



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

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Dear Dan,

Thank you for providing us with an opportunity to comment on the approach you propose to take in reviewing additional wholesale costs in the default tariff cap. This submission is non-confidential and may be published on your website.

We are supportive of this review. We note the implication that it may result in a correction in consumers' favour¹, which would be extremely welcome at a time when bills are simply unaffordable for many households.

We strongly agree with your observation that:

"We have previously made upward adjustments to the cap, where appropriate, because notionally efficient costs turned out to be higher than we had assumed they would be for any given period. If circumstances arise where allowances are greater than costs, then 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."

That principle of correctional symmetry - that adjustments could be in either consumers' or suppliers' favour, based on objective evidence - is an important one if the cap is to be seen as a balanced instrument.

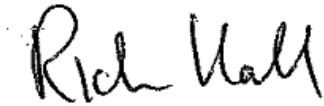
We note that the proposed timeline will mean this may take effect in the April price cap rather than the January cap as previously proposed. Given bills are at their highest in the winter months, due to higher consumption, this delay is regrettable. However we recognise that it may be necessary in order to give you access to fuller, more accurate information.

The three principles you propose appear reasonable and appropriate. The cap should neither reward nor punish suppliers for external factors that are outside their control. But suppliers should be exposed to gains (or losses) for out performance (or under performance) that is within their control, for example in relation to their efficiency.

¹ "indications from our initial analysis of the data suggest that, on average, realised costs may potentially have been lower than the provided allowance over the period"

We note that you anticipate further consultation on the review later in the process and will seek to provide further feedback then. In particular, we would welcome more clarity on the likely magnitude of any correction.

Yours sincerely

A handwritten signature in black ink that reads "Rich Hall". The signature is written in a cursive, slightly slanted style.

Richard Hall
Chief Energy Economist