

Energy Prepayment Review
Competition and Markets Authority
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Energy Prepayment Review – Energy UK Response to the Issues Statement

Following the CMA's publication of the Issues Statement on 19 February in relation to its ongoing Energy Prepayment Review, Energy UK is submitting this further response for consideration in addition to those responses submitted on 18 January to the Invitation to Comment on the proposed review,¹ and on 22 February to the decision to launch a review.²

Potential Outcomes of the Review

In its Issues Statement, the CMA seeks views on whether it should vary the Order or to revoke it, should the CMA ultimately conclude that the Order is no longer appropriate by reason of any change of circumstances. Linked to these outcomes is the potential to recommend an extension to Ofgem's default tariff cap to cover PPM customers, or for Ofgem to introduce a new charge restriction to specifically cover such customers. Energy UK had recommended in its January response for the scope of the review to be broad enough to assess these potential solutions, and we welcome confirmation from the CMA that this will be the case.

Energy UK maintains our view that in order to minimise the impacts of the detriment caused by the changes in circumstances it is imperative for the review to take place on a time-scale that allows for action to be taken and concluded in time to affect the scheduled updated cap levels in October 2019. In effect, this will require action to be completed by 7 August, the deadline for Ofgem to release the levels of both caps for the period beginning in October.

It is with consideration of this key parameter that Energy UK would recommend, should the CMA conclude the Order no longer remains appropriate, for the Order to be varied rather than revoked, to realign the PPM Cap's underlying methodology with that used by Ofgem in its default tariff cap, including an appropriate uplift to account for additional PPM costs. Energy UK notes that this is the recommendation made by Ofgem in its response to the CMA's Invitation to Comment on 18 January.³ For expediency and consistency with the default tariff cap when determining an appropriate uplift, the CMA could utilise the prepayment/direct debit cost-to-serve differential it previously calculated for the

¹ <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7012>

² <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7042>

³ https://assets.publishing.service.gov.uk/media/5c6adf7840f0b61a196aa83f/Ofgem_s_response_to_ITC_Redacted.pdf

Order. Energy UK believes that such a practical solution would have marked benefits for consumers over the revocation of the Order, from which there would be a strong risk that the required work could not be started and completed by Ofgem following the conclusion of the CMA's review, leading to another 6-month price cap period where the two caps are even further divergent. In addition, by utilising Ofgem's more recent data and methodology, the CMA would not need to undertake an extensive evidence gathering exercise and could more realistically complete all necessary work by the August deadline.

Additionally, the CMA could recommend for Ofgem to undertake the relevant work to incorporate PPM customers within the ongoing default tariff cap, with appropriate consideration of the additional cost-to-serve, should the conditions for effective competition not be considered to be in place at the end of 2020. This would ensure that the preparatory work for ensuring any required ongoing protection of such customers could be completed in a timelier manner, if deemed necessary by the Secretary of State.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.