Future Energy Associates

Authors:

Samira Kelly, Data Scientist, Future Energy Associates
Dylan Turk Johnson, Director, Future Energy Associates
Clem Attwood, Director, Future Energy Associates

Executive summary

State of the market

- This quarter the retail market showed continued signs of opening up again with **one new supplier** (Tulo Energy) re-entering the domestic market by offering tariffs available to households. As of 1st of October 2023, there were **12 active fixed tariffs** on the market, of which **11 fixed tariffs cost more** than the October Price Cap. On top of this, Future Energy Associates's analytics platform saw an uptake in different direct debit payment methods as a challenger energy supplier moved towards **variable direct debit payments** rather than monthly direct debit payments. Additionally, the market saw a reintroduction of collective tariffs as So Energy launched the first **collective tariff** in 2 years.

When to fix/switch?

- Current forecasts suggest that any one-year fixed tariff **equal to or below the October Price Cap** is worth fixing to and could save more than £90. The current best variable deal would be with two different suppliers: Home Energy for Gas and Fuse Energy for Electricity.

Operating Costs

- The **top down approach** that Ofgem employs to forecast operating costs is found to be **outdated, untransparent** and **unfit for purpose.** Crucially, the allowed operating costs of energy suppliers has risen in line with inflation, despite the technological efficiency gains such as digitalisation and AI.

- The report has identified that more clarity is needed in what smart meter costs are included in both the SMNCC and OC components of the Ofgem Price Cap and how these components are being updated over time. This report questions why these costs have not decreased overtime as suppliers realise those smart meter benefits.

Fixed Tariffs above the October Price Cap:

- There are 337 in-contract fixed tariffs currently priced above the October price cap. These fixed tariffs with rates that are above the October price cap have an average exit fee of £138. Furthermore, these fixed tariffs are on average £694 more expensive on an annual basis than annualised rates guaranteed by the October Price Cap.

- A new exit fee ranking table shows that of the larger suppliers average exit fees are in the range of £29-£75 with Octopus having the highest per fuel (£58-£150 for dual fuel).

Supplier profits

- Ofgem have increased the allowance for supplier profits. Although pitched to protect customers from surging prices, the new methodology of calculating the Earnings Before Interest and Taxes (EBIT) has caused profits to rise. This quarter, the annual EBIT paid by a typical dual fuel customer has increased to £44 from £37 in Q3. Furthermore, the new methodology includes a fixed component which guarantees profits as prices go down.

- The Headroom Allowance Percentage (HAP) remains the same as previously, at 1.5% of the total price; this price cap is £20.70, a decrease of £2 from the previous cap due to other decreases.

- In total, supplier profits equate to **£64.70 per year per household,** compared to £60 per year last quarter. With 29 million households, and prices looking to remain high over the next year, the combined profits suppliers could make over the next year is **£1.88 billion,** an increase of **8%** from the estimates published in the previous Tariff Watch report.

Tariff Analysis

- The growth of tariff options was **enabled by falling wholesale prices feeding through to retail prices.** Electricity costs have dropped in all regions from July to October 2023 on average dropping 8%. Whilst unit rates dropped, overall electricity **standing charges (SC) have increased** from July to October. There is evidence of competition on standing charges from different suppliers.
- Likewise, **gas unit rates dropped significantly** falling by an average of 8.2% since July. **Gas standing charges** however remained high and did not fall maintaining a 33.5 p/day record high average.
- The **most expensive region for electricity was Manweb,** which covers Merseyside, North Wales and parts of Cheshire. The significant regional inequalities in energy pricing identified in the previous report remain in place.

Table of contents

Introduction

Background into the retail market:

In August 2022, wholesale energy prices reached a peak, resulting in costs that were approximately ten times higher than those in the summer of 2019 [1]. This surge was attributed to a myriad of interconnected factors, including the Russia-Ukraine conflict and the consequential decision by Western European and UK governments to cease their reliance on Russian gas supplies, coupled with French nuclear reactors going offline, which in turn heightened their gas consumption.

Both gas and electricity prices are intrinsically linked; gas still largely powers electricity generation, and gas-powered electricity sets the marginal price in pay-as-clear wholesale markets.

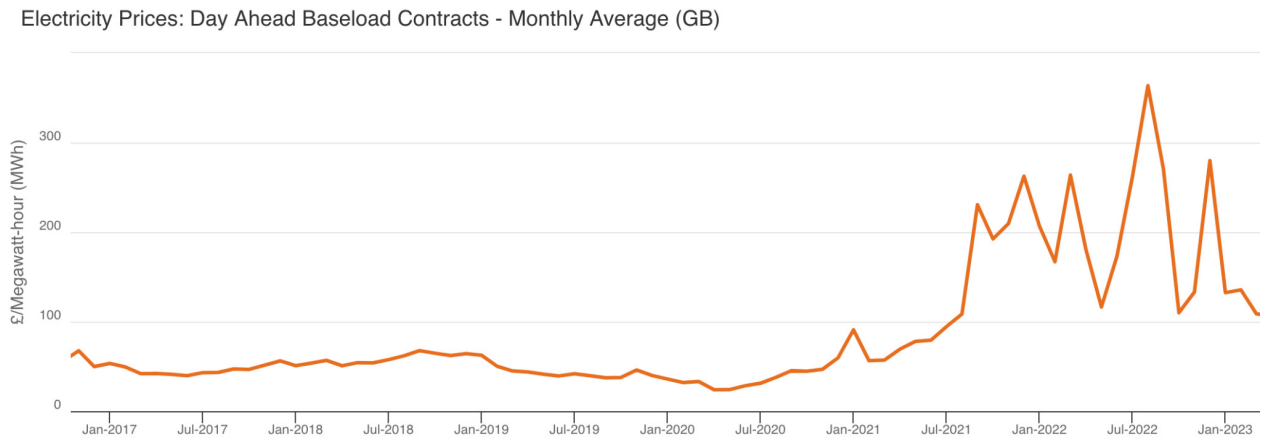


Figure 1: Electricity wholesale prices.

Rising wholesale prices, the prices at which suppliers purchase energy from the grid, inevitably translated into increased retail prices for consumers, albeit with a time lag. Consequently, the winter of 2022-23 saw retail energy prices peak, requiring the government to intervene and fix direct debit dual fuel prices below an average of £2,500. However, when combined with underinvestment in energy efficiency measures over recent years, which results in higher energy consumption, the government support was insufficient for many. The result was that millions of people spent the winter in cold damp homes [2]. In 2023, the Department for Energy Security and Net Zero (DESNZ) projected that 14.4% of households would experience fuel poverty, a rise from 13.1% in 2021 [3]. Prices for consumers remain high. While an environment with stability and low risk for energy suppliers is desirable, this must be balanced with fair and transparent prices for consumers.

Since peaking in August 2022, both electricity and gas wholesale prices have seen a decline of over 50%. This shift has begun to be felt in the retail energy market, with the Ofgem price cap decreasing for the third consecutive quarter as of October 1st. Although this is certainly good news for households, the reintroduction of a competitive retail energy market presents its own set of challenges. Households now face the difficult task of navigating numerous suppliers and tariffs to find the best fit for their needs.

Objective, Purpose, and Scope of the Report:

This report, commissioned by the 'Warm This Winter' campaign, delves into the UK's retail energy market, assessing how retail energy prices have responded to significant changes in the wholesale energy sector. The data used for this report is accurate as of October 1st, 2023 and is sourced from Future Energy Associates' retail tariff database, which encompasses all tariffs across England, Scotland, and Wales.

Our primary goal is to investigate how retail energy prices have adjusted to decreasing wholesale prices. In doing so, we'll evaluate the roles of the UK Government, the energy regulator Ofgem, and energy suppliers in this transition. Specifically, we aim to ascertain whether these entities are ensuring households reap the benefits of falling wholesale prices and to pinpoint any areas necessitating further action or refinement.

The second edition of the 'Tariff Watch' series focuses in more depth on:

- Operating Costs
- Supplier Profit Allowances
- Outstanding Fixed Tariffs with Higher Costs.

Market and Policy Overview

The current state of the market:

Since April 2023 the domestic retail energy market has been a market in which suppliers can offer profitable tariffs and acquire customers. This is highlighted through the growth of the number of energy suppliers, where the number of suppliers has increased by 4 from 26 to 30 since April 2023. The latest being Tulo Energy re-launch in July 2023. Looking forward, we are expecting this trend to continue and for additional energy challengers to enter the domestic market including the expected introduction of Jellyfish Energy in Q1 2024. However, at the same time Shell Energy will be exiting the UK domestic market and 1.4 million customers will be transferred to Octopus Energy.

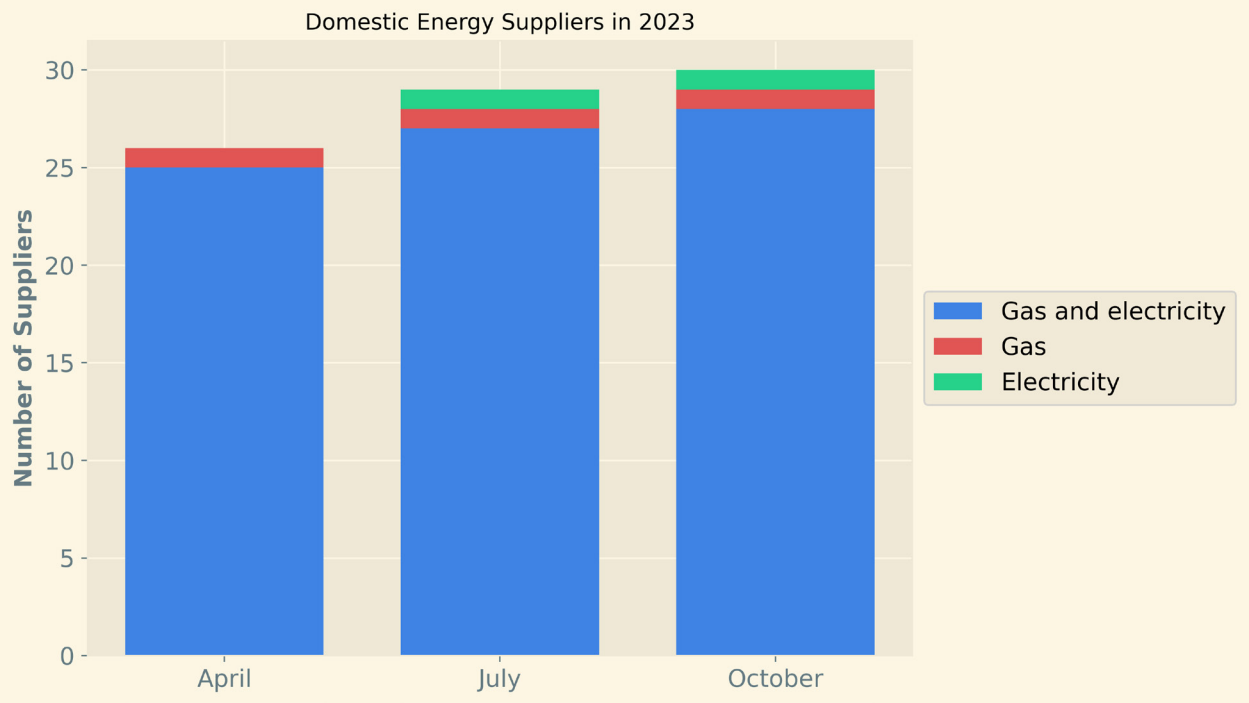


Figure 2: Number of domestic energy suppliers

The period from July to September 2023 saw the growth of fixed tariffs available to the market. While greater choice signifies healthier market conditions, only two of the offered fixed tariffs were likely to save households money over the fixed tariff contract length. Instead, the fixed tariffs were only beneficial to suppliers and risk averse households that value price security.

