

Energy price cap: benchmark consumption review

Part A: Changing the price cap benchmark consumption

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

Yes.

Average consumption has fallen since the introduction of the price cap and the adoption of the initial TDCV. Ofgem must update the benchmark to allow for accurate recovery of fixed costs allocated to the unit rate.

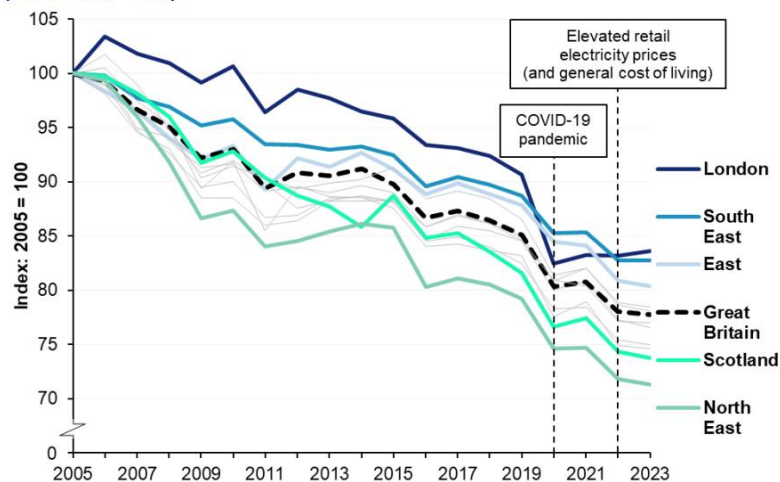
Suppliers achieved an average EBIT of £26 per domestic customer in 2024. This update is expected to result in +£8.70 per year per customer. This means that understated TDCVs are currently inadvertently reducing EBIT by ~25% (for customers on SVTs). Given that suppliers are not achieving the current 2.4% notional EBIT allowance, updating TDCVs is one step towards remedying this under recovery of efficient costs.

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

We believe that use of median 2023 data is more appropriate.

The most recent Subnational Electricity and Gas Consumption Statistics¹ show a consistent downward trend of electricity consumption since 2005.

Chart 2: Total electricity consumption by country/region, Great Britain, (Index: 2005 = 100)



Ofgem states that there is the potential for 2023 to have been impacted by cost-of-living concerns. There is no reason to expect these concerns to abate, let alone for the clear underlying trend to reverse. We should reasonably expect for average consumption to continue to decrease, a trend which is supported by net zero and energy efficiency initiatives.

¹ [Subnational electricity and gas consumption summary report 2023](#)

Use of 2019 and 2021 appears to overstate average consumption. It is reasonable to expect that 2023 average consumption could already be materially higher than 2025 average consumption.

We therefore propose the use of the 2023 data as a more accurate reflection of the current average consumption. We have provided our own year on year consumption to Ofgem as part of a confidential submission.

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

Please see our answer to question 2.

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?

We consider this to be a question of whether it is more appropriate to use the mean or the median to set the benchmark allowance.

Without access to the underlying dataset, it is not possible to say what extent high consuming outliers may impact the mean. The consultation document states that this has a significant impact. It would therefore seem appropriate to use the median value to ensure all suppliers can recover fixed costs allocated to unit rates.

We do not consider this risk to be covered by the Headroom allowances. Headroom is to cover the cost of new risks, this is a known risk with data which can be used to reliably update the TDVC and it is not appropriate to use the Headroom allowance.

Part B: Payment Method Specific Approach

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

Table 4 in the consultation document is clear evidence that payment method specific benchmarks should be introduced.

Ofgem must be consistent in their reasoning for updating methodologies. Section 1 of the document assumes that there is a clear case to update the current general benchmark. Table 4 shows a far more significant deviation from current TDCV for prepayment and standard credit customers. As a supplier with a customer base comprising over 80% prepayment customers – we are currently at risk of under-recovering fixed costs by ~25%².

This must be updated, lest Ofgem recognise their approach is currently consciously penalising prepayment customers and indirectly creating a payment type cross subsidy among customers. Ofgem has a transparent mechanism to subsidise energy costs across payment types (the levelisation mechanism) should the desire be to suppress prepayment customers' bills.

² 2327 Single rate PPM vs 3100 Current benchmark

In line with previous responses, Utilita believes that pricing should be transparent and cost reflective and the price cap should not distort market incentives. Where there are cross subsidies, these should be transparent to suppliers and customers

The reasons Ofgem give for not adopting payment specific benchmarks, higher cap levels, complexity and data accuracy, can all be addressed. We do not believe that these concerns outweigh the need for modelling accuracy. Ofgem has a responsibility to ensure that suppliers can recover their efficient costs. This does not mean Ofgem have a responsibility to ensure specific suppliers can recover their costs, but Ofgem have set a precedent by having three price caps based on payment type. Ofgem must ensure that each cap is accurate and allows suppliers to recover their efficient costs from each category.

Anything short of this ultimately leads to a cross subsidy and will distort the market. As a Prepayment specialist, Utilita is uniquely positioned to highlight the detriment this will cause to all customers. The distortion ultimately reduces the incentives for suppliers to compete for prepayment and PoRB customers and reduces the incentive for suppliers to invest in innovation. Prepayment and PoRB customers are often the most vulnerable customers. Ofgem's primary objective is to protect vulnerable customers and therefore must use the data at its disposal to update the price caps accordingly.

In the case of higher cap levels for certain customer groups, Ofgem may wish to consider expanding the levelisation process to reduce this impact. The price cap must allow Suppliers to recover reasonable and efficient costs. It cannot be deliberately understated. It must either be made accurate or considered arbitrary.

In the case of increasing complexity, the price cap is already complex. We are happy to accept marginal increases in complexity for the sake of accuracy which ultimately protects vulnerable customers.

In the case of data accuracy, if Ofgem does not believe that the Debt RFI is a sufficiently reliable source, we would support a more robust data gathering exercise with the goal of updating TDCVs. The Debt RFI alone shows that there is sufficient evidence to warrant further investigation.

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 have seen through previous cross-supplier data gathering exercises that results are often distorted due to different data collection or reporting processes. This means that no single benchmark will necessarily be the most accurate.

To account for this, we propose Ofgem produce the benchmark using various methodologies. This will then produce different potential TDCVs which can be compared. Ofgem can then consult industry on their findings, and an informed choice can be made.

The Debt-related costs RFI could produce one such estimate.

Ofgem could also compare each Supplier's total customer consumption against the split of payment methods in their portfolio. This would produce a rough co-efficient, but one that is less likely to be distorted by data gathering issues.

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

Absence of these benchmarks would result in under and over recovery of costs based on payment types that Ofgem have defined. Utilita believe that, where possible, normal market incentives should not be distorted. Please see above

This is not limited to suppliers' operational cost recovery, but any costs which do not vary on the basis of consumption but are allocated to unit rates.

The Debt RFI consumption shows that prepayment single rate is 773kWh or 25% lower than the current Ofgem benchmark.

Assuming these as accurate, this would result in 25% under recovery of fixed costs allocated to volume.