

# Consultation

## Consultation on changes to 'Annex 4 - Policy cost allowance methodology' of SLC 28AD to include a Green Gas Levy allowance in the default tariff cap

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<b>Response deadline:</b>	9 November 2021	<b>Email:</b>	<a href="mailto:RetailPriceRegulation@ofgem.gov.uk">RetailPriceRegulation@ofgem.gov.uk</a>

We are consulting on our considerations and proposals to amend the default tariff cap for gas customers to provide an additional allowance for the Green Gas Levy, which will fund the Green Gas Support Scheme. We would like views from stakeholders with an interest in the level of the default tariff cap. We particularly welcome responses from domestic energy suppliers, consumer groups and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## Executive summary

The default tariff cap ('cap') protects default tariff customers, ensuring that they pay a fair price for their energy, reflecting its underlying costs. This consultation sets out our proposal to introduce an allowance for costs associated with the Green Gas Levy (GGL) from cap period eight (April 2022 – September 2022) onwards. We also set out our proposals and considerations on how to determine the GGL allowance methodology in the cap, from cap period eight onwards.

The Department for Business, Energy, and Industrial Strategy (BEIS) has recently published the draft statutory instrument required to introduce the Green Gas Support Scheme (GGSS).<sup>1</sup> This scheme is being introduced to support the deployment of biomethane production plants to inject biomethane produced via anaerobic digestion into the gas grid, contributing to the decarbonisation of our energy system. This scheme is being funded by the GGL, which will place an obligation on licenced gas suppliers in Great Britain to pay a quarterly levy based on the number of gas meter points they serve in order to fund the scheme.

We allow for the cost of environmental and social obligations in the price cap methodology, however there is no allowance for the costs associated with the GGL. We do not consider that the introduction of a new environmental and social obligations or change of those scheme costs under the cap would require us to amend the methodology in all instances. We set out in our 2018 default tariff cap decision, that we would only consider making changes to the methodology if the cap systematically and materially departed from an efficient level of costs.

We do not consider that the GGL scheme costs for either cap period seven (October 2021 – March 2022) or cap period eight are material. However, we expect that the costs associated with the scheme will in time become material as the scheme grows, such that they will impact the efficient costs a supplier faces going forward.

We consider that the introduction of the GGL will lead to a systematic cost that suppliers will be exposed to on a regular basis, which over time would mean the cap could provide lower funding to suppliers than their efficient costs.

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<sup>1</sup> The Green Gas Support Scheme Regulations 2021.  
<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

We therefore consider that it is appropriate to amend the cap methodology from cap period eight to reflect these additional systematic costs given that they are expected to grow and become material in the future. The amended methodology will include an allowance for the costs associated with the GGL from cap period seven onwards for both credit and prepayment gas customers. This means that during cap period eight and nine, suppliers will recover the associated GGL cost for the first and second scheme years.<sup>2</sup> However, this does not mean that we would amend the methodology in all instances if there is a potential for systematic costs to become material in the future ahead of these costs becoming material. We would consider these instances on a case-by-case basis.

Our proposals are based on the draft GGSS Regulations 2021<sup>3</sup> and therefore, if the draft statutory instrument is rejected by parliament, we will not implement a GGL allowance.

While the levy rate is not due to be published by BEIS until the end of November, BEIS' September 2020 consultation stated an impact on customer bills of approximately £1.40 per gas customer at the beginning of the GGSS, compared to a cap level of £1,277 in cap period seven.<sup>4, 5</sup>

To the extent that suppliers' customer numbers change during this winter, it will be captured by the proposed methodology from April 2022 set out in the consultation as the GGL is charged on a per meter point per day basis.

## Going forward

We invite stakeholder views on any aspect of this consultation by **9 November 2021**. Stakeholders' responses will inform our decision, which we intend to publish by the beginning of February 2022.

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<sup>2</sup> The draft statutory instrument defines the first scheme year as the period beginning 30 November 2021 and ending 31 March 2022. The second scheme year is the financial year beginning 1 April 2022. The Green Gas Support Scheme Regulations 2021, Section 2(1).