A shift in how you pay for your direct debit?

In the UK, the prevalent practice for energy bill payment is through fixed monthly direct debits. This method calculates an estimated annual energy consumption and then divides that total into 12 consistent payments. This facilitates budgeting, as households can anticipate a stable monthly outlay.

However, a noteworthy shift in the market is the emergence of an electricity deal that employs a variable direct debit system. Under this plan, households are invoiced based solely on their actual consumption for that month. An advantage of this scheme is it prevents consumers from overpaying and potentially leaving surplus funds with energy providers.

The benefit of the variable system is it ensures households aren't inadvertently funding excessive balances with their energy companies. There have been numerous allegations of energy providers inaccurately estimating monthly direct debit amounts, thereby withholding undue sums of customer funds [Times, Outfox the Market Facebook Page]. The variable direct debit model offers a potential solution to this issue, enhancing financial fairness for UK households. Nonetheless, there's a caveat: during colder months when energy usage typically spikes, bills will be higher. As such, households will need to exercise financial planning throughout the year.

Policy updates - How recent regulation is impacting energy tariffs

Short Term:

1. **Earnings Before Interest and Tax (EBIT)** The new EBIT calculation method is coming into effect for the October 2023 price cap. The goal is to stabilise this to not be as sensitive to price fluctuations of the rest of the cap, by introducing a new fixed element and having a reduced variable element.

   However, this has resulted in an increase in this profit allowance, from £37 in Q3 2023 to £44 in Q4 2023 [Ofgem 2023]. It will only protect the customer from higher profit margins than the previous methodology if the cap ever went above £4,000 a year again.

	January 2019 - September 2023	October 2023 - October 2024
EBIT Fixed (£ per customer)	0.0	19.76
EBIT Variable (Percentage of DTC minus EBIT, Headroom and VAT)	1.9368%	1.3975%

2. **Consumer Standards Consultation:** On 26th July 2023 Ofgem released a consultation to determine how to improve the quality of the services provided by energy suppliers. This consultation was called after surveys from Citizens Advice indicated that the performance and quality of service from energy suppliers have consistently declined across multiple key metrics from 2018 [CA 2022]. The decision of the consultation will be known in early October, however it could include the following measures:

   a. Energy suppliers would have to keep phone lines open longer, for example into evenings and over weekends. They may also have to be easier to reach over email, webchat or other digital media, and ensure that they have 24/7 emergency support in place for people who have had their power unexpectedly cut off.

   b. Providers may also have to provide better support for customers who are struggling with their bills. The proposals would compel them to identify and work with households facing difficulties at an earlier stage than they currently do, offering up schemes like temporary repayment holidays. Alongside these changes, suppliers would also have to improve their handling of vulnerable customers.

   c. Ofgem is considering compelling energy firms to make information on their customer service performance available to the general public in the hope that it will drive up standards.

3. **New prepayment meter rules extend protections for vulnerable people:**From 8th November 2023 new rules will take effect preventing energy suppliers from forcibly installing prepayment meters for vulnerable households, including people over 75 (with no other support in their home) and those with children aged under 2. This measure announced on the 13th September extends previous protections preventing the involuntary installation of prepayment meters for vulnerable households.

4. **Updated Typical Domestic Consumption Values:** As of 1st October, Ofgem have updated their "typical domestic consumption values", which will be added to their calculations in October. This will therefore make "annual cost" comparison quotes appear to have decreased significantly. To account for this, where possible we have conducted our analysis in terms of unit rates and standing charges.

Price Analysis

The Price Cap is enforced by Ofgem, the energy regulator for Great Britain, and sets the maximum amount that energy suppliers can charge households for their standard variable ("default") tariffs. Crucially this means that fixed tariffs are not regulated by the Ofgem price cap. The price cap applies to unit rates and standing charge, however is typically expressed as an annual value. This average consumption value has been reduced to 2,700 kWh/year of electricity and 11,500 kWh/year of gas [4]. For example, the current October price cap is set at £1,834 per year for dual fuel tariffs, paying by direct debit, and consumes the 'typical medium' amount of energy, as defined by Ofgem under the new consumption values. Based on the old values, the price cap would be £1,923. Charities have expressed some concerns about the methodology used to calculate these new consumption values which will be examined in future reports.

It is also worth stressing that households that consume more energy than this will have annual costs which exceed the price cap.

In this report, we consider domestic tariffs, and all the annual costs reflect the energy usage of a typical medium household as specified above - and using the new Ofgem typical consumption values. For households on Economy 7 tariffs, we assume the same energy consumption level, with 42% of electricity usage occurring during night rate hours. These tariffs apply specifically to electricity and have different unit rates during the day and at night. The night rates are cheaper to encourage off peak electricity use, when overall electricity demand is lower. Therefore, the day rates can exceed the price cap as long as these are balanced out by lower night rates.

Falling Prices: Moving Towards the End of the Energy Cost Crisis

Since January 2023, households have observed a noticeable decline in energy prices, both for variable and fixed tariffs. Figure 3 underscores this trend, highlighting the consistent reduction in retail energy rates.

For variable tariffs, electricity prices fell by 15.3%, moving from £1,092.61 in January to £925.25 in October (a 7.8% decrease from July's £1,004). Concurrently, gas variable tariffs saw a decline of 30.8%, decreasing from £1,288.56 in January to £892.26 in October (a 7.5% reduction from July's £965).

On the other hand, fixed tariffs have experienced unique changes. In January, electricity and gas tariffs were set at £1,641.93 and £1,795.19 respectively. While no fixed tariffs were available on 1st of April 2023, by October, these rates adjusted to £956.83 for electricity and £921.31 for gas, signifying reductions of 41.7% and 48.7%, respectively. From July to October there was a 4.9% reduction in electricity and a 5.1% decrease in gas from fixed tariff at the start of the July price cap.

However, despite these reductions, it's crucial to note that retail energy prices are still hovering at historically elevated levels. As we approach the colder months, households face the challenge of navigating these prices without the same extent of support they benefited from last winter.

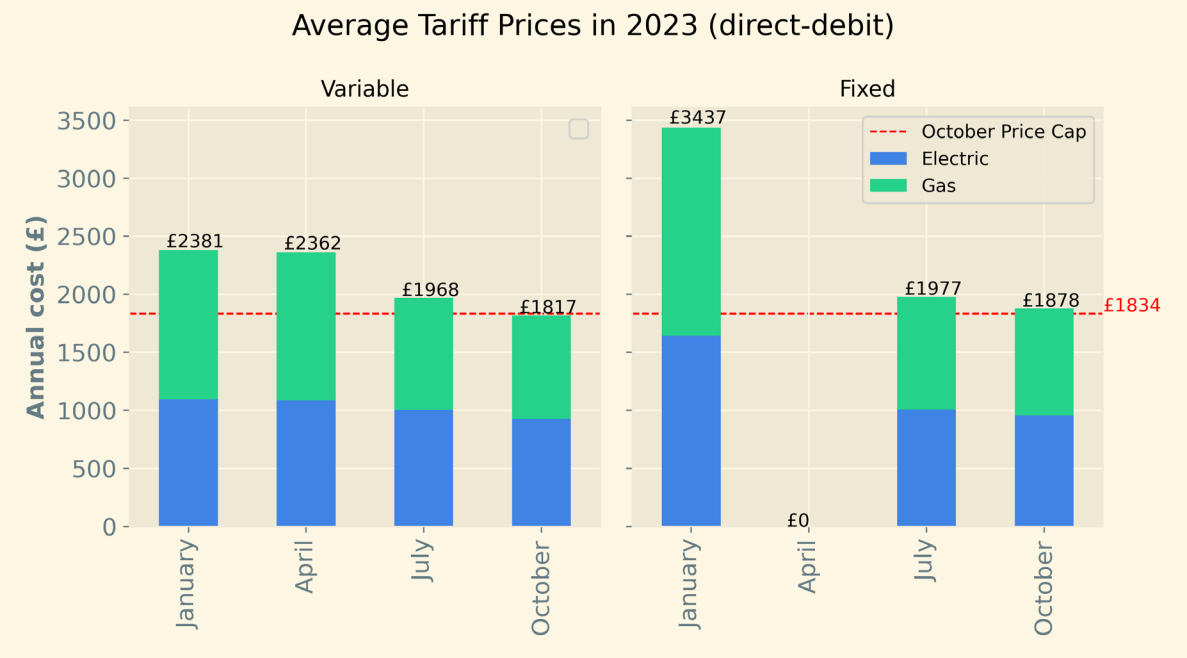


Figure 3: Average annual cost for fixed/variable a medium-use household on 1st January, April, July, and October considering all active tariffs.

