

To all market participants and  
interested parties

Email: [RetailPriceRegulation@ofgem.gov.uk](mailto:RetailPriceRegulation@ofgem.gov.uk)

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Dear colleagues,

### **Prepayment meter cap level update for 1 October 2020**

The prepayment meter (PPM) cap came into force on 1 April 2017. On 5 August 2020, Ofgem announced that the default tariff cap would continue to protect default prepayment meter customers<sup>1</sup> once the Competition and Market Authority's (CMA) prepayment meter price cap expires on 31 December 2020. The default tariff cap (for the period 1 October 2020 to 31 March 2021) includes a new cap level for the PPM payment method. Default prepayment customers will continue to be protected by this cap level for as long as the default tariff cap remains in place. The level of the cap for the seventh period (1 April 2020 to 30 September 2020) was set at £1,164<sup>2</sup> for a dual fuel single rate customer paying using a typical amount of energy in annualised terms.<sup>3,4</sup>

Today we have published the updated cap levels for the eighth charge restriction period (i.e. the eighth 'cap period'), covering the six months from 1 October 2020 to 31 March 2021. Alongside the cap levels we have also published the updated versions of the cost allowance models / annexes.

### **Drivers of change**

The level of the cap for the eighth period (1 October 2020 to 31 March 2021) has decreased by 8% since the last update. From 1 October 2020, the prepayment meter cap level will fall to £95.

The main drivers for this change are due to updates in the model inputs for:

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<sup>1</sup> <https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/implementation-cma-remedies/prepayment-meter-price-cap>

<sup>2</sup> On 1 April 2020 Ofgem decided to decrease the [Typical Domestic Consumption Values](#) (TDCVs) for electricity to reflect continued decreases in consumption for electricity and to keep the TDCV's for gas unchanged. From 1 April 2020, Ofgem has been using the new TDCVs to express the default tariff price cap and prepayment meter cap level in all publications. Previous publications on the levels of the caps will therefore not be exactly the same / directly comparable. All figures in this letter are stated using the new TDCV.

<sup>3</sup> The PPM cap level sets maximum prices, not maximum bills. For an individual customer, the amount they will pay under the cap varies depending on how much energy they use, where they live, and how they pay for their energy. The cap level will not depend on who a customer's energy supplier is.

<sup>4</sup> We do not set a 'dual fuel' cap. We set caps for each fuel separately. When we express the dual fuel 'cap level' for a typical customer, this is the combined effect of the gas cap at typical consumption and the electricity cap at typical consumption.

- **Wholesale costs** – These have decreased by £88 since the last update. Wholesale energy prices have significantly fallen during the observation window for this cap period, particularly on gas products. Global energy prices fell significantly amid the COVID-19 pandemic resulting in demand destruction which, combined with an already oversupplied gas market, pushed down prices. Prices started to recover in May due to less supply from liquefied natural gas (LNG) and other major gas producers, leading to structural tightening, as well as demand slowly returning to normal levels.

These drivers are outlined in more detail in the below figure:<sup>5</sup>



**Figure 1: Breakdown of PPM cap level components**

### Default tariff price cap update

The default tariff price cap has also decreased for the forthcoming cap period (commencing 1 October 2020), and will be set at £1,042. As the new prepayment cap level is within the default tariff cap, the main drivers for the change in the default tariff cap level are the same as those in the PPM cap level.<sup>6</sup>

### Compliance with the price caps

We expect suppliers to take seriously their obligations to implement the default tariff cap and will be closely monitoring their compliance. Suppliers should continue to comply with their obligations as set out in SLC28.A and SLC28.AD, and the values used in those licence conditions. We will continue to take firm action against suppliers who fall short of their price cap requirements.

<sup>5</sup> All values rounded to the nearest £.

<sup>6</sup> There is one difference, in that for the first 12 months the new PPM cap level will be set to give the same level as the existing PPM cap methodology. This means that the non-pass-through SMNCC for PPM in the default tariff cap is set to £0 for the next two cap periods.

We expect any related data provided to Ofgem to be accurate, complete and provided in a timely manner. We will also continue to monitor the quality of service suppliers deliver to their customers and stand ready to take compliance and enforcement action in the event that any licence requirements are not met.

Yours faithfully,

**Anna Rossington**

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Consumers and Markets