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“Future of domestic price protection” – So Energy Response

Dear Dan,

So Energy is a leading energy supplier providing great value renewable electricity to homes across England, Wales and Scotland. We have consistently been recognised by our customers and the wider industry for our outstanding customer service since we were founded in 2015, including being a Which? Recommended Provider and have topped the Citizens Advice’s Supplier League Table. So Energy is one of the early adopters of the EUK Vulnerability Commitment launched in 2020, helping create a better customer experience for vulnerable customers year on year. In August 2021, So Energy merged with ESB Energy, and our combined business now supplies over 350,000 domestic customers. As one of the last challenger suppliers left in the market and one that is backed by ESB’s resources and expertise, So Energy is able to provide a unique view of the quality of service in today’s energy market.

We welcome this discussion paper on the future of domestic price protection. We wish to make the following key points:

1. If we are going to choose the right option for future price protection, we need a clear-sighted and objective view of the likely outcomes for consumers with competition alone. Without this, we run the risk of imposing the adverse side-effects of over-regulation on consumers and the market.
2. The working paper overstates the benefits and understates the issues associated with the current Default Tariff Cap (DTC) and, by extension, understates the benefits of competition. There are two clear issues in the working paper in this regard. Firstly, it fails to apply the lessons learnt from the energy crisis, and update the Competition and Markets Authority’s (CMA) estimate of consumer detriment without a DTC in place. In terms of detriment, our analysis shows that today’s DTC delivers greater profits than open competition did in 2014-16. Therefore, competitive pressure alone should be sufficient to protect consumers from excessive charges. Secondly, Ofgem has attributed efficiency gains to the existence of the DTC but the evidence would suggest the efficiency gains would have happened anyway under open competition. Related to this, Ofgem quantification of efficiency gains owing to the DTC is highly questionable. Again, this all points towards competitive pressure alone being sufficient to protect consumers from excessive charges.
3. We recommend that the DTC be removed and the BAT be retained as, with the benefit of hindsight, this arrangement delivered good outcomes for consumers in the 2014-16 period. The BAT, alongside competitive pressure, is sufficient to protect consumers from excessive price differentials. This also provides the best possible foundation for navigating the transition to Net Zero as it returns control of pricing and hedging to suppliers – these are crucial tools for managing risk on behalf of our customers in an increasingly volatile market. This framework also provides suppliers with the flexibility needed to explore what kind of default tariffs our customers want in a changing market. An enhanced Warm Home Discount (WHD) should be introduced to help fuel poor customers with their energy costs while allowing them the freedom to choose the tariff that best suits their needs.

## Evaluating the cap today

### **1) Do you have any reflections on our list of the cap's successes and challenges?**

Ofgem have overstated the level of detriment the DTC needs to correct which has significant implications for assessing the best option for future price protection. CMA detriment figure was based on assumptions around capitalisation and cost of capital that have been revised by Ofgem in light of learnings from the energy crisis.

#### *The £1.4bn detriment figure*

Ofgem quotes a figure of £1.4bn/yr as the detriment the DTC is designed to tackle, “resulting from operational inefficiencies and the overcharging of disengaged customers (often referred to as the ‘loyalty penalty’)”. This £1.4bn/yr figure originates from the CMA investigation and was derived from an analysis of excess profitability of suppliers based on a Weighted Average Cost of Capital (WACC) of 10%, applied on a per £ of revenue basis<sup>12</sup>.

The 10% WACC was subsequently incorporated into Ofgem’s DTC Earnings Before Interest and Taxes (EBIT) methodology – the amount of profit margin provided for suppliers under the DTC. Post energy crisis, Ofgem reviewed the level of the WACC in the DTC, determined that 10% was too low and revised the WACC upwards to 12.3%. In addition, it moved the model for determining a fair return for a supply business to incorporate a fixed and variable component – this provides suppliers with a greater percentage margin when revenue is lower.