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>3</sup> The Green Gas Support Scheme Regulations 2021.

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>4</sup> All values are measured for the typical consumption values used to set the cap (2,900kWh for electricity and 12,000kWh for gas). Cap level is the GB average for direct debit, including VAT.

<https://www.ofgem.gov.uk/sites/default/files/2021-08/Default%20tariff%20cap%20letter%20for%201%20October%202021.pdf>

<sup>5</sup> BEIS (2020), Consultation on a Green Gas Levy, page 22.

<https://www.gov.uk/government/consultations/green-gas-levy>

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## 1. Introduction

### What are we consulting on?

- 1.1. The default tariff cap ('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 is one of the key activities which fall within the outcome "consumers pay a fair price for energy and benefit from rights and protections" within our Forward Work Programme for 2021-2022.<sup>6</sup> We set the cap by considering the different costs suppliers face. The cap is made up of a number of allowances which reflect these different costs.
- 1.2. The Department for Business, Energy, and Industrial Strategy (BEIS) intends to launch the Green Gas Support Scheme (GGSS) on 30 November 2021 which will support the deployment of new biomethane production plants to inject into the gas grid, contributing to the decarbonisation of our energy system. Subject to parliamentary approval, we expect the GGSS scheme to begin on 30 November 2021. The GGSS will be funded by the Green Gas Levy (GGL), which will place an obligation on licensed gas suppliers to pay the levy.
- 1.3. This consultation sets out our considerations on the GGL and its interaction with the default tariff cap methodology. We discuss the potential amendments required to our methodology to account for the GGL.
- 1.4. The purpose of this consultation is to give stakeholders the opportunity to comment on these proposals.
- 1.5. We have published the revised 'Annex 4 - Policy cost allowance methodology' of Standard Licence Condition (SLC) 28AD of the gas standard supply licence conditions alongside this document, which reflects our proposals alongside this consultation.

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<sup>6</sup> Ofgem (2021), Forward work programme 2021/22.  
<https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-202122>

## Structure of this consultation

1.6. This consultation has the following structure:

- Chapter 1 explains the content of this consultation paper and provides a general introduction.
- Chapter 2 outlines our consultation process.
- Chapter 3 sets out our considerations on amending the cap methodology to include an allowance for the GGL from cap period eight (April 2022 – September 2022) onwards.
- Chapter 4 sets out our proposal for how we approach the GGL in the cap methodology and specifically in 'Annex 4 – Policy cost allowance methodology' of SLC 28AD of the gas standard supply licence conditions.

## The default tariff cap

1.7. We set the cap with reference to the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('Act'). The objective of the Act is to protect current and future default tariff customers. We consider protecting customers to mean that prices reflect underlying efficient costs. In doing so, we must have regard to four matters:<sup>7</sup>

- the need to create incentives for holders of supply licences to improve their efficiency;
- the need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts;
- the need to maintain incentives for domestic customers to switch to different domestic supply contracts; and

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<sup>7</sup> Domestic Gas and Electricity (Tariff Cap) Act 2018, Section 1(6).  
<http://www.legislation.gov.uk/ukpga/2018/21/section/1/enacted>

- the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence.

1.8. The requirement to have regard to the four matters identified in section 1(6) of the Act does not mean that we must achieve all of these. In setting the cap, our primary consideration is the protection of existing and future consumers who pay standard variable and default rates. In reaching decisions on particular aspects of the cap, the weight to be given to each of these considerations is a matter of judgment. Often a balance must be struck between competing considerations.

1.9. In setting the cap, we may not make different provisions for different holders of supply licences.<sup>8</sup> This means that we must set one cap level for all suppliers.

