

Citizens Advice response to Ofgem's Energy price cap methodology: contracts for difference review call for input

1. What are your views on the current CfD price cap allowance methodology? Please provide evidence in support of any issues raised.

We note Ofgem's analysis does not show evidence of systematic under-recovery between 2019/20 and 2024/25. Whilst the price cap has been higher than suppliers' outturn payments to the LCCC in some years, it has been lower in others. Suppliers are better placed than consumers to manage this variability: they can hedge against wholesale and levy risks as part of their standard risk management practices. By contrast, consumers on standard variable and default tariffs are unable to mitigate such risks themselves. In light of the absence of systematic under-recovery, and given suppliers' ability to manage volatility, we see little justification for departing from the current methodology.

2. Do you have any views on potential amendments to the CfD allowance methodology? Please include considerations of pros, cons and unintended consequences of any option.

If any potential amendments reduce risk for suppliers, this can be in the interests of consumers, but lower risks would need to be reflected in lower returns.

3. Do you consider reconciliation to be an appropriate measure for the CfD allowance, please provide supporting evidence explaining how CfD costs meet the systematic and material test or what specific characteristics of CfD costs could justify the need for a reconciliation mechanism. This evidence should also include what has materially changed since our previous decision on the CfD allowance and whether such a mechanism would introduce any additional or different risks for suppliers or customers (eg disincentivising suppliers' hedging).

Were a reconciliation approach adopted, this would pass on all risks to consumers. Under the current system, suppliers have the possibility of lowering their risk exposure through hedging. The current system where suppliers bear

risk with the possibility of mitigating is a fairer system than consumers bearing all risk.

We share Ofgem's concern that if all risk is passed on to consumers through, for example, a reconciliation mechanism, there may be a disincentive for suppliers to hedge, leading to consumers bearing greater costs than necessary.