In essence, the CMA’s assessment had taken place in the context of a relatively benign wholesale market environment, the crisis revealed that energy suppliers had greater levels of risk to manage than the CMA had concluded in their investigation and Ofgem corrected for this. Or to put it another way, the £1.4bn detriment never existed. All being told:

1. At the time of the CMA investigation, customers spent approximately £1,150 per year on energy<sup>3</sup>. Domestic suppliers were earning a margin of 3.5%.
2. The £1.4bn detriment was calculated by the CMA on the basis that suppliers should have earned a margin of 1.9% instead of 3.5%.
3. The DTC, with the revised EBIT calculation summarised above, delivers a margin of 3.3% on £1,150 per year.
4. This one change means the detriment the DTC is addressing falls to £175m per year or £2.30 per customer on a contract of £1,150 per year.
5. In addition to the EBIT allowance, Ofgem provides a Headroom allowance of 1.1% to account for unforeseen costs and general overall risk. Such an allowance did not form part of the CMA’s excess profits assessment, meaning ‘headroom’ would have formed part of the CMA’s EBIT calculation. That would mean that while competition delivered a margin of 3.5%, the equivalent DTC methodology provides an EBIT of 4.4%.
6. In other words, the DTC methodology delivers profits £787m *greater* than open competition. The detriment has disappeared and then some.

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<sup>1</sup> Further details can be found here:

<https://assets.publishing.service.gov.uk/media/576bcc23ed915d3cfd0000bb/appendix-9-10-analysis-of-retail-supply-profitability-roce-fr.pdf>

<sup>2</sup> CMA also took an ‘indirect approach’ to calculate detriment but placed a greater weighting on the ‘direct approach’ as it was a more relevant and granular measure of consumer detriment.

<sup>3</sup> Figure calculated from the average of Table 2 in CMA analysis

<https://assets.publishing.service.gov.uk/media/576bcbca40f0b66bda0000b0/appendix-9-2-analysis-of-the-potential-gains-from-switching-fr.pdf> Note, we have sense checked this figure against Ofgem’s Retail Market Indicators (<https://www.ofgem.gov.uk/retail-market-indicators>) for Average SVT tariff. If anything supplier revenue was less, the average Big Six SVT price was £1,083 between 28 March 2012 and 28 June 2015, which would have the effect of reducing the calculated residual detriment even more. However, we’ve chosen to align with the CMA’s numbers for the sake of consistency.

In addition to all of this, the DTC creates cost and issues for consumers. The backwardation allowance, for example, was only provided due to the existence of the DTC. Another emerging example is the interaction of forward liquidity and the DTC. As we stated in our response to Ofgem's call for evidence on Power Market Liquidity, the hedging methodology of the DTC price cap is pushing trading to end of day, exacerbating issues with falling liquidity. We calculate that liquidity issues alone have driven up customer costs by £11, far in excess of the £2.30 of residual detriment. Furthermore, quarterly changes in the DTC make it more difficult for households, especially vulnerable households, to manage tight household budgets.

### *Operational Efficiencies*

The operational efficiencies Ofgem has attributed to the DTC are questionable and there is plenty of evidence to indicate that efficiencies would have occurred without the DTC being in place.

Attributing an 11% fall in operating costs to efficiencies brought about by the DTC is highly questionable. Firstly, original source of the 11% figure quoted in the discussion paper heavily caveated reliability of the figure and were unable to conclude whether the fall was attributable to efficiency or other factors, such as a change in the composition of suppliers included in the reporting:

“However, the number of companies reporting this data has reduced to four, as E.ON is no longer required to do so, making it harder to draw conclusions from this. In addition, the events of last autumn may have impacted these figures in a number of different ways. It will take more time to understand what these impacts are on supplier efficiency and profits, and we will continue to monitor this.”

Secondly, the main specific efficiency gain cited in the discussion paper is suppliers updating their IT systems. The paper implies that, if it weren't for the DTC, suppliers would not have migrated to new IT systems. A closer examination of the evidence suggests that this assumption is incorrect. Large suppliers were aware of the potential savings to be made by migrating from legacy systems prior to the introduction of the DTC and had done so with mixed success. Notably, Npower's IT system migration was a costly failure<sup>4</sup>.

Two important factors changed the cost benefit analysis of updating IT systems, neither of which had anything to do with the DTC:

1. 'Out of the box' billing/CRM systems, such as Kraken, became available for larger suppliers. Once this kind of systems, often paired with a managed service, were only available to smaller suppliers. This greatly reduced the risks and costs associated with larger suppliers migrating to a new IT system.
2. The approach of MHHS increased the need to migrate as many legacy systems would have struggled with or simply couldn't support the business under MHHS.

In conclusion, this one off efficiency would have happened regardless of whether the DTC was in place. It's highly doubtful whether continuing on with a stringent DTC will generate meaningful additional efficiency gains when compared to the existing competitive pressure of the market.

