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Anna Rossington
Deputy Director, Future Consumers & Retail Price Protection
Ofgem
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26 June 2020

Dear Anna,

Statutory consultation on reassessing the wholesale allowance in the first default tariff cap period

We are pleased to respond to your consultation of 12 May 2020 on reassessing the wholesale allowance in the first default tariff cap period.

Ofgem outlines how it has dealt with three analytical challenges in the consultation: suppliers in scope, relevant cap periods and comparable wholesale costs. We broadly agree with Ofgem's proposals to restrict its analysis to large domestic energy suppliers, exclude the impact historical hedging strategies had on suppliers' comparable costs for cap periods two and three (and subsequent cap periods), and that the assessment of comparable wholesale costs for the first cap period should only analyse how suppliers accumulated volumes of energy for that specific period, not winter 2018-19 as a whole. We also agree with Ofgem's decision to allow recovery of the aggregate shortfall (averaged over the six largest suppliers) over a single price cap period starting October 2020.

However, we disagree in principle with the methodology proposed by Ofgem, which does not involve any adjustment for the reduction in suppliers' SVT customers between Periods 1 and 5, as this does not fairly recompense suppliers for the actual shortfall in wholesale cost recovery they have incurred. This is not an approach that is consistent with the design of the tariff cap, which is meant to reflect the underlying costs of supplying energy to the consumer.

In ScottishPower's case we have experienced a reduction in SVT customer numbers of circa 15%, so Ofgem's decision will result in a significant shortfall in revenue. Even before the COVID-19 crisis, the majority of suppliers were struggling financially; indeed, ScottishPower's domestic supply EBIT (as reported in the CSS) swung from £111m in 2018 to -£81m in 2019, largely, but not exclusively, due to the price cap. Ofgem's decision not to enable full recovery will add further to this pressure and may not be in the long term interest of consumers.

Please do not hesitate to contact me or James Soundraraju (tel 0141 614 2421, jsoundraraju@scottishpower.com) if you have any questions arising from this response.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive style with a large initial 'R'.

Richard Sweet
Head of Regulatory Policy