



Reassessing the wholesale allowance in the first default tariff cap period: Response by Bulb

Bulb supports the price cap and believes it should continue until at least 2023. We share Ofgem's priority for the energy market to put consumers first. The price cap does this by helping millions of people across the country save on their energy bills.

We agree with Ofgem that Bulb "offers a variable tariff that is technically in the scope of the Cap, but it is competitively set; it is not a default tariff". We do not believe that Ofgem should include Bulb's Vari-Fair tariff in the calculation of the wholesale allowance for the first period of the cap. We see three reasons for this:

1. **Bulb's Vari-Fair tariff is not a default tariff.** Vari-Fair is a competitively set variable tariff that is priced independently of the price cap.
2. **Ofgem could not have predicted Bulb's growth in 2018/19.** Ofgem could not have predicted the rate of Bulb's growth during 2018/19 when it set the cap. It should not use hindsight to include us in the cap calculation for that period when it did not do so at the time.
3. **The effect of including Bulb in the calculation would be to increase prices for consumers with the Big 6.** If Bulb's wholesale purchasing is included in the price cap calculation for this historic period, it may increase the cap for all suppliers. This would be a perverse outcome.

1. Our Vari-Fair tariff is not a default tariff

Bulb's Vari-Fair tariff is different to the standard variable tariffs that led to the introduction of the price cap.

The level of our tariff is set independently of the price cap and at a significantly lower price. This means that our members are not charged the kind of high rates that caused the debate around the need for a cap on energy bills. Our recent price changes to gas and electricity (announced on 2 March [here](#)) demonstrate that we price independently of the cap. We have reduced our gas prices significantly more than the cap, while slightly increasing electricity prices.

2. Ofgem could not have predicted Bulb's growth in 2018/19

We think Ofgem should only include the larger suppliers at the time that the cap was set to assess the wholesale allowance for that price cap period. The price cap was introduced to limit what these suppliers charged their default tariff customers. At the point that the cap was being introduced, Bulb's market share was around 3% for electricity and gas. While Bulb has grown substantially since that time, Ofgem could not have known that Bulb would grow and



so would not have factored that into the price cap level. Ofgem rightly set the cap level based on the information they received from the largest suppliers at that time. In considering what the cap level should have been, Ofgem should focus on the same suppliers as it did at the time.

3. The effect of including Bulb in the calculation would be to increase prices for consumers with the Big 6

If Bulb's Vari-Fair tariff was included in the calculation, we estimate that it could lead to the price cap being set at a higher rate than it otherwise would be. This is because of differences in hedging strategy between Bulb and some of the other larger suppliers in the market.

This outcome would be bad for consumers, as it would see more people needlessly overspending on their energy bills. We are particularly concerned by this due to the trend we have seen in the market, with many suppliers choosing to set their variable tariffs either at, or very close to, the level of the price cap.

The contents of this response are not confidential and can be published on the Ofgem website.