### *The impact the DTC has had on competition*

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<sup>4</sup> <https://www.ofgem.gov.uk/publications/npower-pay-ps26m-failing-treat-customers-fairly>

Ofgem has played down the impact the DTC has had on competition. It's not realistic for Ofgem to declare in the title ahead of paragraph 2.7 that the cap "Did not stifle competition for engaged customers" and consequently gloss over the fact that approximately 90% of consumers are now on default tariffs. It would be more accurate to conclude, the DTC did not stifle competition for engaged customers, until it did. The decline in tariff choice had significant implications for consumers. From Q4 2021, the availability of fixed tariffs dried up as it was impossible to price a fixed tariff below the DTC. Alongside of the costs associated with unexpected SVT demand, customers that didn't fix in Q4 2021 and Q1 2022 were exposed to large increases in their energy costs when Russia subsequently invaded Ukraine.

Ofgem has appeared to consider that the DTC is a barrier to entry and expansion – restricting innovation. Every one of the suppliers on Citizens Advice's energy supplier rating, meaning they supply more than 25,000 meter points, were founded prior to the introduction of the DTC<sup>5</sup>. The DTC systematically benefits larger suppliers. Allowances are determined of what a Notional Supplier might need to operate but the underlying data feeding into that analysis is always weighted according to market share. In other words, the larger you are, the closer you will be to the Notional Supplier, thereby lowering your risk. On the other hand, smaller suppliers are exposed to far greater risks as they are more likely to be an outlier when compared to the Notional Supplier, exposing their business to potential losses.

### *The role of the DTC during the energy crisis*

While not directly raised as a success feature of the DTC in the paper we are aware of the general perception that the existence of the DTC allowed the government to organise support in the energy crisis – buying time to organise the EBSS and providing a standardised reference price for the EPG. However, before the DTC, suppliers typically hedged their SVT customers on a hedging ladder, starting about 18 months out. The hedging window, and therefore the pace at which wholesale prices are passed onto SVT customers, shortened for most consumers with the introduction of the DTC. This all had the effect of passing rising wholesale costs through quicker and more dramatically when the DTC updated. With the introduction of the quarterly cap, the time has shortened further still. SVT customers are now exposed to much more price volatility than before the DTC was put in place. With regards to the standardised reference price for the EPG, a similar outcome could have been achieved using a basket of tariffs. We note that other jurisdictions, such as Ireland, delivered government funded support to energy billpayers in the absence of any DTC.

### *Conclusion*

Ofgem has overstated the benefits and understated the problems associated with the DTC. It is difficult to demonstrate 100% objectivity at the best of times but when an organisation uses the words 'price cap' and 'protects' on 303 separate pages on its website<sup>6</sup>, it is going to be particularly difficult to overturn ingrained opinions of the DTC. When deciding what's best for consumers moving forward, we must start from an objective view of what the DTC and the market provides consumers, otherwise we risk choosing the wrong option moving forward. When conducting a Section 9 review of the price cap, we recommend that this is carried out by an independent organisation with a brief to look beyond the long held narrative that 'the price cap protects consumers' and instead examine whether it truly is the best means of

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<sup>5</sup> <https://www.citizensadvice.org.uk/consumer/your-energy/get-a-better-energy-deal/compare-domestic-energy-suppliers-customer-service/>

<sup>6</sup> "price cap" "protects" site:www.ofgem.gov.uk - Google Search

protecting customers from excessive charges and excessive price differentials in 2024 and beyond. The Oxera report<sup>7</sup> is a good example of how an independent review could be structured.

### Evaluating the current cap for the future

- 2) **Do you believe that the growing diversity of electricity consumption patterns will make it challenging to retain a flat, universal and stringent price cap? How quickly do you think this will materialise and with what impacts? What evidence can you provide to support your view?**

Yes. The impact may materialise on day 1.

When we migrate to MHHS, a single settlement curve, which is currently incorporated into the DTC, will be disaggregated into a separate settlement curve for each supplier. If a supplier's curve is 'peakier' than the single curve used for the cap, the supplier will incur a loss, which has nothing to do with their efficiency as a business. On the other hand, if these curve is 'flatter' than the single curve used for the cap, the supplier will make windfall profits. These are changes imposed on suppliers over which they have no control, given they cannot pass on the price signals associated with their settlement curve to customers on the cap. Currently, no one knows how significant this issue is as the HH data has not been collated and examined by anyone.