Payment methods have a substantial impact on consumer energy costs, affecting their financial management and annual expenditure. Early October tariff data reveals Standard Credit (CAC) users face a notable premium with combined yearly averages of £1,963 for gas and electricity. In contrast, Direct Debit (DDM) users benefit from lower combined averages at £1,832. Historically more costly, Prepayment (PRE) prices have undergone significant cost decreases largely levelling the combined averages at £1,827. This development marks a significant reduction in the prepayment differential, albeit standard credit users continue to endure a significant premium.

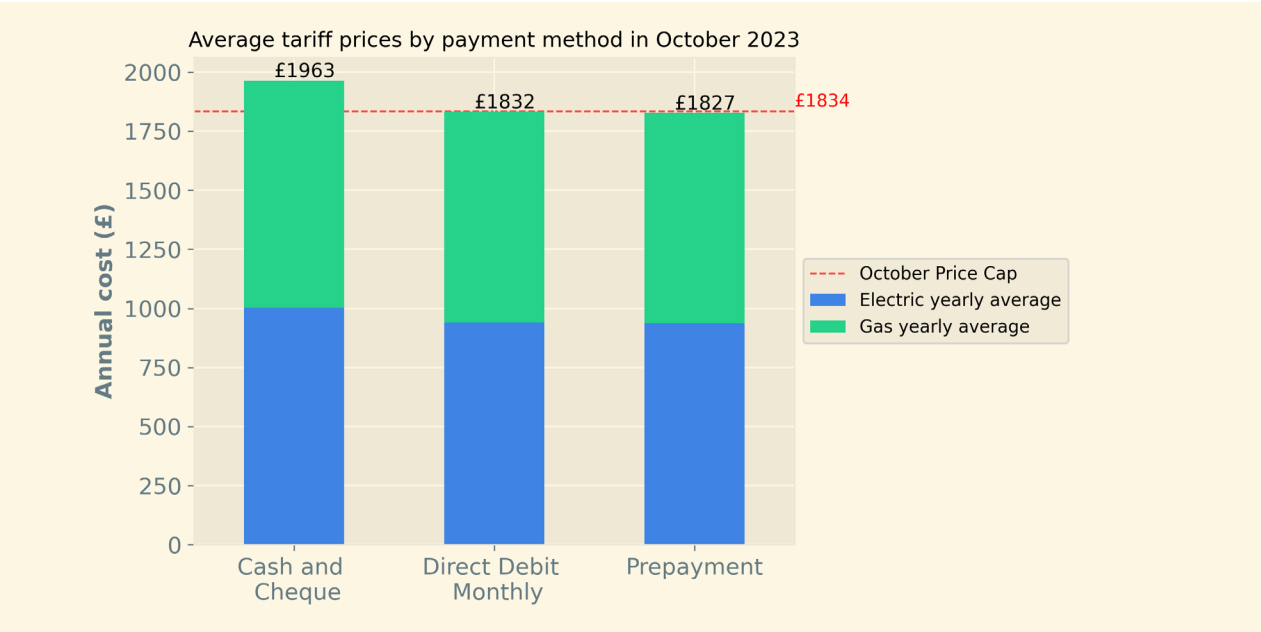


Figure 4: Mean tariff prices, split by payment type, for a medium use household.

Price variation by region

Electricity is distributed at a local level by distribution network operators (DNOs). Gas is distributed across eight different regional areas, but is accounted for by Ofgem across these same DNO areas. There are 14 geographical areas run by different DNOs which are known as DNO regions, and these can be seen in figure 3. Differences in the way power needs to be distributed within these regions, for example because of the length of connections to properties, as well as differences in the way DNOs operate, leads to differences in costs passed onto suppliers. In addition, electrical losses vary by region because of the makeup of the network, meaning more power has to be bought by the supplier for the same amount of energy end-use.

Figure 5: A breakdown of the different DNO regions. Data from [5].

Overall

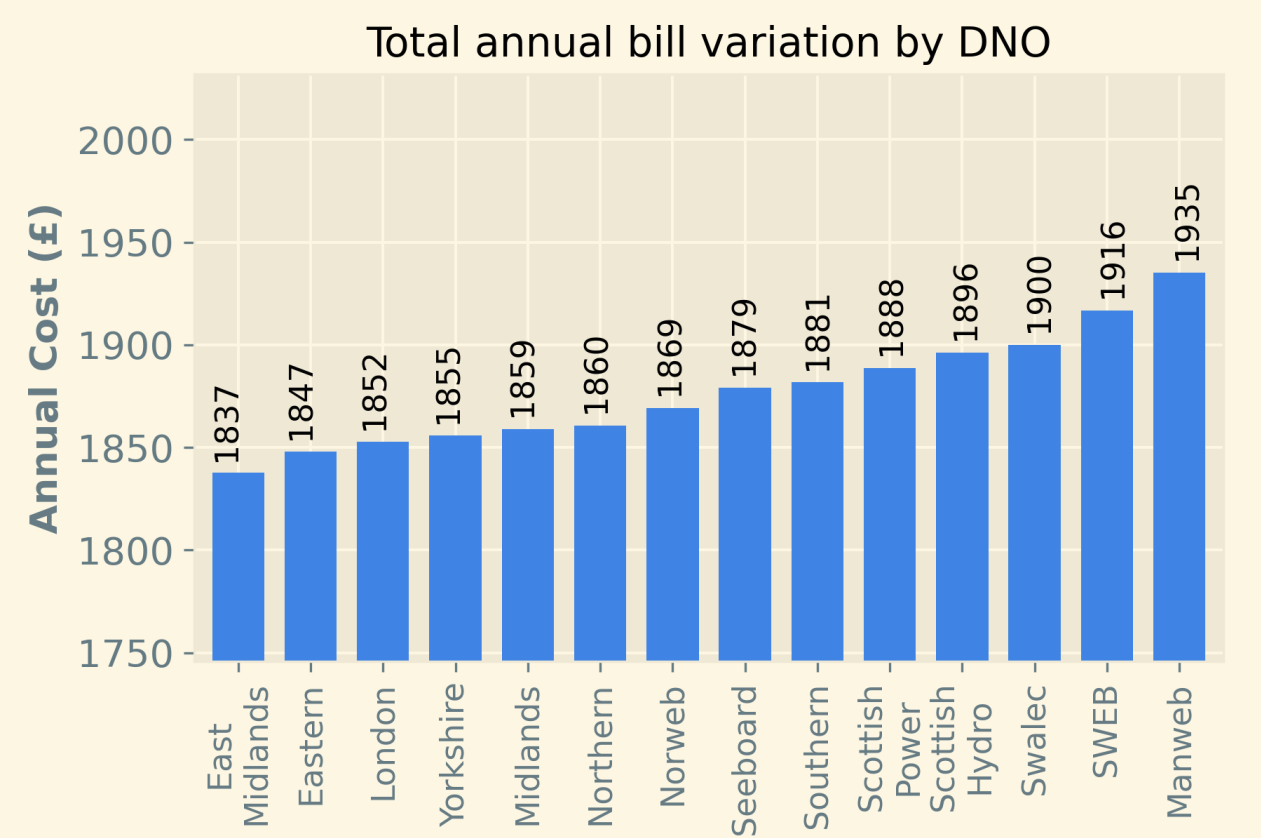


Figure 6: Annual cost for a medium use dual fuel household, varied by DNO.

Overall the average price of energy varies significantly by region and these regional averages vary by £98. As graphs 7-10 reveal, these differences are largely driven by electrical cost differences, specifically those differences in electrical standing charge. To highlight this difference, households who live in Manweb (Merseyside, Cheshire and North Wales) are faced with an average electrical standing charge of 63.1p/day which is 61.4% higher than that of London (39.1p/day) or an annual difference of £87.6 pounds. Household gas prices vary less significantly with a £37 annual cost difference (4.08%) between the cheapest (East Midlands) and most expensive (SWEB) region for gas.

Electricity

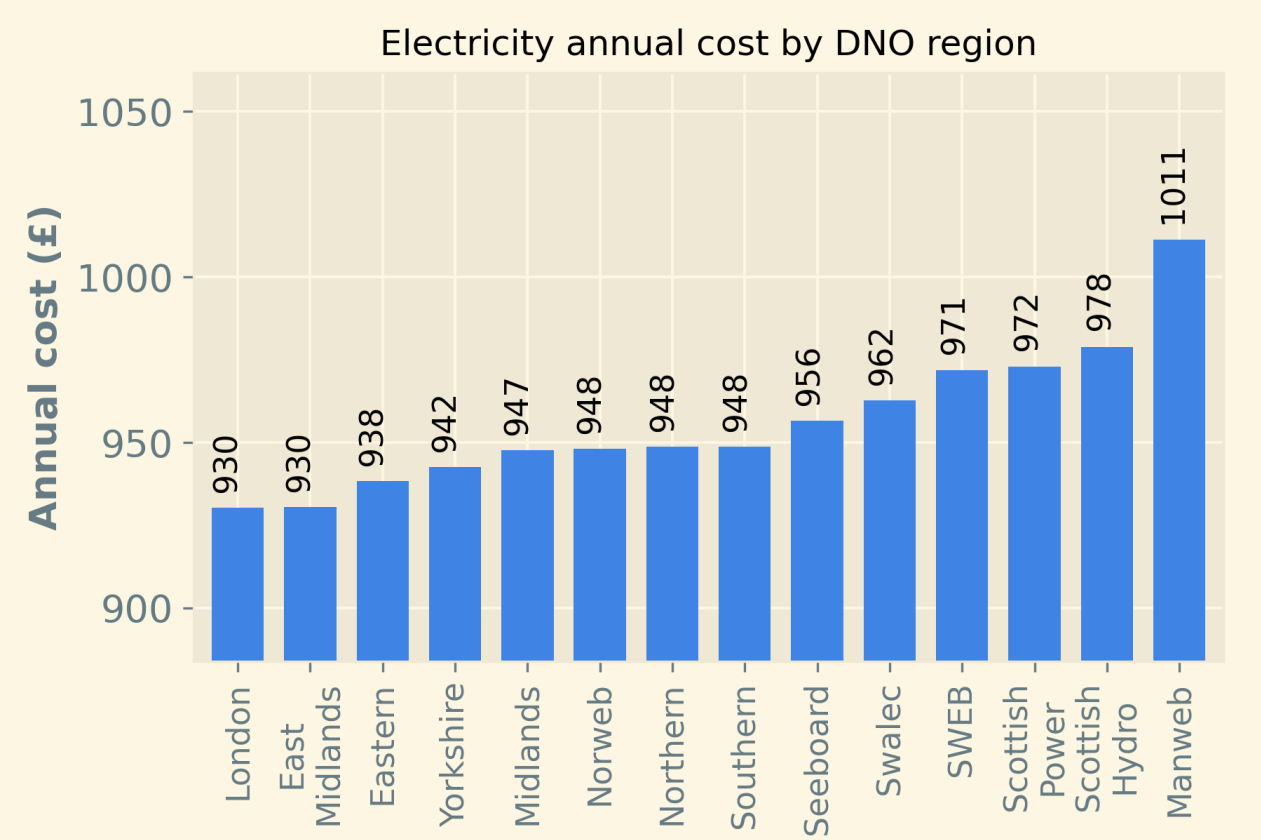
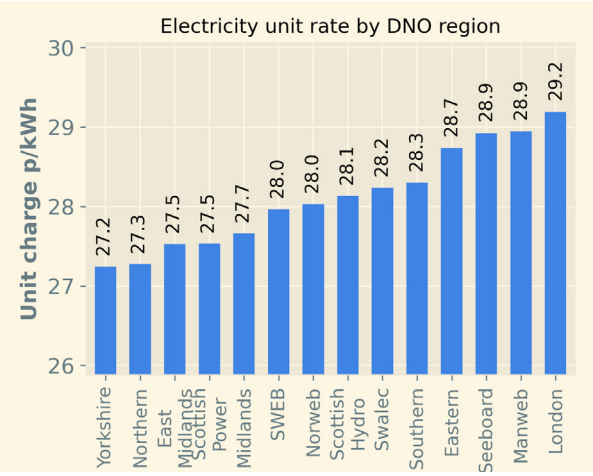


