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Energy price cap wholesale costs review

This review seeks to bring in asymmetric treatment, in favour of suppliers and against consumers, regarding the energy price cap. This is in direct contradiction to the Ofgem position from a previous consultation. We believe that this is a further example of the energy price cap becoming a lobbyists' charter¹.

Asymmetric protection

In a previous response², we had welcomed Ofgem's statement³ that '*...we should be prepared to make a downward adjustment for symmetry. If we only made upward adjustments, then over time the cap would be set too high, which would not protect customers.*'. However, in light of arguments from suppliers, Ofgem is now questioning whether it can or should make downward adjustments. We do not believe that the suppliers' arguments stand up to scrutiny and so Ofgem should stand firm on behalf of consumers.

The arguments against making downward adjustments centre on the effect on competition. The suggestion is that suppliers will either not seek to be efficient, or not seek to pass-through through efficiency savings to consumers, due to the risk of cost savings being recovered through a downward adjustment in a future price cap period. This argument relies on effective competition in energy supply to ensure cost savings are passed through. However, if there was confidence in effective competition, then there would be no need for an energy price cap. This is supported by, as the consultation notes, limited evidence of suppliers as a whole pricing below

¹ Citizens Advice, June 2023, [Future Fantastic](#): remaking an energy supply market that's fit for the future

² Citizens Advice, October 2023, [Response](#) to Ofgem's consultation on its approach to reviewing the wholesale costs allowed for in the price cap

³ Ofgem, October 2023, [Review of additional wholesale costs in the default tariff cap: update](#)

the cap currently. Ofgem has also consistently concluded⁴ the conditions are not in place for effective competition. Similarly, the impact on competition of an energy price cap pushed lower by a downward adjustment relies upon the unsafe assumption of effective competition. In any case, Ofgem could signal that it would take into account evidence of cost savings being passed through to consumers by suppliers pricing below the cap, as part of the decision-making process for adjustments.

Asymmetric assessment

Further, Ofgem is now proposing a different approach to assessing whether the wholesale allowance is reasonable (for October 22 to September 23, where Ofgem had indicated that funding may have been too high) compared to previous adjustments (that had concluded that funding was too low and provided suppliers with additional funding). In doing so, Ofgem has questioned whether the previous approach was robust, suggesting that it could lead to *'spurious interpretations'*⁵. Despite these reservations, Ofgem claims there is *'no rationale'*⁶ to reopen the decisions based on the previous approach.

Supplier profit margin

We would also note that Ofgem recently chose to increase the profit margin in the energy price cap as it judged that suppliers' risk had increased, despite the quantitative evidence showing the opposite⁷. This proposal provides further evidence to support our position that suppliers' risk has reduced through Ofgem taking a series of decisions to move costs and risks onto consumers (and being likely to do so in the future).

All this combines to provide an unbalanced energy price cap which provides far weaker protections for consumers. To address this, Ofgem should:

- Reconsider its response to supplier arguments around making downward adjustment in the energy price cap
- Ensure a consistent approach is applied to wholesale adjustments across different periods, either by:

⁴ Ofgem, August 2022, [Outcome of 2022 review into whether conditions are in place for effective competition in domestic supply contracts](#)

⁵ Ofgem, December 2023, [Energy Price Cap Wholesale Costs Review](#), para 3.49

⁶ Ofgem, December 2023, [Energy Price Cap Wholesale Costs Review](#), para 2.15

⁷ Citizens Advice, July 2023, [Is increasing energy supplier profits really the answer to poor customer experiences and an affordability crisis?](#)

- Reopening periods - as a clear rationale now exists due to Ofgem concerns over the approach applied - and applying the new approach
- or by continuing with the established approach

If persisting with the position proposed in this consultation, then Ofgem should adjust supplier profit margin to reflect this rebalancing of risk away from suppliers.

Yours sincerely,

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