## **GGSS and GGL**

1.10. The GGSS is expected to launch on 30 November 2021, and it will support the injection of biomethane produced via anaerobic digestion into the gas grid. Biomethane is currently the only green gas which is commercially produced in the UK, and it can be injected into the gas grid to be used as a lower carbon substitute to natural gas. The GGSS will increase the proportion of green gas in the grid, helping to decarbonise our gas supplies. Throughout the lifetime of the scheme BEIS expects it to contribute 21.6MtCO<sub>2e</sub> of carbon savings.<sup>9</sup>

1.11. BEIS published its decision (the March 2021 government response to consultations: future support for low carbon heat & the green gas levy).<sup>10</sup> It announced that the GGSS would be funded by the GGL on all designated licenced fossil fuel suppliers of gas in Great Britain.<sup>11</sup> The GGL will launch with a per gas meter point design where the

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<sup>8</sup> Domestic Gas and Electricity (Tariff Cap) Act 2018, Section 2(2).

<http://www.legislation.gov.uk/ukpga/2018/21/section/2/enacted>

<sup>9</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 3.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

<sup>10</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

<sup>11</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

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costs will be distributed among gas suppliers according to the number of gas meters that they supply, as defined under section 100 of the Energy Act 2008.<sup>12</sup>

- 1.12. The required draft statutory instrument has been recently laid before parliament.<sup>13</sup> This sets out the levy structure and the required publication timescale for the levy rate.
- 1.13. Under the current draft statutory instrument, a licenced gas supplier will be exempt from the levy in a scheme year if Ofgem determines at least 95% of the gas supplied by the gas supplier in a scheme year was certified biomethane.<sup>14</sup>
- 1.14. The levy rate for each scheme year will be set on a pence per meter per day basis.<sup>15</sup>
- 1.15. The levy rate will include, among other factors, a headroom allowance. It is expected that this will be required to account for events that might cause a delay or deficit in the GGSS payments, such as forecast errors.<sup>16</sup> The levy rate will also include associated administrative costs for both the GGSS and GGL with underspend from previous years subtracted.<sup>17</sup> The expectation is that BEIS will publish the levy rate figure which will include these additional factors.
- 1.16. The GGL payments will be collected quarterly from obligated gas suppliers, and they will also need to lodge credit cover. Suppliers' credit cover is based on a forecast which will cover 115% of the next quarterly levy payment.<sup>18</sup> The formula for calculating this credit cover is included in the draft statutory instrument.<sup>19</sup>

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<sup>12</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 49.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

<sup>13</sup> The Green Gas Support Scheme Regulations 2021.

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>14</sup> The Green Gas Support Scheme Regulations 2021, Section 38.

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>15</sup> The Green Gas Support Scheme Regulations 2021, Section 39(1).

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>16</sup> The headroom allowance will cover any small shortfall in the levy that would cause funds for the scheme to be less than required. This is different to the headroom allowance within the cap.

<sup>17</sup> The Green Gas Support Scheme Regulations, Section 39(1).

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>18</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 58.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

<sup>19</sup> The Green Gas Support Scheme Regulations 2021, Section 41(1).

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

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- 1.17. BEIS estimated using its central scenario that gas customers would see their annual bills rise by approximately £4.70 at the peak of the levy in 2028 assuming a transition to a volumetric levy.<sup>20</sup>
- 1.18. It is also BEIS' intention to transition away from a flat rate per meter levy towards a volumetric levy as soon as feasibly possible, as it aims to align the policy costs more closely with energy consumption. The GGL will launch with a per meter point levy that is simpler to administer to avoid significant delay to the launch of the GGSS.<sup>21</sup>

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<sup>20</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 51.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

<sup>21</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 76.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

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## 2. Consultation process

### Consultation stages

#### June 2021 update

2.1. We published an update in June 2021 which set out that we were aware that BEIS intended to launch the GGSS in Autumn 2021<sup>22</sup> which would be funded by the GGL. The GGL will place an obligation on licensed gas suppliers to pay the levy. We also said that we intended to review whether it would be appropriate to include an allowance for the GGL in the cap and that we would engage with stakeholders on this. We said that if we decided to introduce an allowance, we would consider whether and how to reflect cap period seven (October 2021 – March 2022) costs as part of that methodology.<sup>23</sup>

#### This consultation

2.2. This consultation sets out our proposals. We invite stakeholders to submit comments on these proposals and on any aspect of this consultation on or before **9 November 2021**.