Figure 7: Annual average electricity costs by DNO region, for a medium-use household.



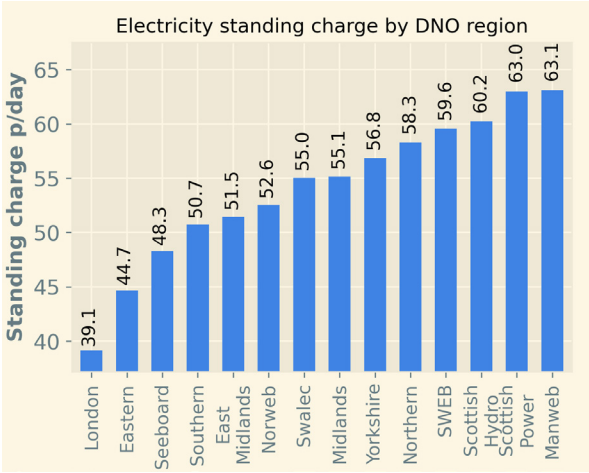


Figure 8: Electricity Prices: Left: Variation in electrical unit rate by DNO region. Note that in the case of Economy 7 tariffs these figures only take into consideration the day rates.
Right: Variation in standing charge by region.

Gas

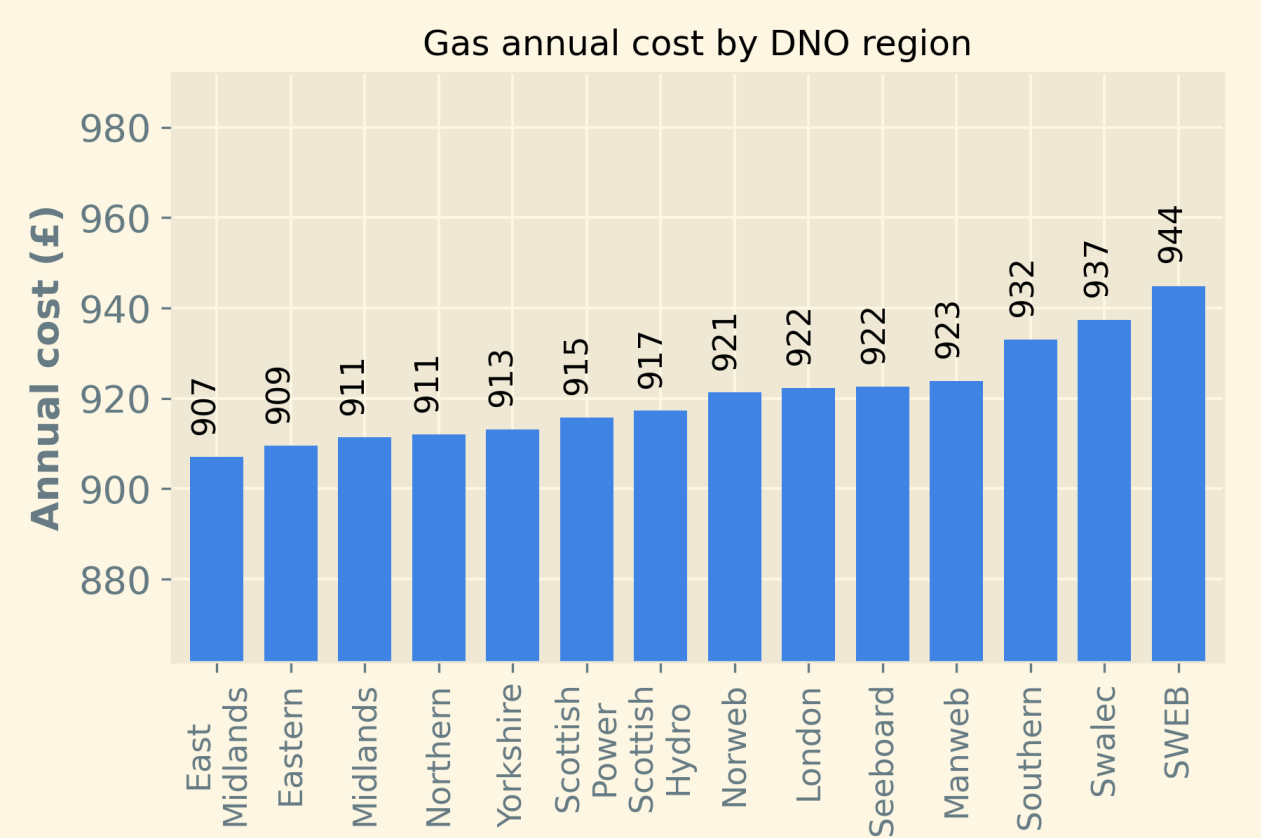
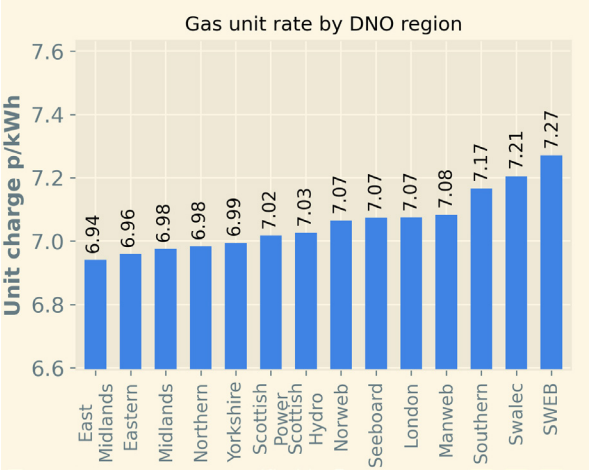


Figure 9: Annual Gas cost per DNO region for average consumption households



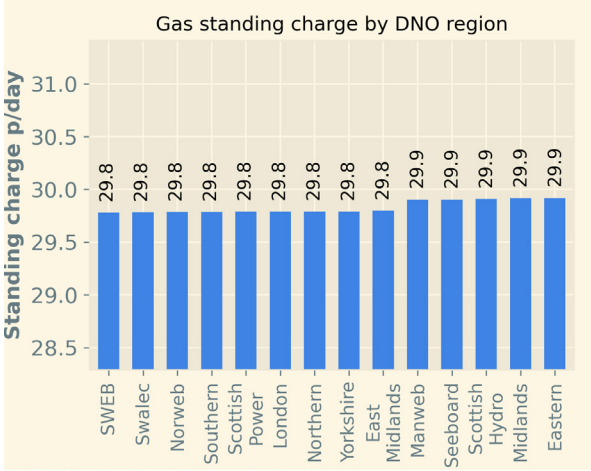


Figure 10: Left: Standing charge. Right: unit rate variation

Tariff Tracker

What are the cheapest tariffs on the market?

In this section, we consider what the cheapest tariff on the market is for households with average consumption, with a standard meter, and paying by direct debit. We recommend selecting any fixed tariff at or below the October price cap should be selected.

Cheapest Variable Tariffs

- Electricity: Fuse Energy (Fuse Saver)
- Gas: Home Energy (Home SVT October 2023 v1)

Cheapest Fixed Tariffs

- Dual Fuel: Utility Warehouse Fixed Saver 7

When should households consider fixing their tariff?

Households should select a fixed tariff at any **rate at or below the October Price Cap rates.**

These rates for a direct debit customer are as the below:

- Standing Charges: Electric 53 p/day, Gas 30 p/day
- Unit Rates: Electric 27 p/kWh, Gas 7 p/kWh

Tariff Watch recommendation: The data suggests that households **should remain on the cheapest possible variable tariff combination.** However if a household was willing to bundle different utilities the **Utility Warehouse Fixed Saver 7 could also be an option, but it** requires signing up to two additional Utility Warehouse services for which separate price comparisons would need to be made.

Households should fix their tariff before the January to March rates rise as the price cap is forecast to increase in the January to March price cap, just as energy consumption is on average highest. Fixed tariffs set at October price cap rates would save over £90 on average compared to a variable tariff that is at the Ofgem Price Cap rates over a 12 month period.

