Ofgem
10 South Colonnade,
Canary Wharf,
London,
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04 January 2021

Ofgem ref: Consultation on changes to methodology used to determine the Feed-in Tariffs allowance in the default tariff cap, E Ref: Reg 427.4

For the attention of RetailPriceRegulation@ofgem.gov.uk,

E (Gas and Electricity) Ltd is a medium sized UK challenger energy retailer set up in August 2014 to focus on serving traditional prepayment customers through our UK base call centre. E very quickly recognised the value to its prepayment customers of smart metering and started an aggressive smart roll out programme; we now have over 55% of our prepayment customers on smart meters.

As an energy supplier who is focused mainly on prepayment, we have fundamentally challenged the acknowledged cross subsidy which exists between the credit and prepayment customers. It is impossible for a prepayment specialist to make an appropriate level of return whilst this cross subsidy exists and this discourages suppliers from actively participating in the prepayment market, resulting in less competition, less innovation, fewer product offerings, a convergence towards the PPM Cap and hence less choice for prepayment consumers. We propose that Ofgem needs to guarantee there is a level playing field across different supplier business models within the industry; as currently the cross subsidy that exists within the Price Cap methodology disproportionally impacts those suppliers with large prepayment and small credit portfolios.

In the current Covid environment it is paramount that all cost increases, which in the main are as a direct result of the pandemic are fully reflected in future Price Caps and as soon as possible.

This increase in FiT cost is a consequence of the sharp reduction in overall demand, which means that we are now facing a much higher £/MWh cost for FiTs than expected or allowed for in the current price cap.

The current proposal from Ofgem would lead to a significant under-recovery over the next two years. We do not believe that using this 18 month lagged data with no inflation will allow us to recover our costs. It will instead lead to a significant under-recovery over the next three years because the combination of continually growing costs and an extremely lagged recovery mean that the allowance in the cap is consistently lower than the costs, exacerbating the under-recovery already in place from Summer 2020.

We would propose that either:

A forecast value is initially used, with a true-up once costs are known for each year to adjust for any over or under recovery. This would ensure a fair cost recovery for all involved or:
The costs are inflated using CIPH. Applying inflation would require a smaller change to the methodology than a true-up so would be more feasible for the February 2021 deadline. The option to then use a forecast value for the next price cap could be assessed.

Please contact me in the first instance should you require any further information.

Yours sincerely

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