#### Decision

2.3. Subject to consultation, we intend to publish a decision by the beginning of February 2022, so that any changes will have effect from 1 April 2022 (cap period eight).

### Related publications

2.4. The main documents relating to the cap are:

- Domestic Gas and Electricity (Tariff Cap) Act 2018:  
<http://www.legislation.gov.uk/ukpga/2018/21/contents/enacted>.

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<sup>22</sup> The draft statutory instrument states that the scheme will begin on 30 November 2021. The Green Gas Support Scheme Regulations 2021, Section 2(1).

<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>23</sup> Ofgem (2021), Update on the Green Gas Levy and default tariff cap.

<https://www.ofgem.gov.uk/publications/price-cap-update-green-gas-levy-and-default-tariff-cap>

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- Default Tariff Cap Decision: <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview>.

2.5. The main documents relating to reviewing the Green Gas Levy on the default tariff cap are:

- The Green Gas Support Scheme Regulations 2021 ('draft statutory instrument'): <https://www.legislation.gov.uk/ukdsi/2021/9780348227284>.
- June 2021 Price Cap – Update on the Green Gas Levy and default tariff cap ('June 2021 update'): <https://www.ofgem.gov.uk/publications/price-cap-update-green-gas-levy-and-default-tariff-cap>.
- March 2021 Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations ('March 2021 government response'): <https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>.
- October 2020 Consultation Stage impact assessment: Green Gas Levy ('October 2020 impact assessment'): <https://www.gov.uk/government/consultations/green-gas-levy>.
- September 2020 consultation on a Green Gas Levy ('September 2020 consultation'): <https://www.gov.uk/government/consultations/green-gas-levy>.

## How to respond

2.6. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

2.7. We do not ask specific questions in this document. Rather, we welcome views on any of the matters discussed in this consultation.

2.8. We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

## Your response, data and confidentiality

- 2.9. 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.
- 2.10. 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.
- 2.11. 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.
- 2.12. 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.

## General feedback

- 2.13. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
  2. Do you have any comments about its tone and content?

3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

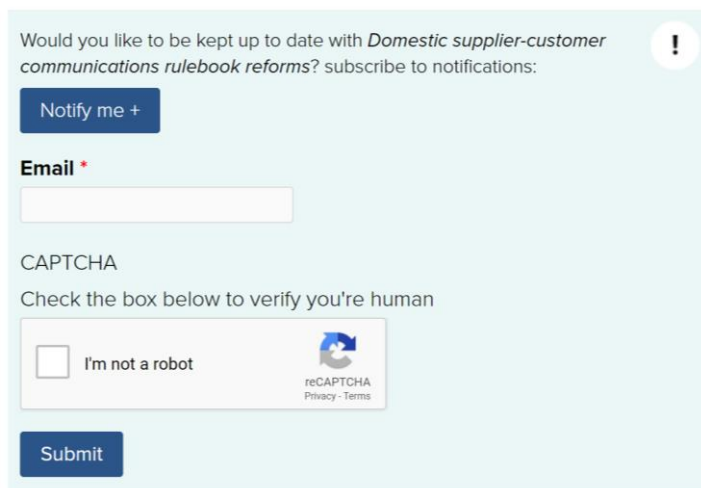
Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk).

### How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

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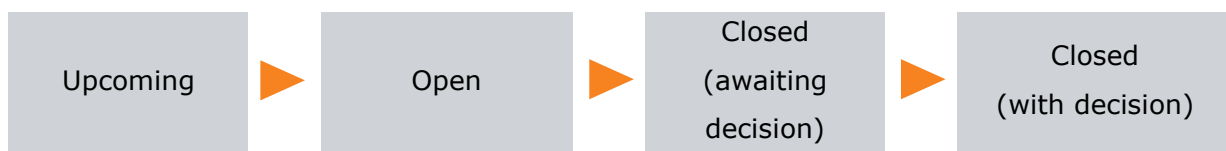
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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



### 3. Introducing an allowance for the GGL

#### **Section summary**

In this chapter we discuss the introduction of an allowance for the costs associated with the GGL in the price cap methodology. We discuss the materiality of the GGL and our considerations on amending the cap methodology to include an allowance for it from cap period eight onwards.