- 3) **What plans do suppliers have to launch ToU tariffs and to incentivise customers to shift their electricity consumption once MHHS is implemented?**

We have plans to launch tariffs on a 'test and learn' basis. We are happy to share further details bilaterally.

- 4) **How quickly and at what scale do you expect customers, especially those with large flexible loads such as EV and solar / battery users, to take up ToU tariffs once MHHS is implemented?**

This is currently unknown. EV and solar/battery users can currently take up ToU tariffs under Elective Half-Hourly Settlement so in that respect, there may be no change.

It is difficult to predict the future rate of uptake of EVs and home batteries. We are confident that EV uptake will be widespread, although not all households will be able to utilise home charging. Many people need a car and EVs continue to become more competitive on cost vs internal combustion engine cars, as the price of batteries continues to fall<sup>8</sup>.

The future penetration of solar/battery is less clear as it's a dedicated asset. Consumers must weigh up the opportunity cost of using their limited household capital on a home battery versus, say, a holiday. It's worth bearing in mind in this context the scale of the market – if one million households have a battery, 26 million do not and that would mean that home batteries remain a relatively niche proposition.

- 5) **In addition to the factors set out in this chapter, are there any other important changes that might affect the ability of the current default tariff cap to achieve its objectives?**

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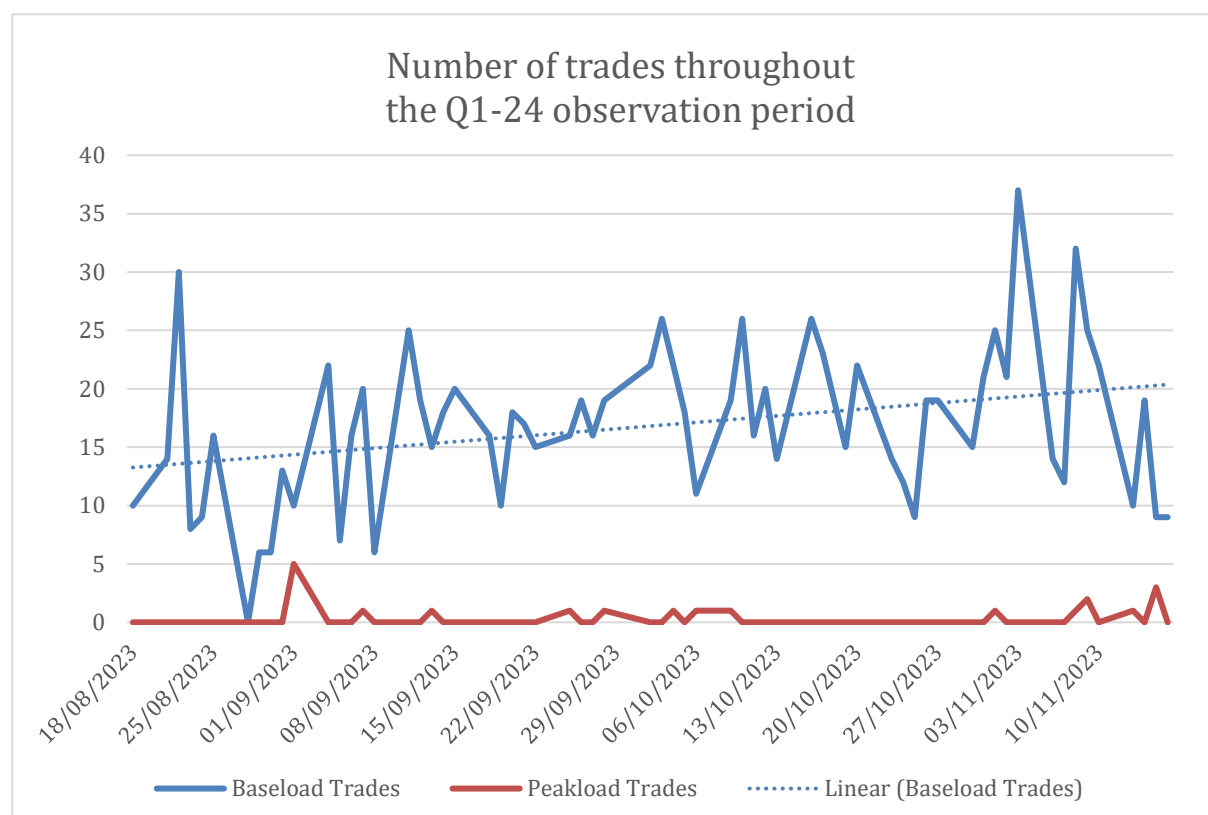
<sup>7</sup> <https://www.ofgem.gov.uk/press-release/ofgem-publishes-report-its-regulation-energy-market>