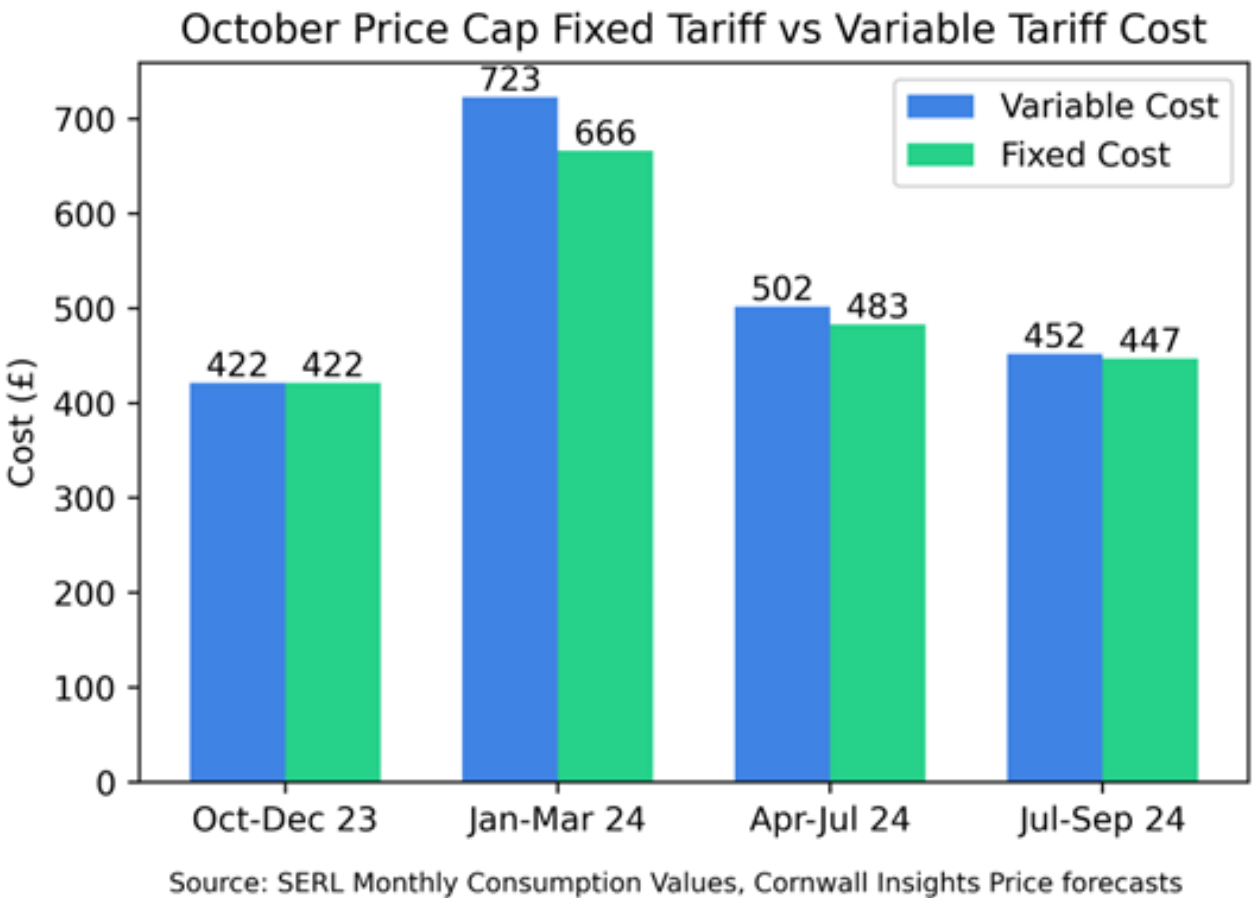


Figure 11: Year ahead forecasts: Fixed Tariff Cost vs Price Cap Forecasts

Price Cap Breakdown

In this edition of Tariff Watch, we are breaking down and examining the elements of the Ofgem Price Cap. Ofgem set the price cap on variable tariffs by estimating the size of the components of the cost of retailing energy and then separating them into costs on standing charge and costs on per unit of energy.

Price Cap Overview

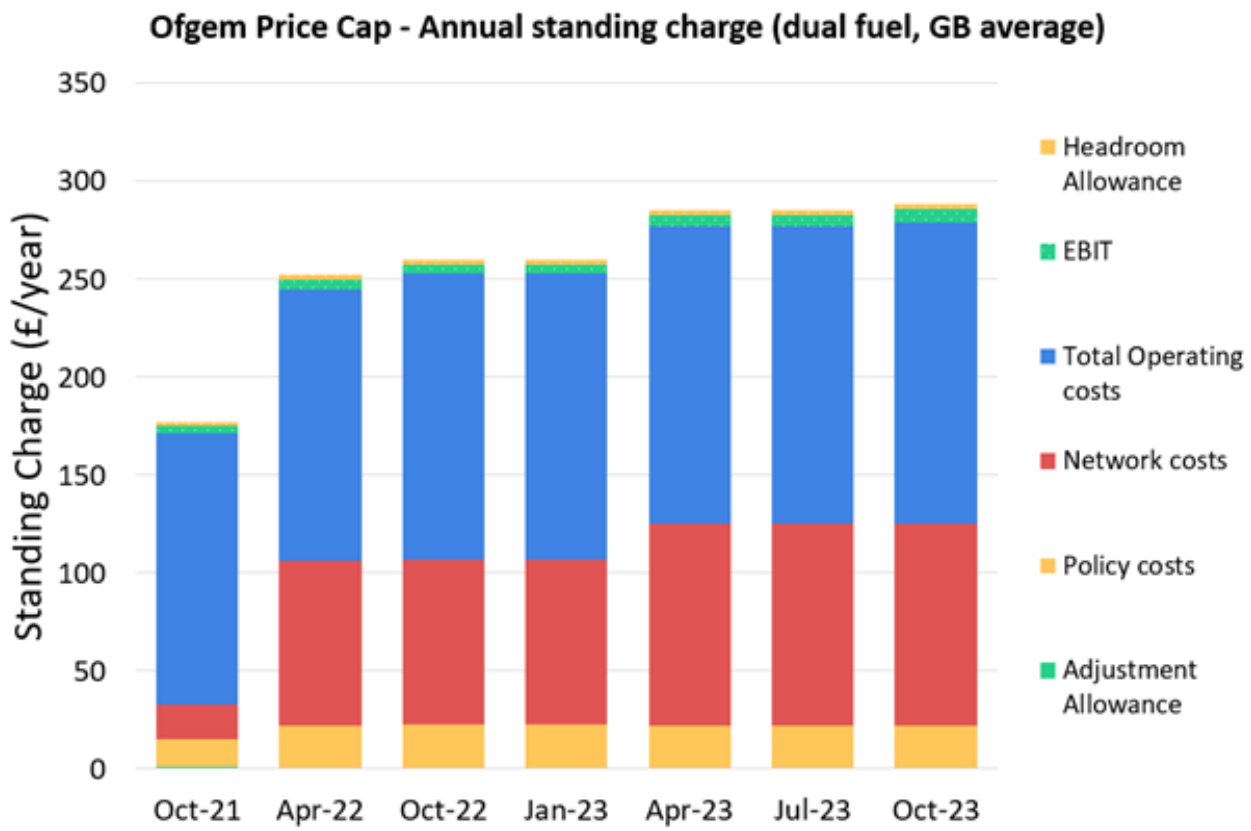


Figure 12: Annual standing charge incurred by a dual fuel user paying using direct debit, for each price cap since October 2021 excluding VAT. [Data in Appendix 3]

As can be seen in figure 12, the standing charge for a dual fuel user in the price caps has not only remained high but has seen a slight increase compared to the previous cap period. The surge in network costs accounts for a significant proportion of this jump, from £17 in October 2021 to £84 in April 2022, and then again jumping to £103 in April 2023. This accounts for £86 of the £111 difference between annual standing charge rates in October 2021 and October 2023. An additional £15 of the difference is accounted for by the increase in total operating costs. The average standing charge which overly impacts low-income households the most is now nearly £300 annually.

The price cap's unit charges for both electricity and gas have been decreasing since this January (Figures 13 and 14). While the main driver of change for both electricity and gas unit costs are the wholesale costs, at 77%, 23% is still made up of non-energy costs. Unfortunately, those non-wholesale energy cost components of the price cap did not fall as much as was anticipated.

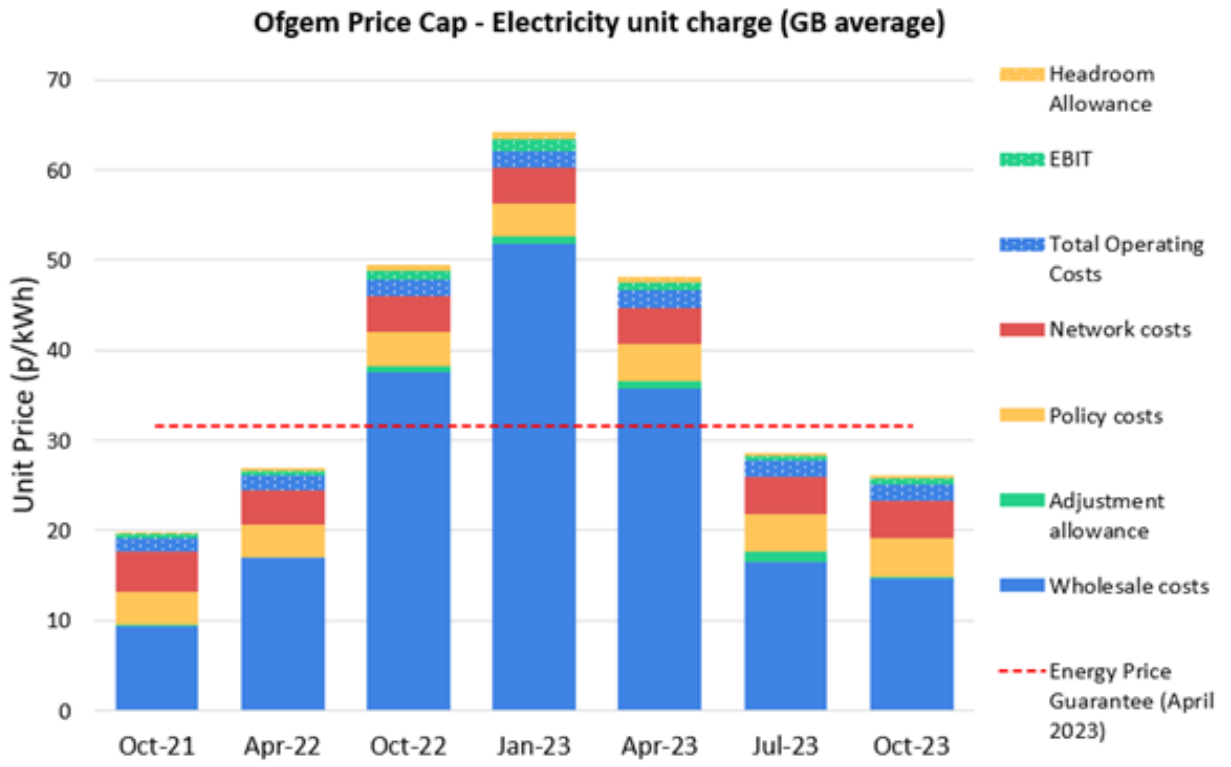


Figure 13: A breakdown of the average electrical unit charge allowed in each price cap, broken down further into their sections.

