

Leonardo Costa
Head of Price Cap Policy, Retail
Ofgem
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

1 June 2022

Dear Leonardo

PRICE CAP – MAY 2022 CONSULTATION ON CREDIT AND PPM SMNCC ALLOWANCES

Thank you for the opportunity to respond to your May 2022 consultation on credit and PPM SMNCC allowances in the default tariff cap.

We wish to comment on Ofgem's proposals relating to use of the Gross Domestic Product (GDP) deflator. Ofgem says (paragraph 5.4) that it proposes to maintain the GDP deflator as its measure of price inflation within the SMNCC model and to update the GDP deflator values to those published in the latest version of the HMT Green Book supplementary guidance.

As Ofgem acknowledges, the impact of the COVID-19 pandemic on ONS measurement of government output has led to known issues with the GDP deflator, and it is therefore unlikely to be reflective of the changes in prices suppliers and consumers experienced in 2020 and 2021. We believe Ofgem should instead take this opportunity to align the SMNCC model with the rest of the default tariff cap methodology and switch to the CPIH measure of inflation. A market based measure of inflation such as CPIH would avoid the issues with the GDP deflator and provide a more robust basis for this aspect of the price cap methodology going forwards. In any event, regardless of the inflation measure used in the SMNCC model, Ofgem should consult primary data sources (ONS and OBR) directly, and not rely on figures from the Green Book which are already a year out of date.

Yours sincerely,



Richard Sweet
Head of Regulatory Policy