<sup>8</sup> <https://thedriven.io/2024/01/25/worlds-largest-ev-battery-maker-set-to-cut-costs-in-half-by-mid-2024/>



The concerns we set out in response to question 2 regarding MHHS are also relevant here. Declining power market liquidity is a growing issue and will make it more and more expensive to maintain the current DTC arrangements, unless something is done to address the underlying issues. We purchase power on the wholesale market for DTC customers according to a methodology set out by Ofgem. However, since the DTC was established, power market liquidity has declined – in other words there are fewer available products of the kind we need to align with the hedging methodology and that means the price we’re supposed to get and the price we actually pay for customers power has diverged. We calculate that this is creating a shortfall of £11 per customer and that number is set to grow. We expect that when this is corrected for, the price of energy for DTC customers will rise. While the fall in wholesale liquidity is not caused by the DTC, the cap methodology exacerbates the issue:

- The DTC hedging methodology uses a close day price at 4pm which can distort the index compared to where the product had been trading earlier in the day. This can lead to traders to hold back volumes towards the end of the day, further reducing liquidity earlier, as they are incentivised to try to match the index as close as possible. During the Market Making Obligation, one of the issues identified was that trades used to all be concentrated into two, hour long windows each day. Now trades are being pushed into a single trading window covering the last 15 minutes of the day. These issues have been raised with Ofgem as part of the liquidity call for input.
- Under the DTC hedging methodology, So Energy faces the requirement to hedge products that were not traditionally liquid through the DTC Mechanism. Each cap period requires us to hedge Quarter baseload and peak-load products. During the first half of each observation period, we are required to hedge the 2<sup>nd</sup> available quarter (Q+2) and in the second half of the observation period we need to hedge the front quarter (Q+1). Our observations (see Fig. 1) are that liquidity is low for the Q+2 baseload products and very gradually improves for Q+1. However, the peak load products are virtually non-existent be that in Q+2 or Q+1.



The issue with liquidity is symptomatic of a broader problem with the DTC. Updating the DTC methodology is very onerous and takes a long time. From the time an issue is identified, it can easily take over two years to update the cap. For example, Ofgem announced the Operating Cost Review in February 2023<sup>9</sup> announced that they were prioritising it over other issues in April 2023<sup>10</sup> but it won't be delivered until April 2025. This isn't a critique of Ofgem, nor are we calling for evidence gathering, consultations and due process to be abandoned – it's simply a statement of fact. The pace of change is only set to accelerate as we aim to decarbonise the grid by 2035 and decarbonise home heating. The DTC will not be able to keep up and this has implications for supplier financeability.

#### Options for evolving price protection for the future

#### **6) Do you agree that we need to retain some form of price protection in the retail market?**

Draconian interventions like the DTC are not fit for purpose and need to be removed. Alternative forms of protection need to be considered, such as the BAT.

As set out in our response to Question 1 there is compelling evidence to suggest that the DTC is not protecting consumers from excessive charges. The level of detriment the DTC was supposed to address has been overestimated – our calculations show that there's more detriment under the price cap than there was under open competition. Furthermore, the efficiency gains attributed to the DTC are highly questionable – the statistics quoted in the discussion paper are heavily caveated and the cited one-off efficiency gain associated with system changes likely would have happened without the cap. The cap has generated additional charges for consumers, such as the backwardation allowance, that otherwise wouldn't have existed. Finally, it has had a detrimental impact on competition in the market, acting as a barrier to entry and expansion and thereby denying consumers the benefits of innovation and competitive pressure.

As an affordability tool, the DTC has at times been the cheapest and the most expensive tariff on the market (due to underlying movements in the wholesale market). It has exposed fuel poor households with tight budgets to more volatile price changes, creating its own affordability challenges. An enhanced Warm Home Discount, delivering more credit to the accounts of more fuel poor households would be a more suitable way to deliver more affordable energy to those in need. It would also allow these consumers the freedom to choose the tariff that best suits their needs *and* receive vital financial support.