#### *Context*

- 3.1. Energy suppliers are subject to a number of environmental and social obligations, designed to achieve various different policy goals. These obligations result in additional charges to suppliers, which in turn are passed onto energy customers through their energy bills.
- 3.2. When we developed the cap in 2018, we allowed suppliers to recover the efficient costs incurred due to these schemes as set out in our 2018 decision.<sup>24</sup> We also set out to only make changes 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. For example, we might consider making a modification were there a fundamental change to the environmental and social obligations that suppliers face.
- 3.3. There is currently no allowance for the costs associated with the GGL in the price cap methodology.

#### *Proposal and considerations*

- 3.4. We propose to amend the cap methodology to introduce an allowance for the costs associated with the GGL from cap period seven onwards.

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<sup>24</sup> Ofgem (2018), Decision – default tariff cap – Appendix 5 – policy and network costs.  
<https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview>

- 3.5. In our 2018 decision document we set out the conditions by which we would consider making changes to the cap methodology. The introduction of a new environmental or social obligation scheme would not in itself necessitate the inclusion of a new allowance in the cap. We would only consider including an allowance for a new cost if it systematically and materially departed from an efficient level of costs.
- 3.6. The GGL will introduce a new levy on suppliers that is not taken into account in the cap methodology. This means that the overall cap allowances will be systematically lower than it would have otherwise been prior to the introduction of the levy. This will be the case from the introduction of the levy.
- 3.7. BEIS' October 2020 impact assessment set out an estimate of the levy funding profiles to support the GGSS.<sup>25</sup> They estimate the funding required will be about £25m for the scheme year beginning April 2022 (using its central projection).<sup>26</sup> We estimate this funding equates to about £1 per customer per year from cap period eight. BEIS estimates that this will increase each year over the life of the scheme, stating in its March 2021 government response that it will eventually add about £4.70 to a customer's bill, assuming a transition to a volumetric levy.<sup>27</sup> These figures are for indicative purposes only, and will only be confirmed when the levy rate is published. Actual costs of the scheme may also vary dependant on the level of uptake by green gas producers.
- 3.8. These estimates demonstrate how the cap could materially depart from the efficient level of costs over time. We do not consider that the GGL scheme costs for either cap period seven or cap period eight are material. In theory, we could wait until the costs become material to amend the cap methodology. However, in this instance, we consider that it is preferable to reflect this new levy through an amendment to the cap methodology from cap period eight. This is due to the systematic nature of the impact on the cap methodology from April 2022 and the expectation of an increase in costs as the scheme expands.

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<sup>25</sup> BEIS (2020), Green Gas Levy consultation stage Impact assessment, Table 2.

<https://www.gov.uk/government/consultations/green-gas-levy>

<sup>26</sup> BEIS' estimated levy funding profile figures are rounded to the nearest £5m and are at 2020 prices.

<sup>27</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 51.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

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- 3.9. Aiming to time the introduction of the allowance to when costs were to become material would create a risk that the growth in costs do not align with expectations and cap periods, leading to a mismatch between material and systematic costs and allowances. Introducing an allowance from cap period eight avoids this risk. For the avoidance of doubt, we do not consider that our proposal to introduce a GGL allowance ahead of the costs becoming material means that we would follow the same approach in the future. We would consider on a case-by-case basis whether to do so.
- 3.10. For the avoidance of doubt, we propose to include the costs associated with both the first scheme year and the second scheme year in our determination of the GGL allowance for cap period eight and nine. This means that suppliers will recover the GGL costs associated with cap period seven across cap period eight and nine, in line with cost recovery for the second scheme year.

