ofgem Making a positive difference for energy consumers

Price Cap treatment of Economy 7 customers



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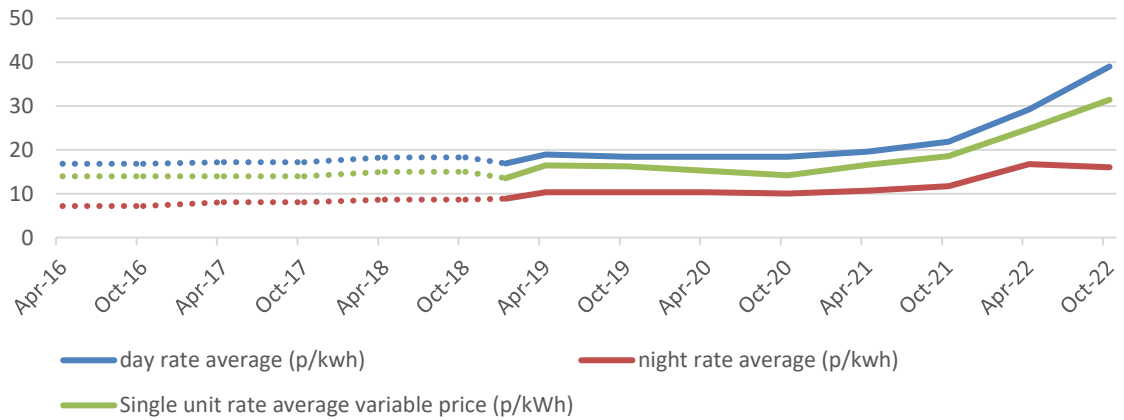
Comparison of E7 rates
Day/night difference not changed much since the introduction of Price Cap

Summary of E7 customers under the price cap

- Economy 7 customers are protected by the cap under a specific multi-register methodology, which takes into account their additional electricity heating demand (higher during winter).
- The price cap does not set a limit on the day rate or night rate independently. Suppliers have discretion over how to set their unit rate and night rate such that the overall structure does not breach the cap.
- The cap includes an assumed consumption split between how much E7 customers will consume during day and night rates(58% peak: 42% off-peak). This is based on the average consumption pattern of E7 customers, but individual consumption patterns will vary from this.

E7 tariff prices over time

Comparison of average E7 rates compared with single rate (GB avg)



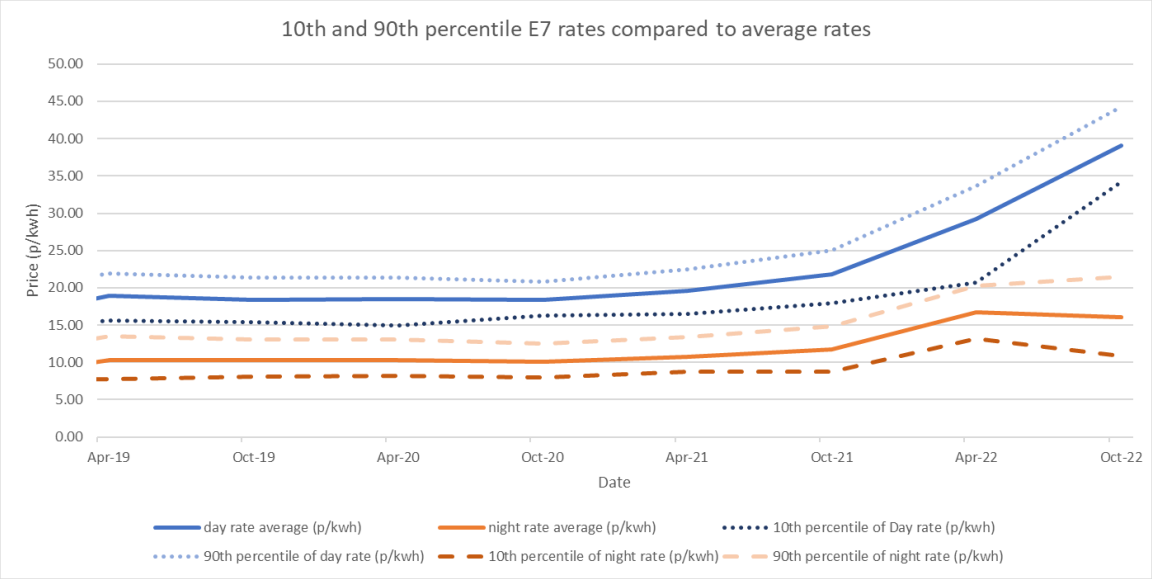
*The 2016-2019 uses a non-Ofgem data source (BEIS)-
BEIS (2022), Average unit costs and fixed costs for electricity for UK regions (QEP 2.2.4), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1126040/table_224.xlsx

Key points

- E7 day rate and night rate broadly stable from 2019 – 2021.
- Increases in E7 day rate increase in line with single rate increases. The differential between day and night rates remained steady between 8p/kWh-10p/kWh pre-price cap.
- The post-price cap differential is similar to the pre-price cap(7.6 p/kWh - 9 p/kWh).
- Differential since October 2021 has increased as suppliers have passed more of the increased energy cost through the day rates.
- Oct 22 average E7 night rates have seen a slight decrease, further widening the day/night differential.

