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Making a positive difference
for energy consumers

To all market participants and
interested parties

Email: Retailpriceregulation@ofgem.gov.uk

Date: 07 August 2019

Dear colleagues,

Prepayment meter cap update for 1 October 2019

The Prepayment meter (PPM) cap came into force on 1 April 2017. Today we have published the updated cap levels for the sixth charge restriction period (i.e. the sixth 'cap period'), covering the six months from 1 October 2019 to 31 March 2020.

We calculate the level of the PPM cap following the Competition and Markets Authority's (CMA) methodology. In July 2019, the CMA revised the methodology, to better reflect the costs incurred in delivering energy services to prepayment customers. From 1 October 2019, the PPM cap methodology aligns more closely with our methodology for the default tariff price cap.

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

Explanation

The level of the cap for the fifth period (1 April to 30 September 2019) was set at £1,242 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 sixth period (1 October 2019 – 31 March 2020) has decreased by 2% since the last update. From 1 October 2019, the level of the cap will decrease by £25 to £1,217.

The main drivers for the change in between cap periods are:

- **Wholesale costs** – These have decreased by £47 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. A combination of low demand during winter 2018/19, strong gas supply, in particular because of a high influx of LNG, and relatively healthy storage levels have pushed down wholesale prices during the observation window.

[1] The PPM 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 & Operating costs** - these have increased by £21. These costs are now fully reflective of actual costs borne by suppliers rather than on forward cost estimates from Office for Budget Responsibility (OBR) forecasts as had been the case prior to the change in modelling.

These drivers are outlined in more detail in the figure below.[3,4]

Oct 2019 - Mar 2020	
Wholesale	£446
Policy	£154
Network	£272
Operating costs	£185
Payment Uplift	£68
EBIT	£22
Headroom	£13
VAT	£58
Total	**£1,217**

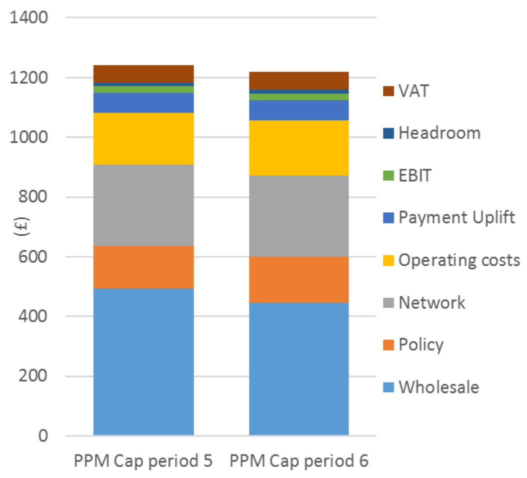

Figure 1: Breakdown of PPM cap components

Default tariff cap update

The default tariff cap has also decreased for the forthcoming cap period, and is now set at £1,179 for direct debit customers, £38 lower than the PPM tariff cap, and £1265 for standard credit customers £48 higher than the PPM tariff cap.

Compliance

We expect suppliers to take seriously their obligations to implement the PPM cap and will be closely monitoring their compliance. We expect any related data provided to Ofgem to be accurate, complete and provided in a timely manner. We 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,

Kiera Schoenemann
Deputy Director, Conduct and Enforcement, Consumers and Markets

[3] Cost breakdowns are not directly comparable due to the change in methodology between periods 5 and 6.
[4] All values rounded to the nearest £.