## 4. Methodology for calculating the GGL allowance

### Section summary

In this chapter we discuss the methodology which will be used to calculate the GGL allowance in 'Annex 4 – Policy cost allowance methodology'. We also consider our contingency option in the event that the GGL regulations are not in force ahead of cap period eight.

## Proposed methodology amendments

### *Context*

- 4.1. The cap includes a policy cost allowance to ensure that suppliers are able to recover the additional costs related to their obligations under different government environmental and social programmes. The policy cost allowance is set out in 'Annex 4 – Policy cost allowance methodology'.<sup>28</sup> There are currently six policy schemes in operation which are accounted for in the policy cost allowance.

### *Proposal and considerations*

#### Annex 4 updates

- 4.2. We propose to include an allowance for the GGL in 'Annex 4 – Policy cost allowance methodology' of SLC 28AD of the gas standard supply licence conditions. The GGL is a new environmental and social scheme. Therefore, we consider it would be appropriate to introduce the allowance through an amendment of the Annex 4 methodology of SLC 28AD.
- 4.3. We propose to update the GGL allowance in the cap based on the latest available information published by BEIS in 'Annex 4 – Policy cost allowance' methodology.

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<sup>28</sup> Licence Conditions on Ofgem website.

<https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions>

- 4.4. We propose to align our methodology with BEIS' design of the scheme and allow the recovery of associated costs on a per gas meter basis, ie to allocate it to the standing charge through the cap at nil consumption.<sup>29</sup>
- 4.5. Suppliers will be charged the GGL based on the number of gas meter points they serve. This means that the scheme cost a supplier is exposed to will not vary by the amount of gas used and the cost will be a flat rate across gas meter points. Therefore, we consider it is more appropriate to introduce this allowance to the standing charge as this will better align with the revenue suppliers can recover from customers to the levy they pay. This will be reflected in how we update the level of the cap at nil consumption. This approach is similar to that which we have taken for the Warm Home Discount, which is calculated on a pound per customer basis.<sup>30</sup>
- 4.6. We propose to convert the levy rate, which the Secretary of State will publish in a pence per meter per day format, to a pound per meter per year format so that it is consistent with the cap calculation. The levy rate in pence per meter point per day will be multiplied by the number of days in the scheme year and divided by 100 to express it in pounds per meter per scheme year.
- 4.7. The GGL allowance for cap period eight and nine includes the costs associated with both the first scheme year and the second scheme year. The first scheme year backdated cost will be calculated using the same method as the second scheme year, which is explained in the paragraph above.
- 4.8. Details of the specific changes to the model can be viewed in Appendix 1 and 2.

#### Cap allowance updates

- 4.9. We propose to update the GGL allowance in each cap update for subsequent scheme years, using the appropriate published figures.

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<sup>29</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 50.

<https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

<sup>30</sup> Ofgem (2018), Default Tariff Cap: Decision, Appendix 5 – Policy and network costs, paragraph 2.1. <https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview>

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- 4.10. Under the draft statutory instrument, the Secretary of State must publish the levy rate for the scheme year beginning 1 April 2023, and each subsequent scheme year, by 31 December in the preceding scheme year.<sup>31</sup> As such the levy rate will be published in advance of the default tariff cap announcements (in February and August), which will enable us to update the GGL allowance for each cap announcement.
- 4.11. To allow for the GGL in the cap, we require that all appropriate inputs are available in time for determining the cap update in both the February and August announcements. The draft statutory instrument states that the levy rate for the scheme years corresponding to cap period seven and eight will be publicly available by 30 November 2021.<sup>32</sup> This will enable us to take into consideration the costs incurred by suppliers from April 2021 when setting the cap for cap period eight in February.
- 4.12. The draft statutory instrument states that the Secretary of State for BEIS may review the levy rate for the first scheme year and the scheme year beginning April 2022.<sup>33</sup> This means that the levy rate may either increase or decrease when it is published by 1 March 2022. We do not have a mechanism to change the allowance for the GGL costs in cap period eight if BEIS change the levy rate after we determine the summer cap level at the start of February.
- 4.13. When determining the price cap for both the summer and winter periods, we use the most up to date inputs available at the time of carrying out the price cap update. We will use the most up to date levy rates when determining the GGL cost allowance in both February and August updates. If BEIS make any change to the levy rate for the first or second scheme year after the February update, this will be taken into consideration in the August update for cap period nine. This means any misalignment of costs and allowances due to an updated levy rate for the first or second scheme year would only last for one period. We consider any change to the levy rate for either scheme year is likely to be immaterial.