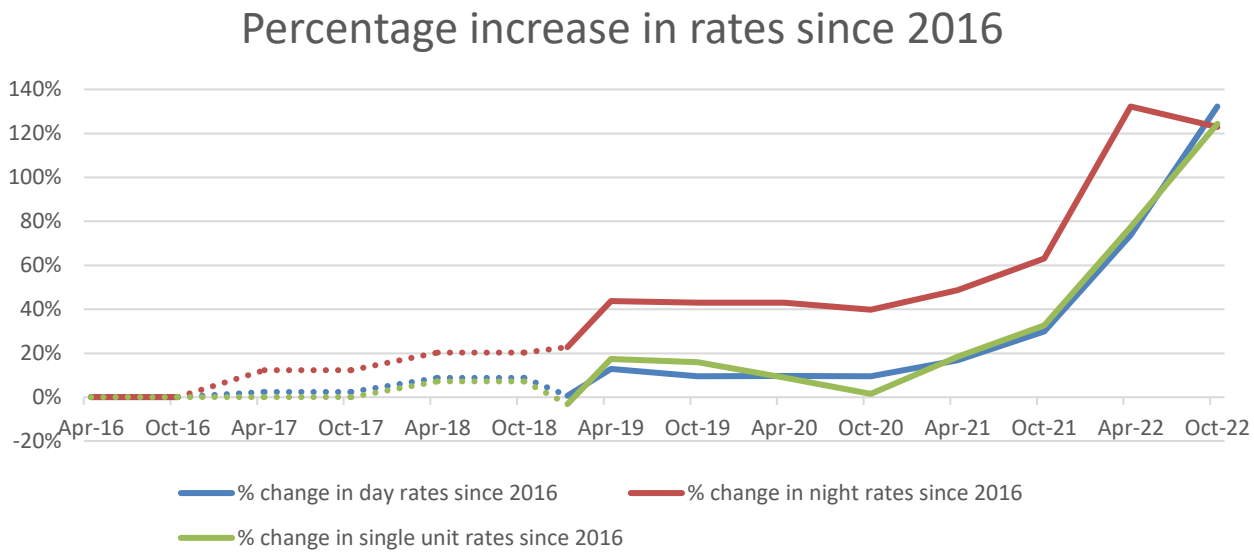
Comparison of E7 rates
Benefit to Consumers who can move their consumption to night rates
Consumers who are incorrectly on E7 tariffs face larger determent

There remains considerable variation of day rate and night rate tariff offerings



- Although prices are increasing on average, we are still seeing a wide range of E7 day and night splits.
- E7 customers have a choice of market offerings to suit their specific day/night consumption profile

Night rates started to increase at a greater rate than day rates before the cap came into effect.



- The introduction of the EPG in Oct 2022 has seen a step change in how suppliers are pricing their day/night rates.
- This should benefit E7 customers who are able to shift more consumption to night.

The EPG applies a fixed discount regardless of metering arrangement; this meant that the rates increased as set out in the price cap methodology

EPG rate change for customers on multi-register metering arrangements

	Cap period 9a (Oct - Dec 22)	Cap period 9b (Jan - Mar 23)	% increase from 9a to 9b
Region	EPG unit rate (p/kWh, inc VAT)	EPG unit rate (p/kWh, inc VAT)	
North West	30.7	33.02	7.60%
Northern	29.62	31.69	7.00%
Yorkshire	30.36	32.8	8.10%
Northern Scotland	30.49	32.65	7.10%
Southern	31.38	33.95	8.20%
Southern Scotland	30.95	33.58	8.50%
N Wales and Mersey	32.85	35.83	9.10%
London	32.69	35.48	8.50%
South East	32.18	34.75	8.00%
Eastern	31.98	34.54	8.00%
East Midlands	30.33	32.6	7.50%
Midlands	31.02	33.63	8.40%
Southern Western	31.02	33.36	7.50%
South Wales	31.21	33.73	8.10%
GB average	**31.2**	**33.69**	**8.00%**

Note: Rates displayed are for 'Other payment type' (Direct Debit)