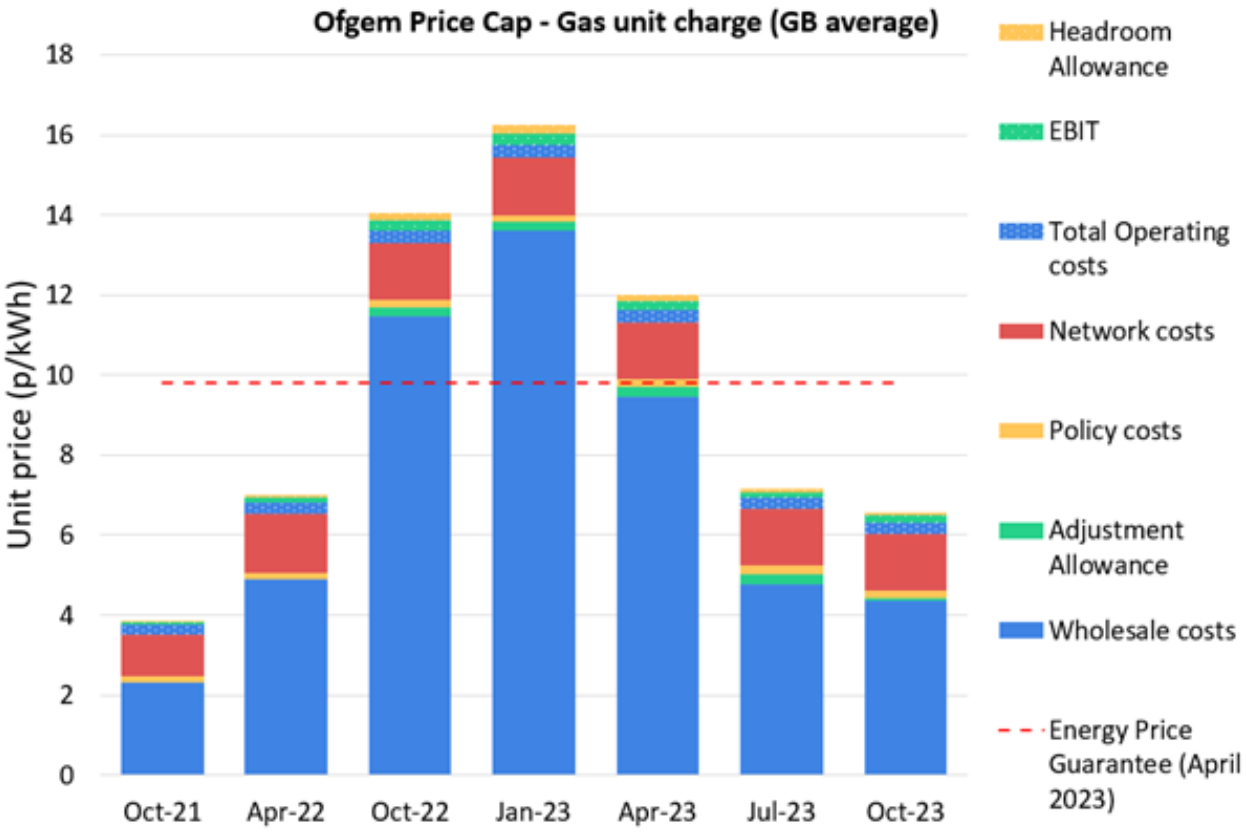


Figure 14: A breakdown of the gas unit charges for a direct debit user in the price cap.

Electricity and gas unit rates prices are still 30% and 70% more expensive respectively than their values in October 2021.

Deep Dive: Operating costs

In this edition of Tariff Watch, our deep dive is into the operating costs included in Ofgem's price cap. These are the costs allowed in the price cap for the energy supplier to run itself, and in the previous section is included as Total Operating Costs (TOC). In recent months, Ofgem has issued a Call for Input to update the methodology on how to calculate the amount allowed for operating costs.

Total Operating Costs (TOC)	
Component	**Description**
General Operating Costs (OC)	Broad categories that would encompass cost to run an energy supplier based on survey data from 2015-2017 that are not specified in the payment uplift or smart metering sections. (See Elements of General Operating Costs for breakdown)
Payment Uplift (PAAC and PAP)	Covers the different costs incurred from the exchange of money between the customer and the energy company and varies by payment type. The PAAC is a fixed value that is adjusted by inflation each year, and PAP is a percentage of all other costs before profit and tax.
Smart Metering Costs (SMNCC)	Smart metering costs are calculated from two values; the cost of running the smart meter programme in-house, and the charges incurred by smart metering bodies in providing data services. The benefits of smart metering (such as avoiding on-site visits) reduce the SMNCC.

This deep dive explores how operating costs are calculated currently, and points out details, flaws, and questions that Future Energy Associates deems relevant for consideration when updating the methodology.

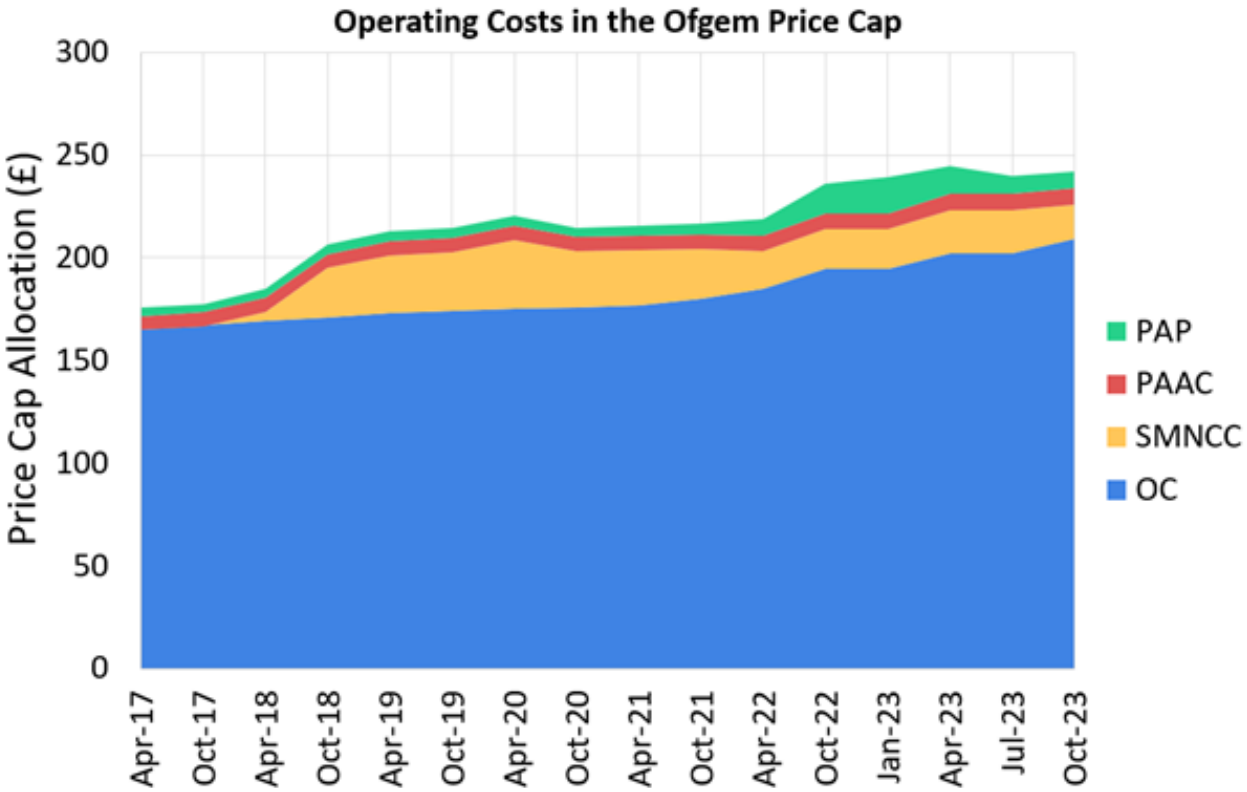


Figure 15: Price of total operating costs (TOC) in the Ofgem price cap for a dual fuel, direct debit customer, with typical usage values from pre-October 2023.

PAP stands for Payment Method Adjustment Percentage, PAAC stands for Payment Method Adjustment Additional Cost, and together these form the Payment Method Uplift section of the Operating costs. SMNCC stands for Smart Meter Net Cost Change, and OC stands for operating costs, and consist of the general operating costs. Values from [modeloct2023] table 1c, Consumption Adjusted Figures. Excluding VAT. [Data in appendix 4]

The general operating costs consist of 86% of the operating cost expenses, as can be seen in figure 15. These are defined as the cost a supplier incurs by retailing energy, and the components of this cost are shown more clearly in the table below.

As can be seen in figure 15, the price cap prices are primarily driven by the general operating costs, which have increased from £176 annually in April 2017 to £242 annually as of October 2023 (just below RPI). The PAP for a direct debit customer increased to a maximum of £17.61 in January and has started to decrease as we ease out of the energy crisis, and is now currently £7.89, a decrease of 55%. The SMNCC has decreased as savings from the smart meter rollout have begun to take effect, with a peak of £33.43 in April 2020, and has slowly decreased to its current value of £16.86.

