

Suppliers, consumer groups and
other interested parties

Email: RetailPriceRegulation@ofgem.gov.uk

Date: 15 December 2021

Response deadline: 17 January 2022

Dear stakeholder,

Price Cap – Consultation on reflecting change to gas SoLR levy costs in the Default Tariff Cap

Executive Summary

1. We are proposing amendments to the default tariff cap (cap) to take account of modifications to how Supplier of Last Resort (SoLR) levy costs are recovered from gas customers. We propose to change the cap methodology to make sure the cap continues to reflect how these charges will be recovered from suppliers.
2. The gas and electricity supply licences allow a supplier acting as a SoLR to make a claim for any reasonable additional, otherwise unrecoverable, costs they incur – these are known as levy claims.
3. Uniform Network Code modification 687 'Creation of new charge to recover Last Resort Supply Payments' (UNC687)¹ proposes to change how costs associated with the Last Resort Supply Payments (SoLR levy) claims are recovered from gas customers. At present, these costs are recovered from both domestic and non-domestic gas customers. If approved, the UNC687 proposals would mean the costs

¹ Background on UNC687 can be found at: [0687 - Creation of new charge to recover Last Resort Supply Payments | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/0687-creation-of-new-charge-to-recover-last-resort-supply-payments/)

are recovered from the market sector they originated in. This will be achieved by implementing a new 'SoLR customer charge'.

4. We issued a letter with our current position on UNC687 on 7 December 2021.² We asked that the UNC Panel updates and re-submits the Legal Text so that we can form an opinion. We are progressing with this consultation to amend the default tariff cap methodology so it can take account of additional charges related to SoLR levy costs if a revised modification is submitted and approved by us.
5. We consider changes may be necessary so that the cap can accurately reflect network costs for domestic gas customers if changes to how SoLR levy cost recovery are submitted to us and approved.
6. In line with UNC687, we propose to create a 'SoLR customer charge' within our gas network cost methodology. We also propose that this charge would be recovered through the standing charge set by the cap at nil consumption as per the modification.
7. However, our objective is to make sure that SoLR customer charges are aligned with the allowances through the cap. If, for example, a modification was submitted and approved that charged these costs in a similar way to a commodity (pence per kWh) or capacity charge (pence/per peak kWh day/day), we would adjust the change in the price cap model to reflect that modification in time for its implementation.

1. Introduction

8. The cap protects approximately 15 million domestic customers on standard variable and default tariffs (which we refer to collectively as 'default tariffs'), ensuring that they pay a fair price for their energy, reflecting its underlying costs. The cap works by setting the maximum price suppliers can charge customers on default tariffs.³
9. We set the cap by considering the different costs suppliers face. The cap is made up of a number of allowances which reflect these costs. These allowances are based on the cost we would expect a hypothetical efficient supplier to incur. This approach

² Decision can be found here: <https://www.ofgem.gov.uk/publications/authority-decision-send-back-uniform-network-code-unc-687-unc687-creation-new-charge-recover-last-resort-supply-payments-0>

³ We set the cap at typical consumption levels using a bottom-up cost assessment. Cap is set at nil consumption in line with market prices for standing charges.

ensures that the cap reflects the underlying efficient costs of supplying customers with energy.

10. The allowances include assumptions for wholesale costs, policy costs, network costs and operating and smart metering costs. Different methodologies are employed in the price cap model to set the level of each of these allowances which, in turn, allows us to set the cap level.
11. Annex 3 of Standard Licence Condition (SLC) 28AD of the gas standard supply licence conditions contains the gas network costs allowance methodology. This reflects the costs of building, maintaining, and operating the energy network and system infrastructure used to deliver energy to customers. Contained within this methodology are assumptions for gas distribution charges.⁴ These charges are: LDZ system commodity charges, LDZ system capacity charges, customer capacity charges.
12. Currently, any gas related SoLR levy claim costs are allocated across all domestic and non-domestic customers based on the volume consumed by different customer groups. These costs are recovered through gas distribution charges in the current cap methodology.
13. UNC687 proposes two main modifications to how SoLR levy costs are recovered. It proposes that SoLR levy costs are allocated to the market sector these costs are generated in. Under the current UNC687 proposals, in circumstances where a supplier supplying domestic gas customers fails, any SoLR levy costs would be passed through to domestic gas customers. It proposes to achieve this by the creation of a 'SoLR customer charge' that would be applicable to domestic gas customers.
14. UNC687 also proposes to change how these costs are recovered from suppliers. Under the proposals, there would be a daily charge per meter rather than the charge being based on the volume of energy consumed.
15. The network cost methodology currently uses gas network charges as an input. However, the introduction of a new charge would not automatically flow into the methodology. As a result, we need to introduce a 'SoLR customer charge' to take account of the possible changes to how these costs are recovered. We would also