However, with regards to excessive price differentials, suppliers ability to cross-subsidise between more and less engaged customers needs to be constrained in order to ensure the benefits of competitive pressure are felt by all customers. The BAT is the best, most proportionate tool for ensuring this happens. The BAT facilitates consumer engagement through seamless internal switching and ensures that competitive advantage must be gained through cost efficiencies, not cross-subsidies. The BAT facilitates confidence in the energy market.

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<sup>9</sup> <https://www.ofgem.gov.uk/sites/default/files/2023-02/Price%20cap%20-%20February%202023%20decision%20on%20approach%20to%20reviewing%20the%20SMNCC%20allowances.pdf>

<sup>10</sup> <https://www.ofgem.gov.uk/sites/default/files/2023-04/Price%20Cap%20%E2%80%93%20Programme%20of%20Work%20Update.pdf>

**7) Do you have views on which of the three key parameters – the cap being flat, universal and stringent - should be relaxed when considering future price protection options?**

We believe the DTC should be removed entirely. However, if the price cap were to remain and be reformed, then the best option is to relax stringency.

We do not believe it is suitable to relax 'flat' while retaining 'stringent' and 'universal' DTC at this time. We are unaware of any desire for customers to move to more complex pass-through tariffs. Time and time again, consumers have shown a preference for simpler, easier to budget energy arrangements, be it dual fuel supply or fixed Direct Debits, even if their overall costs were slightly higher. We worry that, if suppliers were defaulted onto such arrangements in the name of Net Zero, it would have the effect of damaging consumer trust in the Net Zero transition. Additionally, Ofgem's prior analysis also questioned the wisdom of pursuing a move away from a flat cap<sup>11</sup>.

We also do not believe it is suitable to relax 'universal' while retaining a 'stringent' and 'flat' DTC at this time. The 'stringent' and 'flat' DTC has at times been the cheapest and the most expensive tariff on the market (due to underlying movements in the wholesale market). It has exposed fuel poor households with tight budgets to more volatile price changes, creating its own affordability challenges. Therefore, narrowing down the scope of the DTC to serve vulnerable consumers only appears to expose these consumers to as much or perhaps more detriment than if they weren't subject to the DTC. An enhanced Warm Home Discount, delivering more credit to the accounts of more fuel poor households would be a more suitable way to deliver more affordable energy to those in need. It would also allow these consumers the freedom to choose the tariff that best suits their needs *and* receive vital support on their bills.

This leaves us with stringency. It appears to be the natural candidate for adjustment given it is questionable whether the stringent cap has delivered positive benefits for consumers:

- Firstly, as we set out in our response to question 1, the amount of detriment the current DTC corrects is far less than what was estimated when the Domestic Gas and Electricity (Tariff Cap) Act 2018 was introduced. In light of the energy crisis our understanding of the risks suppliers need to manage on behalf of their customers has grown. It turns out competitive pressure was providing better outcomes for consumers than the CMA investigation had concluded.
- Secondly, it is unclear whether the DTC has driven efficiency improvements or if these improvements would have happened anyway, regardless of the cap. As stated above, competition was always delivering better outcomes than what was previously understood. In addition to this, there's strong evidence to suggest that one-off efficiency gains through system changes would have been grasped by suppliers regardless of whether or not the DTC was in place.
- However, even if the market is more explicitly relied upon to drive efficiency, the risk of unfair pricing through segmentation of customers remains. The BAT is the best, most proportionate tool for tackling this issue. The BAT facilitates consumer engagement through

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<sup>11</sup> <https://www.ofgem.gov.uk/publications/cost-pass-through-cpt-tariff-research-report>



seamless internal switching and ensures that competitive advantage must be gained through cost efficiencies, not cross-subsidies. The BAT facilitates confidence in the energy market.

**8) What are your views on options discussed? Do you have any preferred options or combination of options?**

The DTC should be removed and the BAT should be retained. An enhanced WHD should be introduced to help vulnerable customers with affordability issues while allowing them the freedom to choose the tariff that best suits their needs.

As we set out in our response to Question 1, competitive pressure provides better protection from excessive charges than the DTC and the DTC is driving additional cost onto consumer bills.