Elements of General Operating Costs (Adapted from Ofgem, 2018)		
Aspect	**Description**	**% of costs for gas and electricity in 2017 [Ofgem20182]**
Metering	Meter rental, installation, maintenance and reading (includes smart metering).	Gas %33, Electricity %27
Central overhead	The fixed costs of an organisation (e.g. office rent, IT, HR, legal).	Gas %19, Electricity %20
Billing and payment collections	The cost to collect money from customers.	Gas %12, Electricity %15
Sales and marketing	Advertising and branding, sales activities, third party commissions (including sponsorships and brokerage fees).	Gas %11, Electricity %11
Customer contact	Operation of contact centres or other customer relations.	Gas %12, Electricity %13
Depreciation and amortisation	Allocation of cost of having to replace things such as property, systems and equipment.	Gas %8, Electricity %7
Industry charges	Charges to Elexon and Xoserve and the smart metering bodies.	Gas %5, Electricity %7

Ofgem currently calculates the OC using a 'top-down' approach, using data from the overall operating costs of energy suppliers with more than 250,000 customers. This data is from the financial years of 2015-17, and is used to calculate an allowance of operating cost per customer [Cap2018].

The way this is scaled to each price cap is by using a measure of inflation, the CPIH (the consumer prices index including owner occupiers' housing costs), to adjust this value every 6 months, in Q2 and Q4 of each year. It can be seen in figure 16 that the percentage increase of the general operating cost when it has increased is proportional to the CPIH figure at that given time. This is the only way that operating cost is varied.

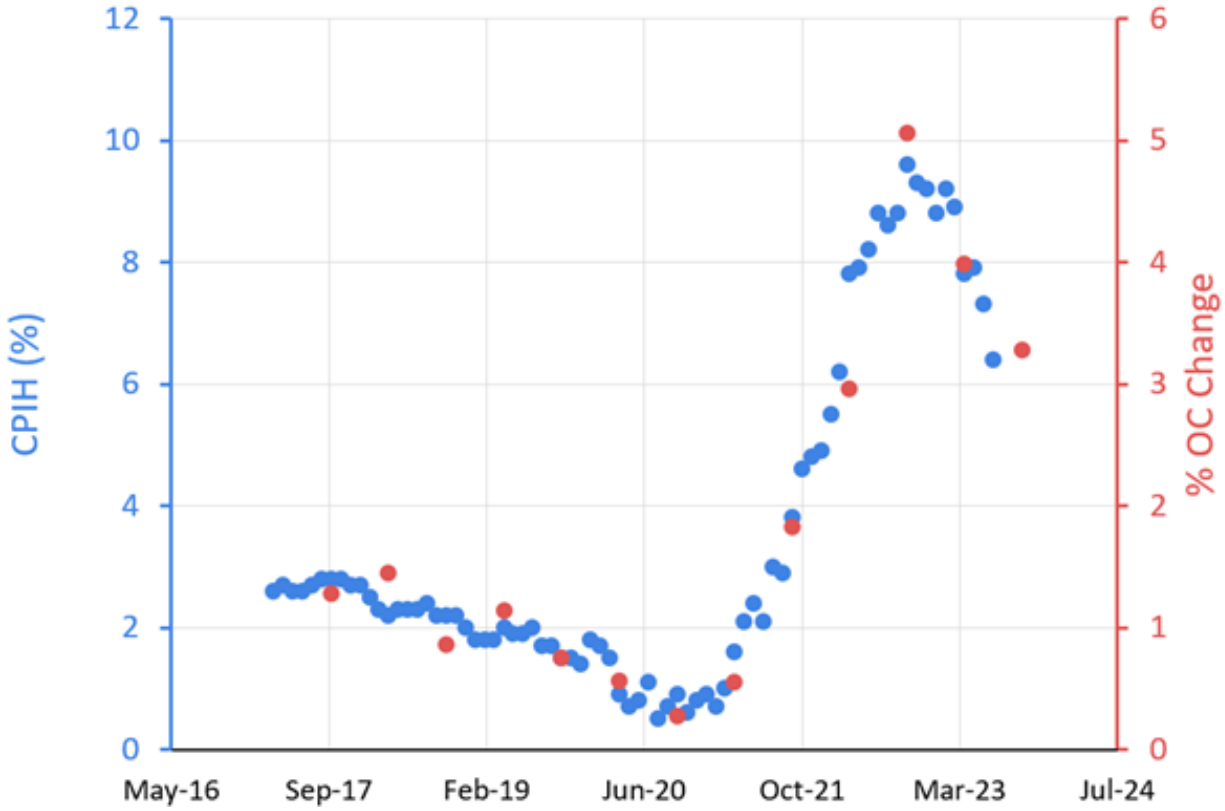


Figure 16: Comparison of the change in the OC cost (when it changes values), by % increase from the previous values, to the change in CPIH values [ONSCPIH]

Ofgem have begun a consultation process to update the operating cost measurements, specifically the general operating costs and the payment uplift costs. This is because regulation has changed, and there have been several market shocks since operating cost was last calculated (e.g. Covid-19, energy crisis). This is a key time to bring up concerns about the current method, and how aspects of it are being monitored to ensure fair prices.

A key aspect of this is how the general operating costs, OC, is currently calculated using a 'top-down' method, as previously explained. Ofgem are likely to continue the use of this method [OfgemCFI], as they state it is simpler and less prone to mistakes than calculating what the individual costs within operation should be. However, this technique can lead to over-simplification, and we have identified some key concerns.

Aspect	Strengths/Advantages of the 'Top-Down' Approach	Problems with Ofgem's 'Top-Down' Approach
Method Simplicity	Simpler and easier process than calculating what individual energy supplier costs should be.	The top-down method can lead to oversimplification. No clear breakdown of individual components of operating costs nor how they were forecasted to change over time.
Scalability	Easy to scale using inflation values.	Not clear whether inflation values used by Ofgem align with those costs used to run an energy supplier. For example, operating costs are likely to be in large part driven by wages for which inflation in the price of goods e.g. CPI is not a good measure.
Transparency & Oversight	N/A	Unclear monitoring and regulation of the proportions of types of costs. Concern about amounts allocated for specific services or resources, e.g., smart meters.
Operational Efficiency	N/A	There's no account for increased operational efficiency in the method. The introduction of AI and other tech can decrease operational costs but there›s no accounting for it. For example Octopus' trial showed that 44% of its customer emails were answered by AI once it was introduced [SKYART]. No mechanism to incentivise efficiency or ensure savings are passed to the consumer.
Allocation of Funds	N/A	Uncertainty about how funds are allocated and used, especially in areas not directly related to energy supply (e.g. football sponsorships).

While it's essential for the energy supply system to remain robust and functional, excessive spending and profits, especially during times when many face unprecedented financial challenges, are inequitable. The 'top-down' method for determining operating costs lacks transparency in the allocation of consumer funds.

A case in point is the significant expenditure by energy suppliers on football sponsorships. For instance, Utilita has backed several Premier League teams including Luton Town and Brentford FC, British Gas sponsor Scotland Rugby and Taunton RFC and E.ON sponsor Veloce Racing (see appendix 2 for further examples). Naturally, there will be questions as to if it is justifiable for consumers, particularly the most economically vulnerable, to indirectly support such ventures through their essential utility bills.

Looking forward: Under the current methodology, Ofgem's price cap model only changes the operating costs every two quarters. Therefore, the operating costs are likely to remain the same in Q1 2024, other than the PAP which is a percentage of the rest of the cap.

Tariff Watch Profit Tracker:

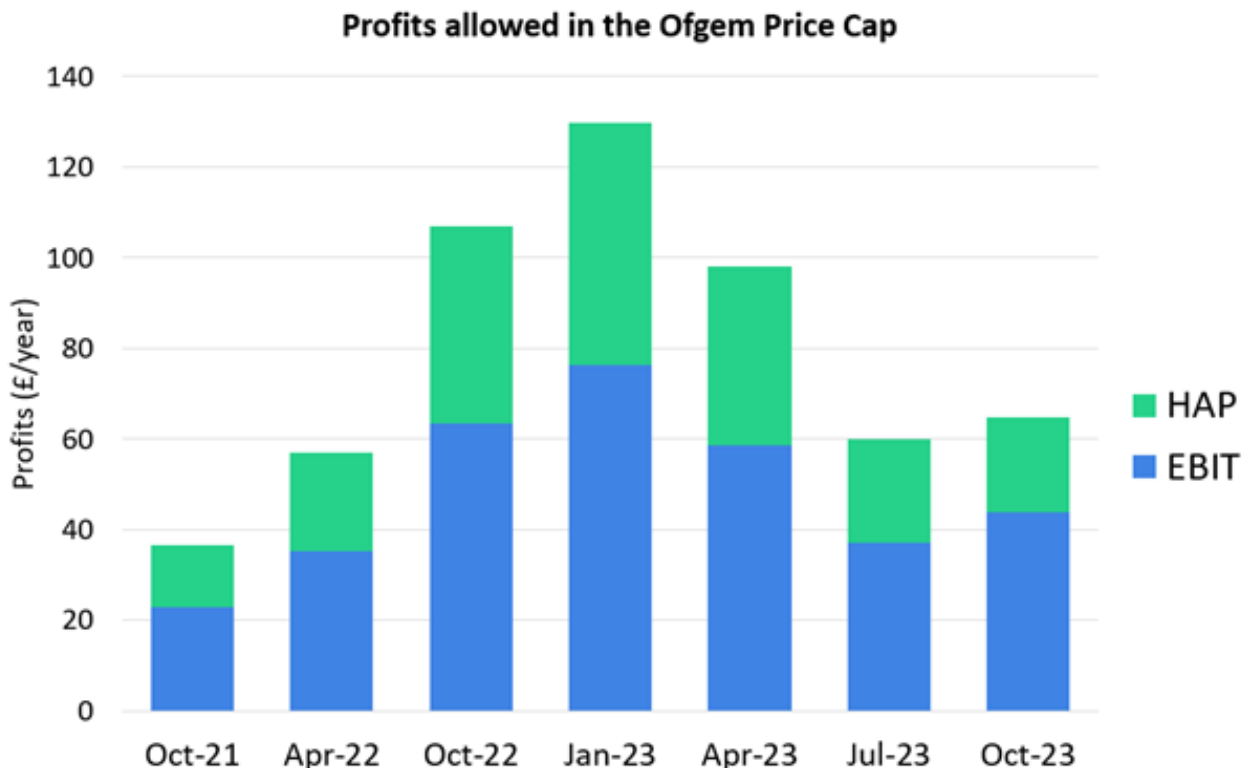


Figure 17: Headroom (HAP) and EBIT annual costs for a medium-use, dual-fuel household, projecting the cost of the price cap to one year.

