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Making a positive difference
for energy consumers

To all market participants and
interested parties

Email: Retailpriceregulation@ofgem.gov.uk

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Dear colleagues,

Prepayment meter cap update for 1 April 2019

The Prepayment meter (PPM) cap came into force on 1 April 2017. Today we have published the updated cap levels for the fifth charge restriction period (i.e. 'cap period'), covering the six months from 1 April 2019 to 30 September 2019.

Alongside the cap levels we have also published the updated versions of the models / annexes and the updated FAQs.

In the last cap period (1 October 2018 to 31 March 2019), the cap level was set at £1,136 for a a dual fuel single rate customer paying using a typical amount of energy in annualised terms.[1,2]

The level of the cap for the fifth period (1 April to 30 September 2019) has increased by 9.3% since the last update. From 1 April 2019, the level of the cap will increase by £106 to £1,242.

Explanation

The three main drivers for this increase are due to changes in the model inputs for:

- **Wholesale costs** – these have increased by £72 since the last update. This is based on the direct fuel cost allowance for the forthcoming period, calculated based on forward energy contracts during the observation window. Over the last 18 months global factors have pushed up wholesale costs. Higher global oil prices pushed up wholesale gas prices; given the role of gas as a source of electricity generation this in turn increased the price of wholesale electricity.
- **Network Costs** - these have increased by £13. The allowance for each period is calculated using network charging statements. The increase comes primarily through distribution costs and is driven by a combination of a profiling of allowances, an increase in pass through items (eg business rates) and corrections for under recovery from previous years.

[1] The prepayment meter cap 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.
[2] 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.

- **Policy costs** - these have increased by £10. These costs are updated using estimates from Office for Budget Responsibility (OBR) forecasts.

These are outlined in more detail in the below figure.

	Summer 2019 £
Wholesale energy	493
Network	271
Policy	144
Other	174
PPM uplift	67
Headroom	34
VAT	59
Cap	**1242**

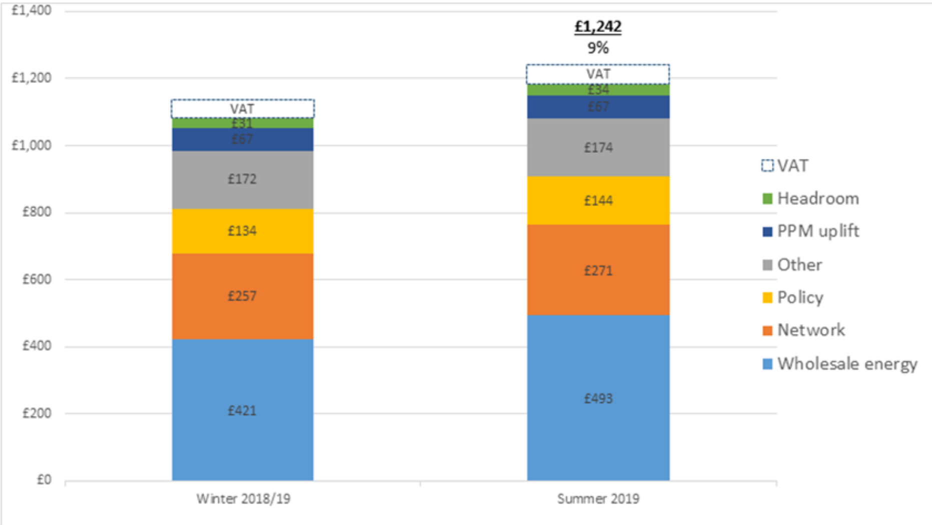

Figure 1 Breakdown of cap components

Default tariff cap update

The default tariff cap has also increased for the forthcoming cap period, and is now set at £1254 (for direct debit customers) for the next cap period, £12 higher than the PPM tariff cap. This is calculated using a separate methodology which is why the figures are slightly different, though driven by the same underlying costs.

Compliance

We expect suppliers to take seriously their obligations to comply with the PPM tariff cap and will be closely monitoring their compliance. As previously directed suppliers must submit their tariff levels within five working days of the start of the charge period. We also will monitor the level 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,

Anthony Pygram
Director, Conduct and Enforcement, Consumers and Markets