With regards to excessive price differentials, which is driven by price segmentation, the BAT is the best, most proportionate tool for tackling this issue. The BAT facilitates consumer engagement through seamless internal switching and ensures that competitive advantage must be gained through cost efficiencies, not cross-subsidies. Customers on default tariffs will benefit from this also, as they will be free to switch to any fixed tariff available from their supplier at a click of a button or switch suppliers entirely – this acts as a break on suppliers ability to price differentiate between customers on default tariffs and customers on other tariffs. We note Ofgem's concern that "default tariff customers could, nonetheless, still be used to subsidise below cost tariffs offered to all customers on the assumption that they would be unlikely to take up the tariffs offered." However, as we set out in our response to Question 1, the market without a price cap but with the BAT was delivering much better outcomes for consumers than the CMA supposed at the time their investigation was undertaken. Ofgem should re-consider the value of solely relying on the BAT, alongside competitive pressure, as this approach has far fewer drawbacks than the other options for providing a less 'stringent' DTC.

The BAT provides suppliers with the freedom to manage the pricing and hedging of both acquisition and default tariffs, providing them with the tools they need to manage risk on behalf of their customers. This is a crucial difference compared to the other options to move away from a 'stringent' DTC. With both 'market basket' and 'within supplier relative' caps, it is difficult to resolve how Ofgem may reconcile fixed tariffs, which are hedged in advance at point of sale and subject to exit fees, with default tariffs which are hedged on a rolling basis and aren't subject to exit fees. In scenarios of higher wholesale volatility, it's difficult to see how Ofgem would be able to adjust the differential between fixed and default tariffs on the fly without mandating some sort of implicit or explicit hedging methodology – this essentially lands us back at the same issues suppliers face under the current DTC. We would be keen to discuss these issues with you further so we may jointly bottom out the challenges regarding restrictions on suppliers ability to price and hedge.

With regards to a margin cap, it is unclear how Ofgem could ensure that suppliers are fairly compensated for the risk they carry on behalf of their customers. If a winter is warmer than anticipated (or very cold), suppliers would bear the losses associated with this weather risk. However, if the winter is slightly colder than expected, supplier profits would be capped. This 'heads I win, tails you lose' framework would damage the markets ability to attract investment at a time when we must embark on a costly Net Zero transition.

Finally, returning to removing the DTC and retaining the BAT, this option provides the best possible foundation for navigating the transition to Net Zero as it returns control of pricing and hedging to suppliers – these are crucial tools for managing risk on behalf of our customers in an increasingly volatile market. This framework also provides suppliers with the flexibility needed to explore what kind of default tariffs our customers want in a changing market. The supplier that does the best job at this will be rewarded for their efforts through growth and retention.

**9) In particular, which options or combination of options do you think would best protect vulnerable customers?**

As set out in our response to question 8, the DTC should be removed and the BAT should be retained.

We also do not believe it is suitable to relax ‘universal’ while retaining a ‘stringent’ and ‘flat’ DTC at this time. The ‘stringent’ and ‘flat’ DTC has at times been the cheapest and the most expensive tariff on the market (due to underlying movements in the wholesale market). It has exposed fuel poor households with tight budgets to more volatile price changes, creating its own affordability challenges. Therefore, narrowing down the scope of the DTC to serve vulnerable consumers only appears to expose these consumers to as much or perhaps more detriment than if they weren’t subject to the DTC. An enhanced Warm Home Discount, delivering more credit to the accounts of more fuel poor households would be a more suitable way to deliver more affordable energy to those in need. It would also allow these consumers the freedom to choose the tariff that best suits their needs *and* receive vital support on their bills.

**10) How should consumers with large flexible loads, mainly EV and solar / battery users, be treated with regards to future price protection?**

It may be useful to place users with large flexible loads on a default TOU tariff if their usage shows they would benefit. However, GDPR and supply licence restrictions must be accounted for. If a customer has not opted into providing HH data, a supplier will not have the ability to determine whether the customer would benefit from a default TOU tariff.

**11) Are there any additional options that we haven’t, but should be considering?**

We have no additional options to add at this time but look forward to considering any suggestions other stakeholders may raise through the consultation process.

If you would like to discuss the future of domestic price protection bilaterally, we’re keen to do so, over Teams or in person. Please get in touch.

Yours Sincerely,

Paul Fuller  
Head of Regulation