It can be seen in figure 17 that the new EBIT is driving supplier profits higher than the last cap. As described in the Market Updates section, it is now calculated using a fixed component and a percentage component on top of that, rather than the whole value being a larger percentage of the total bill. Although pitched to protect consumers as a way to protect them against another round of high bills, this change only protects them if the cap re-surges above £4,000, over double what it is now. For cap values as far below this as they are now, the profits allowed to the supplier are significantly higher than what they were before. The EBIT in this current cap sits at £44 per year, versus the value of £37 in the previous cap.

How can this profit be justified? Heightened prices and risks from the ongoing crisis are supposed to be entirely represented in the other costs, and with wholesale and network costs still so high in the cap, there will be questions as to why the profit margin is higher than before.

Ofgem states that it is to protect customers against the cost of further supplier failures. However, in its decision to amend its EBIT methodology, Ofgem notes that a consumer group had pointed out that supplier failures had not actually cost customers that much, and had been "used to justify a series of changes that were beneficial to suppliers and costly to consumers" [EBIT].

Tariff Watch Exit Fee Analysis

In-contract fixed tariffs:

There are 337 in-contract fixed price tariffs that will be more expensive than the corresponding price cap as from October 1st. These fixed tariffs that will have rates that are above the October price cap have an average exit fee of £138 for dual fuel tariffs. Overall these in-contract fixed tariffs are on average £694 per year more expensive than those rates that would be protected by the October Price Cap. These higher annual costs are due to these older fixed tariffs being set at times when the electricity and gas prices were around their peaks and thus having extremely high unit rates. A breakdown of these differences between these average in-contract fixed tariff rates and those guaranteed by the October Price cap are demonstrated below.

Comparison of Average In-Contract Fixed Tariffs to October Price Cap Rates

Measure	Average In-Contract Fixed Tariffs	October Price Cap Rates	Percentage Difference
Electricity Standing Charge	41.21 p/day	53 p/day	%25
Gas Standing Charge	28.56 p/day	30 p/day	%5
Gas Unit Rate	11.17 p/kwh	7 p/kwh	%46
Electricity Unit Rate	39.95 p/kwh	27 p/kwh	%39
Average Annual Cost	2617.90 £/yr	1,923£ £/yr	%31

Exit Fee Ranking Table:

The following analysis looks at the exit fees that customers face per fuel when leaving fixed tariffs (excluding zero exit fee tariffs). Ecotricity has the highest exit fees, but is a more specialist provider of green tariffs.

Of the larger suppliers average exit fees are in the range of £29-£75 with Octopus having the highest. However looking at how many tariffs with zero exit fees that suppliers offer Octopus had the greatest number, whilst British Gas and E.ON had very few.

Exit Fee Ranking Table					
	Minimum	**Maximum**	**Average**	**Count of zero exit fee tariffs**	**% with zero exit fees**
Ecotricity	£100	£200	£150	0	0%
Affect Energy	£75	£75	£75	25	93%
Ebico Living	£75	£75	£75	33	94%
Co-operative Energy	£75	£75	£75	85	98%
Octopus Energy	£75	£75	£75	249	99%
ScottishPower	£30	£150	£66	66	40%
EDF Energy	£15	£200	£66	29	14%
British Gas	£30	£100	£62	7	6%
Outfox the Market	£30	£300	£62	24	47%
Utility Warehouse	£25	£75	£46	0	0%
Shell Energy	£30	£75	£44	1	1%
SSE	£30	£75	£40	19	33%
OVO Energy	£30	£75	£37	30	15%
Sainsbury's Energy	£30	£30	£30	9	69%
E.ON	£25	£30	£29	3	12%
So Energy	£5	£75	£27	0	0%
Good Energy	£0	£0	£0	4	100%

Minimum, maximum and average single fuel exit fees per supplier for fixed tariffs in the last two years.

References:

[EBIT] Ofgem, EBIT update decision. https://www.ofgem.gov.uk/publications/amending-price-cap-methodology-earnings-interest-and-tax-ebit-allowance-decision

[Times, Outfox the Market facebook Page] Direct Debit payments https://www.thetimes.co.uk/article/why-is-my-energy-bill-so-high-gpx8trqk3, https://www.facebook.com/groups/510010749582300

[Ofgem 2023] Ofgem, Energy price cap letter, https://www.ofgem.gov.uk/publications/energy-price-cap-default-tariff-1-october-31-december-2023

[CA 2022] Ofgem and Citizens Advice, Consumer Perceptions of the Energy Market Survey, Q4 2022 https://www.ofgem.gov.uk/publications/consumer-perceptions-energy-market-q4-2022

[modeloct2023] Ofgem, Model v1.19, https://www.ofgem.gov.uk/publications/energy-price-cap-default-tariff-1-october-31-december-2023

[EPG] DESNZ, EPG values April 2023, https://www.gov.uk/government/publications/energy-price-guarantee-regional-rates/energy-price-guarantee-regional-rates-april-to-june-2023

[NPT SMNCC] Ofgem, Annual Update of Non-pass-through SMNCC allowances https://www.ofgem.gov.uk/sites/default/files/2023-08/Annual%20update%20of%20non-pass-through%20smart%20meter%20net%20cost%20change%20%28SMNCC%29%20allowances.pdf

[Cap2018] Ofgem, Default Tariff Cap Level Definitions, 2018 https://www.ofgem.gov.uk/publications/default-tariff-cap-overview-document

[ONS CPIH] ONS, values of inflation, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2023

[OFGEMCFI] Ofgem, Operating costs call for input, May 2023, https://www.ofgem.gov.uk/publications/price-cap-call-input-operating-cost-allowances-review

[Ofgem2018] Default Tariff Cap: Decision Appendix 6 – Operating costs https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/appendix_6_-_operating_costs.pdf

[Ofgem20182] Default Tariff Cap: Policy Consultation Appendix 8 - Operating costs https://www.ofgem.gov.uk/sites/default/files/docs/2018/05/appendix_8_-_operating_costs.pdf

[SKYART] Sky, Octopus and AI https://news.sky.com/story/artificial-intelligence-to-hit-workplace-like-a-freight-train-energy-boss-warns-12883712

[INFL] Carole Nakhle, "Energy prices and inflation: Politics trump the economics" https://www.gisreportsonline.com/r/energy-prices/

Appendices

Appendix 1: Data Analysis details and Assumptions

- Months were assumed to consist of 30 days and 1/12th of a year.
- Years were assumed to be 365 days.
- For the price analysis section, fixed and variable tariffs were combined. There were no new fixed tariffs in April, so it was difficult to compare fixed tariffs over time.
- Only domestic import tariffs were considered.
- Due to discrepancies with how prices are calculated, tariff information from the Supplier "Utilita" was disregarded.
- For tariffs with a dual fuel discount, half the discount was applied to each of the annual costs of gas and electricity.
- Average GB prices are taken from a dataset that is separated into tariffs that have electricity rates and tariffs that have gas rates. This was then grouped by the supplier name, name of the tariff, whether it is fixed or variable, whether it is dual or single fuel, and the payment type. Any tariff which is unique for any of these categories is considered as separate. The average annual prices were then found from these data points. The number of customers on any given tariff is not considered in this data analysis.
- For the DNO region analysis, the separated electricity and gas data was grouped by supplier, tariff name, whether it is fixed or variable, whether it is dual or single fuel, and the DNO region.

Appendix 2: Sports Sponsorship from suppliers

Supplier	Sponsorship
Utilita	**Luton Town FC**
OVO	OVO Hydro Arena, Glasgow
OVO	OVO Arena Wembley, London
Scottish Gas	Scotland Rugby
British Gas	Taunton RFC
Utilita	Brentford FC
E.ON	Veloce Racing

Appendix 3: Operating Cost Breakdown

	Apr-17	Oct-17	Apr-18	Oct-18	Apr-19	Oct-19	Apr-20	Oct-20	Apr-21	Oct-21	Apr-22	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23
OC	165.0	167.1	169.5	170.9	172.9	174.2	175.1	175.6	176.6	179.8	185.2	194.5	194.5	202.3	202.3	208.9
SMNCC	0.0	0.3-	4.2	23.9	28.3	28.7	33.4	27.7	27.1	24.2	18.2	19.2	19.2	21.0	21.0	16.9
PAAC	6.6	6.7	6.8	6.8	6.9	7.0	7.0	7.0	7.1	7.2	7.4	7.8	7.8	8.1	8.1	8.4
PAP	4.0	4.0	4.3	4.5	5.0	4.7	4.7	4.3	4.7	5.3	8.1	14.5	17.6	13.5	8.6	7.9
total operation costs	175.6	177.4	184.8	206.3	213.1	214.5	220.2	214.7	215.5	216.5	218.9	236.1	239.1	244.9	239.9	242.0
change in OC		2.1	2.4	1.5	1.9	1.3	1.0	0.5	1.0	3.2	5.3	9.4	0.0	7.7	0.0	6.6
% change in OC		1.3	1.4	0.9	1.1	0.7	0.6	0.3	0.6	1.8	3.0	5.1	0.0	4.0	0.0	3.3

Appendix 4: Standing Charge Price Breakdown Overtime

	Oct 2021 - Mar 2022	Apr 2022 - Sep 2022	Oct 2022 - Dec 2022	Jan 2023 - Mar 2023	Apr 2023 - June 2023	Jul 2023 - Sept 2023	Oct 2023 - Dec 2023
DF	-	-	-	-	-	-	-
CM	-	-	-	-	-	-	-
AA	1.41	-	0	0	0.82	0.82	0.82
PC	13.97	21.95	22.59	22.59	21.04	21.04	21.04
NC	17.41	84.41	84.41	84.41	103.14	103.14	103.14
OC	114.03	117.4	123.34	123.34	128.25	128.25	132.45
SMNCC	16.91	12.79	13.47	13.47	14.72	14.72	11.85
PAAC	7.2	7.42	7.79	7.79	8.1	8.1	8.37
PAP	0.73	1.09	1.12	1.12	1.23	1.23	1.24
EBIT	3.32	4.75	4.89	4.89	5.37	5.37	6.89
HAP	2.31	2.42	2.54	2.54	2.63	2.63	2.67
Total_GB average	177.29	252.22	260.16	260.16	285.32	285.32	288.47
Total_GB average_ VAT	186.16	264.83	273.17	273.17	299.59	299.59	302.9