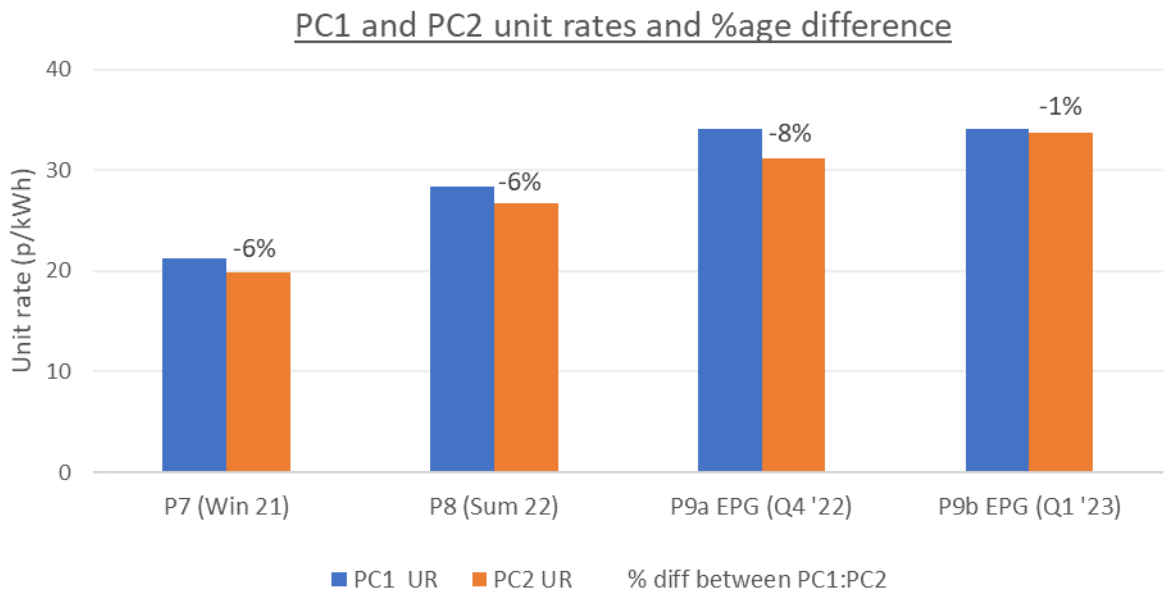
Why have E7 customers seen an increase in their bills from 1 Jan?

- **The transition to quarterly price cap:** The transition from a six monthly price cap to a quarterly price cap meant Ofgem introduced a transitional 'non-linear' price cap indexation. One of the features of this temporary indexation was that wholesale prices were weighted differently during this period.
- **Greater E7 winter demand:** Multi-register customers consume a proportionally greater share of demand in the Jan – Mar months (to heat their homes). As the transitional indexation placed a greater weight on prices during this period, this resulted in an increase in the cap level during 9b for these customers.
- **It represents a partial offset of previous benefit:** This increase was offset against a (smaller) benefit that was received by E7 customers during cap period 9a (due to the same interaction between demand and the transitional indexation outlined above).
- **The design of the EPG methodology** – The EPG discount level does not differentiate by metering arrangement, meaning this increase in cost can be passed on to E7 customers.

Customers with an Economy 7 meter customers saw a lower increase when compared to single rate meter customers in cap period 9a.

Difference between Elec profile classes over price cap periods

	P7 (Win 21)	**P8** (Sum 22)			**P9a EPG** (Q4 '22)			**P9b EPG** (Q1 '23)		
	Unit Rate (p/kWh)	Unit Rate (p/kWh)	▲ vs prev cap		Unit Rate (p/kWh)	▲ vs prev cap		Unit Rate (p/kWh)	▲ vs prev cap	
			pence	%		pence	%		pence	%
Single Rate [PC1]	20.8p	28.3p	8p	36%	34.0p	6p	**20%**	34.0p	0p	**0%**
Multi Rate [PC2]	19.5p	26.7p	7p	37%	31.2p	5p	**17%**	33.7p	2p	**8%**



Note: Rates displayed are for 'Other payment type' (Direct Debit), GB average & inclusive of VAT

- Multi rate customers have a consistently lower Unit rate compared to Single rate customers:
- During Cap period 9a, E7 customers saw a smaller increase in unit rates compared to single-rate customers
- This partially offsets the higher increase in unit rates facing E7 customers in P9b.
- Absent any other methodology changes – we expect increases/decreases to revert back to comparable historic levels from 1 April (when the transitional indexation ceases to have an effect).

Ensuring our price cap decisions appropriately take into account the needs of multi-register customers

- **Impact assessment:** Our distributional impact assessment framework sets out how we consider electric-only households (including E7) when making policy decisions, including price cap decisions.

- **Transparency of multi-register cap levels in published documents**: In our Nov announcement letter we have included a regional breakdown of the multi-register cap levels.

- **Price forecasting and insights:** We will continue to consider price movement impacts on our forecasting cap levels, including for E7 customers. We will also build on our internal insights work to develop and communicate analysis specific to E7 / multi-register customers.

- **Compliance engagement:** We have taken firm action against suppliers for overcharging and will continue to monitor compliance and take action where appropriate.

- **Stakeholder engagement:** We will continue to engage with BEIS on the methodology of the EPG and future price protection. We also welcome continued engagement with consumer bodies and industry on this important issue.