journal of Climatology - Wiley Online Library](#)

of the energy crisis, the accelerated rollout of solar has continued, highlighting the impact of the fall in solar prices and the lingering perception among consumers that energy is expensive:<sup>2</sup>



- The above graph only tells part of the story however. Battery prices have fallen about 50% over the past two years and uptake of battery alongside solar has risen significantly. Our internal modelling shows that a typical consumer would see a 27% reduction in consumption with solar panels alone, but a 69% reduction when paired with a battery. Therefore, we can expect more recent solar installs to be more impactful than the headline figures in terms of reducing energy consumption, due to the increasing popularity of batteries.
- Finally, energy efficiency programmes such as ECO, GBIS and the upcoming Warm Homes Plan have and will continue to reduce household consumption. The further proliferation of energy efficient appliances and lighting also continues to reduce consumption.

#### **4. What are your views on the option of using 2023 DESNZ mean consumption data, including any implications for the headroom allowance or other elements of the cap?**

For the same reasons presented in our response to Question 3, we do not support this option.

### **Part B Questions**

#### **1. Do you consider that there is a case for introducing payment method specific benchmark consumption levels within the price cap?**

This proposal is fraught with risk and inadvisable. The more granular Ofgem attempts to go with this, the more volatile each sub-category will become. This volatility and uncertainty will deter investors.

We have already set out in our response to Part A, Question 3, the issues related to demand destruction caused by the accelerated roll-out of solar and battery. As we highlighted in that response, our expectation is that, as people who are generally more engaged about their energy use, households that take up solar and battery are more likely to pay by DD and, as a group, will see a greater reduction in consumption.

The other key factor is that DD customers are more active in terms of choosing to be on a fixed tariff or remain on the price cap. Over the energy crisis, DD customers switched onto the price cap en-masse and, as the crisis has receded again, have switched away from the cap in large numbers. We would expect that this would have created distortions in the mean/median energy

<sup>2</sup> Change in number of domestic solar installations in July each year: [Solar photovoltaics deployment - GOV.UK](https://www.gov.uk/government/statistics/solar-photovoltaics-deployment)

use of price-capped DD customers over the crisis as we doubt that those DD customers who switched from fixed to price cap had the same consumption as those who were always on the price cap. There is every reason to believe such mass switches to the price cap could happen again, given global political uncertainty and the potential consequential impacts on commodity prices. Having a single benchmark consumption regardless of payment method, cancels out these distortions.

As opposed to focussing on payment methods, we consider there are more significant issues around benchmark consumption for Ofgem to focus on. As set out in our response to Part A, Question 3, climate change is increasingly suppressing winter demand and this is having consequential impacts the recovery of efficient costs. If consumption in a given winter is substantially below what is assumed under the price cap, then suppliers' fixed costs will not be recovered.

There are available insurance products that can cover-off the risks associated with climate change, including imbalance costs and under-recovery of revenue. However, no funding is provided for this under the price cap to purchase these products. The result is that investors bear the risk with no associated return and energy supply becomes less attractive to investors. We consider this to be a more material issue for Ofgem to tackle than payment methods.

**2. We have considered a proposed method of calculating payment-specific benchmarks using the 2023 TDCVs weighted by average consumption data from the Debt-related Costs RFI, are there alternative data sources or methodologies you believe we should consider?**

We are always wary of adapting data that has been collected for one purpose to another purpose. We are also wary of clashing two datasets together and attempting to draw conclusions from that merged dataset. Both can give rise to misleading conclusions. Ofgem must be cautious.

**3. What are your views on the potential distributional and operational impacts of introducing payment-specific benchmarks?**

The main impact would be the potential volatility of the DD consumption benchmark for the reasons set out in our response to Part B, Question 1. There is an issue of input lag – market movements trigger DD customers to move on or off the cap but the price cap consumption assumptions don't update for 12-18 months. Then by the time the benchmark is updated, the DD customers may be moving back again. All of this uncertainty is a risk, and the risk will be quantified in business cases for investment in the energy retail sector.

A single benchmark mitigates these uncertainties.

Yours Sincerely,

Paul Fuller  
Head of Regulation

