

5 June 2024

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Ofgem

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Dear Steve

RE: Consultation - Supplier GSOP Payments Inflation Uplift

We write in reply to Ofgem's above consultation. We have set out Ofgem's questions (*in italics*) and our answers below.

Q1. Do you agree with our rationale and assumptions for the supplier GSOP payment level uplift?

Utilita agree that an uplift to supplier GSOP payments is appropriate to account for inflation and to reflect the amount of payment from DNOs.

Q2. Do you agree or disagree with our preferred option for uplifting payments?

We agree with the preferred option (Option 2) although this approach does not fully align with the approaches taken for network GSOPs and will result in a larger immediate rise to the payment level compared to the other options. We believe that the operational costs of delivering just one set of price increases to GSOP (£40) will be less costly than the operational costs of delivering further minor adjustments in the subsequent years.

Q3. Are there any factors that we have not considered for each of the options under consideration?

GSOP payments are designed to encourage and maintain high levels of service from suppliers in essential elements of service for customers. However, good service is only possible where the activities can be adequately funded. Significant and costly policy changes have been introduced since the 2015 updates to the GSOP model in addition to the expansion of the standards in 2019 and again in 2020, which have not been adequately Impact Assessed. The supplier Operating Cost Allowance has not been adjusted to account for the numerous policy interventions in recent years, while the standard of service has been expected to be maintained.

New requirements carrying costs that cannot be recovered under the Price Cap compromise the ability of suppliers to deliver the service expected. While, the Operating Cost Allowance has been adjusted to account for inflation, this is not sufficient to address the additional policy interventions in the last decade, meaning suppliers are spreading the same amount of funds available under the Operating Costs Allowance across more mandated activities.

Ofgem has increased the payment levels across the Gas and Electricity GSOPs for networks through the RII02 determination processes (RIIO-GD2 and RIIO-ED2). This should equally apply to the uplifts to supplier payments to customers which should form part of a consistent update to all costs in line with inflation and not omit other fixed amounts under the Licence, such as the cap on recovering costs for Warrant related activities.

Utilita considers that while an uplift to GSOP payments is appropriate, any implementation of a higher compensation amount should not be taken until the Operating Cost Allowance review has been completed and the efficient cost of the services required has been properly established.

We hope our response has been helpful.

Yours sincerely

Robert Cameron-Higgs
Director of Regulation and External Affairs