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By email to: Retailpriceregulation@ofgem.gov.uk

Dear Leonardo

Price Cap – May 2022 consultation on credit and PPM SMNCC allowances¹

Centrica welcomes the opportunity to respond to the above consultation. Our comments relate solely to Ofgem's approach to indexation.

The GDP deflator measure that Ofgem proposes to continue using to calculate SMNCC is increasingly inappropriate and unfit for purpose given the "known issues" with this measure due to the impact of Covid-19 which Ofgem itself notes.² It is also badly out of date, because the Green Book supplementary guidance that Ofgem uses lags the primary official sources.

Using up-to-date inflation data has always been desirable. However, it is now critical given that the UK economy is experiencing high inflation rates. Ofgem cannot safely rely on future updates and the possibility of retrospective correction, and in any case should not use data already known to be unreliable when more appropriate and up-to-date inflation data are readily available.

The appropriate course, which will increase accuracy without adding complexity, is to abandon reliance on GDP deflator data from July 2021 in favour of up-to-date CPIH data consistent with the established approach to indexing other operating costs.

As Frontier Economics concludes in the attached report setting out the case in further detail:

"We cannot see any valid argument in favour of continuing to use the GDP deflator, when the more appropriate CPIH data are readily available. However, regardless of the inflation measure used in the SMNCC model, Ofgem must consult primary data sources (i.e. the ONS and OBR) directly, and not rely on outdated figures from the Green Book.

¹ [Price Cap – May 2022 consultation on credit and PPM SMNCC allowances | Ofgem](#)

² Consultation document, paragraph 5.8. These issues are set out in further detail in the full response prepared on our behalf by Frontier Economics.

There is no objective benefit to relying on an irregularly updated secondary source which is one year out of date. If Ofgem continues using outdated inflation data, it risks introducing material errors into the SMNCC model, particularly in light of the current high inflation rate environment.”

We endorse this conclusion and trust that, on reflection, Ofgem will recognise the compelling case for correcting this clear and increasingly material anomaly.

Yours sincerely

Don Wilson
Market Design and Policy