⁴ Annex 3 – Network cost allowance methodology gas, tab 3g 'gas distribution charges'

need to align this new allowance to how costs are recovered (ie as a daily charge per meter rather than based on the volume of energy consumed). This will ensure that the price cap can take account of how SoLR levy costs are allocated to different customers and produce a cost reflective and accurate cap level.

16. Section two explains the rationale for making this change in more detail and the impact it is estimated to have on price cap modelling. Section three has more detail on the modification we intend to make.

2. Proposal and considerations

17. In our 2018 decision, we set out only to make changes to the cap methodology where there are clear and material systematic impacts on the costs of supplying default tariff customers that are not appropriately accounted for by the existing cap methodology.⁵
18. We consider that the introduction of the new SoLR customer charge impacts the gas network cost allowance in a material and systematic manner. The inclusion of this charge in the network cost methodology will allow the cap to reflect network costs more accurately.
19. Our analysis of confidential cost information suggests that the costs associated with the SoLR customer charge are expected to be material. On that basis, we consider it appropriate to amend the gas network allowance to ensure suppliers can continue to recover these costs from gas customers.
20. We also consider that the allowances following the introduction of UNC687 would be a systematic departure from efficient costs currently accounted for in the cap. This is because the cap would not include an allowance for any SoLR levy costs to be recovered from gas customers, while suppliers would still incur these charges.
21. We propose to introduce this amendment to align with any potential change to the SoLR levy costs charge. The earliest this could be achieved would be from cap period eight onwards.⁶

⁵ Ofgem (2018), Default Tariff Cap: Decision, Appendix 3 – Updating the cap methodology. https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/appendix_3_-_updating_the_cap_methodology.pdf

⁶ Cap period eight is from 1 April 2022 – 30 September 2022.

22. Our objective when amending the SoLR levy charges under the network methodology is to ensure it remains aligned with the charges suppliers recover from gas customers. This means that under UNC687, we propose to reflect these charges in the standing charge through the cap at nil consumption. If, however, the proposal aimed to recover these charges in a similar way to a commodity (p per kWh) or capacity charge (p/per peak kWh day/day), we would instead have proposed to allocate these costs to the unit rate through the cap at typical consumption level.

3. Methodology for introducing new SoLR customer charge

23. The cap includes a network cost allowance to ensure suppliers can recover costs that are incurred through network charges. The gas network cost allowance is calculated in the 'Annex 3 – Network cost allowance methodology gas' model of SLC 28AD of the gas standard supply licence conditions.
24. Under the current UNC687 proposals, we propose to include an input for SoLR customer charges in the gas network cost methodology. The input would be used to calculate the SoLR customer charge allowance at the benchmark annual consumption levels from cap period eight onwards.⁷
25. The SoLR customer charges would be updated with the latest notice of charges published by the gas distribution network companies.⁸ The SoLR customer charges would be updated as part of the February update, in line with the current methodology for gas distribution charges.
26. We also propose to update the supplementary workbook, 'Default Tariff Cap Level' to include the gas network cost allowance at the Nil consumption cap level.
27. Details of the specific changes to the 'Annex 3 – Network cost allowance methodology gas' model and the 'Default tariff cap level' supplementary workbook can be viewed in Appendix 1. We have published revised versions of the models alongside this consultation.⁹

⁷ The SoLR customer charge is a daily fixed charge and would be applied at the nil typical consumption level.