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<sup>31</sup> The Green Gas Support Scheme Regulations 2021, Section 39(2).  
<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>32</sup> The Green Gas Support Scheme Regulations 2021, Section 39(2).  
<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

<sup>33</sup> The Green Gas Support Scheme Regulations 2021, Section 39(3).  
<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

### Cost to a fully obligated supplier

- 4.14. We propose to set the policy cost allowance to reflect the costs that we would expect a fully obligated gas supplier to incur. We are proposing this, as the expectation is that most suppliers will be fully obligated to pay the GGL.
- 4.15. This means that a licenced gas supplier who is exempt from the GGL (because at least 95% of the gas supplied by them in a scheme year was certified biomethane) will incur costs beneath the level allowed in the cap. This approach is consistent with our approach for Energy Company Obligation and Warm Home Discount policy costs in our 2018 default tariff cap decision.<sup>34</sup>

### Payment method

- 4.16. Since the levy will be applied on all gas customers whose supplier is not exempt, we propose to introduce a GGL allowance for gas standard credit, other and prepayment meter customers. We also propose to apply the levy rate equally across each payment method. This approach is similar to that which we have taken for Warm Home Discount allowance within the cap.

## **Next steps**

### **Transition to a volumetric levy**

- 4.17. BEIS noted in its March 2021 government response, that it intends to transition towards a volumetric levy as soon as feasibly possible.<sup>35</sup> Once the scheme parameters have been set, we will consider whether the changes require us to revisit this methodology.

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<sup>34</sup> Ofgem (2018), Default Tariff Cap: Decision, Appendix 5 – Policy and network costs, paragraph 2.1. <https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview>

<sup>35</sup> BEIS (2021), Future Support for Low Carbon Heat & The Green Gas Levy Government response to consultations, page 75 and 76. <https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

## Contingency

- 4.18. Our current proposals within this consultation are based on the draft Green Gas Support Scheme Regulations 2021 which has been laid before parliament.<sup>36</sup> The decision on including a GGL allowance in the price cap is dependent on the draft statutory instrument receiving parliamentary approval.
- 4.19. If the draft statutory instrument is rejected by parliament, then we will not implement a GGL allowance in the cap as suppliers will face no additional costs. We would therefore not change the policy cost allowance of the cap which is set out in 'Annex 4 – Policy cost allowance methodology'.

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<sup>36</sup> The Green Gas Support Scheme Regulations 2021.  
<https://www.legislation.gov.uk/ukdsi/2021/9780348227284>

## Appendices

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## Appendix 1 – Detailed model modifications: Annex 4

- 1.1. We summarise in this appendix the modifications to 'Annex 4 – Policy cost allowance methodology' of SLC 28AD of the gas standard supply licence conditions based on our proposals in Chapters 3 and 4.
- 1.2. We have published alongside this consultation a revised Annex 4 that would come into effect for cap period eight. We invite stakeholders' views on this. A summary of the modifications can be found below.
- 1.3. Updated cells are highlighted in yellow in the models published alongside this consultation.

### Model updates

#### Tab '3j GGL'

- 1.4. New tab '3j GGL' created for the GGL cost component. This tab sets out the source of the input value used to determine the cost allowance. It also sets out the conversion calculation to £/meter.
- 1.5. Cells X12:AA12: added to input the Green Gas Levy rate which will be published by BEIS in pence per meter per day.
- 1.6. Cells X13:Y13: added to input the backdated GGL allowance for the first scheme year which will be included in the GGL allowance for cap period eight and nine.
- 1.7. Cells X15:AA15: calculation formula added to calculate the levy rate in £/meter which will be used as an input for tab '2a Aggregate costs'.
- 1.8. The price cap period in cells H15:W15 will remain blank, as these are historic periods prior to the commencement of the GGL in the price cap.

