

To all market participants and interested parties

Email: RetailPriceRegulation@ofgem.gov.uk

Date: 07 February 2020

Dear colleagues,

Default tariff cap update for 1 April 2020

The default tariff cap came into force on 1 January 2019. In the first cap period (1 January to 31 March 2019), the cap level was set at £1,137 for a typical default tariff customer – a dual fuel single rate customer paying by direct debit using a typical amount of energy in annualised terms.^{1,2} The second cap period (1 April to 30 September 2019) saw the cap level rise to £1,254, before decreasing to £1,179 for the third period (1 October 2019 to 31 March 2020).

Today we have published the updated cap levels for the fourth charge restriction period (i.e. the fourth 'cap period'), covering the six months from 1 April 2020 to 30 September 2020. 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 fourth period (1 April 2020 to 30 September 2020) decreased by 1% since the last update. From 1 April 2020, the level of the cap will fall to £1,162.³

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

- **Wholesale costs** – These have decreased by £38 since the last update. This is driven by the direct fuel cost allowance for the forthcoming period, calculated based on forward energy contracts during the observation window. A combination of strong supply fundamentals, including record-breaking liquefied natural gas (LNG) deliveries in 2019 and healthy gas stock inventories, have been the main factors pushing down wholesale prices.
- **Policy costs** – These have increased by £15. These costs are updated using a combination of scheme data, Office for Budget Responsibility (OBR) forecasts, and information on the expected demand base across which costs are recovered. The

¹ The default tariff 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.

³ The [Typical Domestic Consumption Values](#) (TDCVs) will be updated on 1st April 2020. From this date, Ofgem will use the new TDCVs in all publications, therefore previous publications on the levels of the caps will not be exactly the same.

largest component increase relates to Contracts for Difference (CfD). The remainder of the increase is primarily due to an increase in the costs for the Energy Company Obligation (ECO) scheme.

These drivers are outlined in more detail in the below figure:⁴

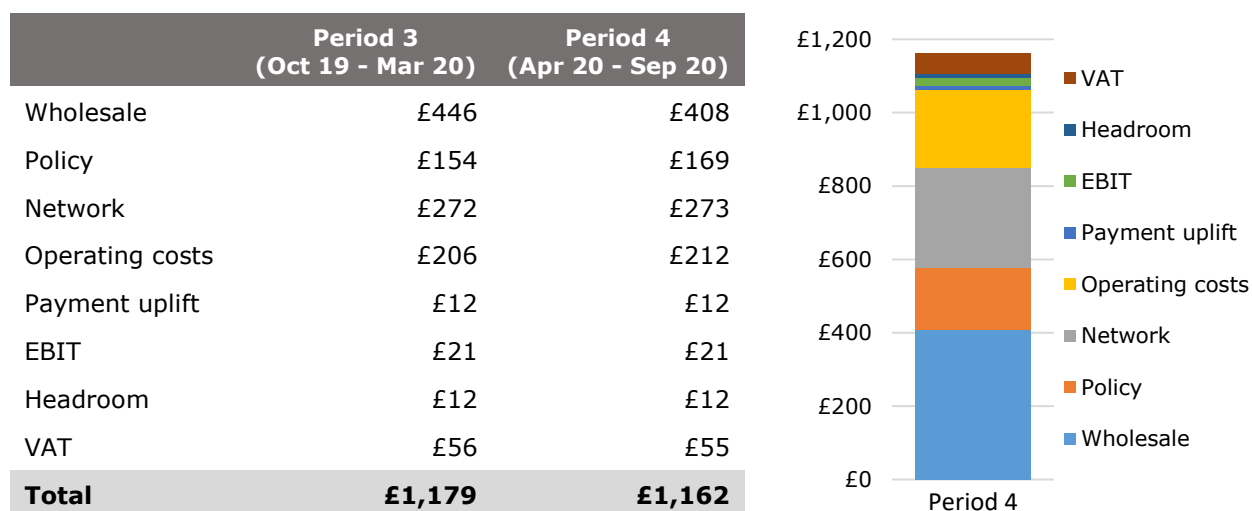


Figure 1: Breakdown of default tariff cap components

Prepayment meter price cap update

The Prepayment meter (PPM) price cap has also decreased for the forthcoming cap period (commencing 1 April 2020), and will be set at £1,200. From 1 October 2019, the methodology used for calculating the PPM cap was amended, following the Competition and Markets Authority's decision in July 2019.⁵ The change brings the PPM cap's methodology more in line with the default tariff cap, therefore the main drivers for the change in the PPM cap level are similar to those in the default tariff cap.

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.

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,

Kiera Schoenemann

Deputy Director, Monitoring and Compliance
Conduct and Enforcement, Consumers and Markets

⁴ All values rounded to the nearest £.

⁵ https://assets.publishing.service.gov.uk/media/5d405962e5274a4016893bd0/Final_Decision_PPPC.pdf