⁸ Joint Office of Gas Transporters, Notice of DN charges. <https://www.gasgovernance.co.uk/DNnotice>

⁹ The models do not include any proposed changes from our November 2021 open consultation on reflecting prepayment End User Categories in the default tariff cap: <https://www.ofgem.gov.uk/publications/price-cap-consultation-reflecting-prepayment-end-user-categories-default-tariff-cap>

4. Next steps

28. If you wish to respond to this consultation, please send representations to retailpriceregulation@ofgem.gov.uk before close of business, Monday 17 January 2022.
29. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations. We do not ask specific questions in this document. Rather, we welcome views on any of the matters discussed in this consultation.
30. We intend to publish a decision for this consultation by February 2022. If you have any questions, please contact retailpriceregulation@ofgem.gov.uk.

Yours faithfully,

Dan Norton

Deputy Director, Price Cap

Appendix 1: Detailed model modifications: Network cost allowance methodology

In this appendix we summarise modifications to 'Annex 3 – Network cost allowance methodology' of SLC 28AD of the gas standard supply license conditions and the supplementary workbook 'Default Tariff Cap Level' based on our proposals in the open letter.

We have published alongside this consultation a revised Annex 3 that would come into effect for cap period eight. We invite stakeholders' views on this. A summary of the modifications can be found below. As noted, our objective is to make sure that SoLR customer charges are aligned with the allowances through the cap. If a modification was submitted and approved that charged these costs in a different way ie a commodity (pence per kWh) or capacity charge (pence/per peak kWh day/day), we would align the model with those changes.

Updated cells are highlighted in yellow in the model published alongside this consultation.

Model updates – Annex 3 'Network cost allowance methodology gas'

Tab '3g Gas distribution charges'

Cells B51:AA63 – table extended to include SoLR customer charge input.

Tab '2d Gas distribution'

Cells B64:BZ76 – rows added to calculate total SoLR customer charge (£) per year.

Cells W77:Z89 – formula updated to include SoLR customer charge.

Tab '2a Map charges to elec regions'

Cells B409:Y610 – table added to match network charges by LDZ at Nil consumption to Charge Restriction Regions.

Tab '1a Network Cost Allowance-Gas'

Cells B8:Y27 – table added to calculate gas network cost allowance at Nil consumption.

Model updates – Supplementary workbook 'Default tariff cap level'

Tab '3f NC-Gas'

Cells B8:Y27 – table added to input gas network cost allowance at Nil consumption.

Tab 'Gas PPM Nil'

Cells W19:Z19, W31:Z31, W43:Z43, W55:Z55, W67:Z67, W79:Z79, W91:Z91, W103:Z103, W115:Z115, W127:Z127, W139:Z139, W151:Z151, W163:Z163 and W175:Z175 – formulas updated to include gas network cost allowance at Nil consumption.

Tab 'Gas SC Nil'

Cells W19:Z19, W31:Z31, W43:Z43, W55:Z55, W67:Z67, W79:Z79, W91:Z91, W103:Z103, W115:Z115, W127:Z127, W139:Z139, W151:Z151, W163:Z163 and W175:Z175 – formulas updated to include gas network cost allowance at Nil consumption.

Tab 'Gas Other Nil'

Cells W19:Z19, W31:Z31, W43:Z43, W55:Z55, W67:Z67, W79:Z79, W91:Z91, W103:Z103, W115:Z115, W127:Z127, W139:Z139, W151:Z151, W163:Z163 and W175:Z175 – formulas updated to include gas network cost allowance at Nil consumption.

Tab '1b Historical level tables'

Cells AM17, AM51 and AM84 – Formula added to include gas network allowance at Nil consumption.

Appendix 2: Your response, data and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 3.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

Appendix 3: Privacy note on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR)

Note that this section only refers to your personal data (your name, address, and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest ie a consultation.

4. With whom we will be sharing your personal data

We may share consultation responses with BEIS.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete

- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent oversea

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

10. More information

For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".