#### Tab '2a Aggregate costs'

- 1.9. Cells H28:AA28: calculation formula added in Table 1 to reference Green Gas Levy allowance in '3j GGL'. This table summarises our estimates for individual schemes.



### **Tab '1a Policy Cost Allowance'**

- 1.10. Cells G42:Z42: calculation formula updated in Table 1 to include the Green Gas Levy allowance in the sum of policy cost allowance values at Benchmark Annual Consumption level m (typical consumption) for gas meters. This table is used to update the level of the default tariff cap.
  
- 1.11. Cells G65:Z65: calculation formula added in Table 2 to reference the Green Gas Levy allowance in '2a Aggregate costs'. This table estimates the scheme by scheme policy cost allowance (Great Britain average).

## Appendix 2 – Detailed model modifications: Default tariff cap model

- 1.1. We summarise in this appendix the modifications to 'Default tariff cap level model' used to calculate the level of the default tariff cap in each 28AD Charge Restriction Period based on our proposals in Chapter 3 and 4.
- 1.2. We have published a revised Default tariff cap level model alongside this consultation that would come into effect for cap period eight. We invite stakeholders' views on this. A summary of the modifications can be found below.
- 1.3. Updated cells are highlighted in yellow in the models published alongside this consultation.

### Model updates

#### Tab '3d PC'

- 1.4. Cells G65:Z65: added in Table 2 to include the Green Gas Levy scheme. Values will be inputted here from Table 2 in tab '1a Policy Cost Allowance' of Annex 4.

#### Tab 'Gas\_PPM\_Nil'

- 1.5. Cells G18:Z18, G30:Z30, G42:Z42, G54:Z54, G66:Z66, G78:Z78, G90:Z90, G102:Z102, G114:Z114, G126:Z126, G138:Z138, G150:Z150, G162:Z162 & G174:Z174: calculation formulas updated to include the Green Gas Levy allowance in the sum of policy costs.
- 1.6. This table brings together allowances to calculate the level of the default tariff cap in £ per customer for the given fuel, benchmark metering arrangement, benchmark annual consumption level, and payment method. Values in this table are calculated by 28AD Charge Restriction Period and Charge Restriction Region.

#### Tab 'Gas\_SC\_Nil'

- 1.7. Cells G18:Z18, G30:Z30, G42:Z42, G54:Z54, G66:Z66, G78:Z78, G90:Z90, G102:Z102, G114:Z114, G126:Z126, G138:Z138, G150:Z150, G162:Z162 &

G174:Z174: calculation formulas updated to include the Green Gas Levy allowance in the sum of policy costs.

- 1.8. This table brings together allowances to calculate the level of the default tariff cap in £ per customer for the given fuel, benchmark metering arrangement, benchmark annual consumption level, and payment method. Values in this table are calculated by 28AD Charge Restriction Period and Charge Restriction Region.

**Tab 'Gas\_Other\_Nil'**

- 1.9. Cells G18:Z18, G30:Z30, G42:Z42, G54:Z54, G66:Z66, G78:Z78, G90:Z90, G102:Z102, G114:Z114, G126:Z126, G138:Z138, G150:Z150, G162:Z162 & G174:Z174: calculation formulas updated to include the Green Gas Levy allowance in the sum of policy costs.
- 1.10. This table brings together allowances to calculate the level of the default tariff cap in £ per customer for the given fuel, benchmark metering arrangement, benchmark annual consumption level, and payment method. Values in this table are calculated by 28AD Charge Restriction Period and Charge Restriction Region.

## Appendix 3 – Privacy notice 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](mailto: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 3<sup>rd</sup> 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 overseas**

**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](#)".