Consultation

Consultation on reflecting prepayment End User Categories in the default tariff cap

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Response deadline:	17 December 2021	**Email:**	RetailPriceRegulation@ofgem.gov.uk

We are consulting on our considerations and proposals to amend the gas supply licence conditions to reflect the introduction of prepayment End User Categories in the default tariff cap methodology. 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, customer 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**. 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 tariff customers, ensuring that they pay a fair price for their energy, reflecting its underlying costs. This consultation sets out our proposal to amend the licence conditions along with our methodology from cap charge restriction period (period) eight, to introduce the use of End Use Categories (EUCs) specific to prepayment meter (PPM) customers. We set out our proposals and considerations on how we intend to incorporate these new inputs from cap period eight onwards.

EUCs categorise gas customers by different usage patterns and payment type. When the cap methodology was developed in 2018, there was only one EUC relevant to the cap, which was incorporated into our methodology. Since then, an industry modification has created a unique EUC for domestic PPM customers.[1] These new parameters determine the demand attributed to customers paying by a certain payment method and affect the costs faced by suppliers to serve these customers.

In August 2020, Ofgem announced that the cap would protect PPM customers after 31 December 2020, the date the CMA Prepayment Meter Price Cap expired.[2]

In July this year, Citizens Advice informed us that the introduction of new EUCs in the Peak Load Factors may have implications for the network cost allowance in the PPM level of the cap. Through this, we also became aware of a similar impact on the Annual Load Profiles which has implications for the wholesale cost allowance for PPM customers.

Amendment of cap methodologies due to EUC

When we published our decision to implement the default tariff cap in 2018,[3] we outlined that we would consider amending the methodology of the cap where there were significant and unanticipated changes in factors determining suppliers' wholesale, policy, networks, or smart

[1] Xoserve (2019), Creation of new End User Categories XRN 4665. https://www.xoserve.com/change/change-proposals/xrn-4665-creation-of-new-end-user-categories/
[2] Ofgem (2020), Protecting energy customers with prepayment meters: August 2020 decision. https://www.ofgem.gov.uk/publications/decision-protecting-energy-consumers-prepayment-meters
[3] Ofgem (2018), Decision Appendix, Appendix 3 – Updating the cap methodology. https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/appendix_3_-_updating_the_cap_methodology.pdf

metering costs, which were expected to cause the allowance included for these costs within the cap to materially depart from the efficient level, looking across the market as a whole.

We consider that the introduction of the new EUCs impacts the gas network cost and wholesale cost allowances in a material and systematic manner. We consider that using the current EUCs on an ongoing basis no longer adequately reflects the efficient costs to supply PPM customers. We therefore propose to amend the licence to allow for the introduction of the new EUCs in both the network cost and wholesale cost methodologies from cap period eight onwards.

We estimate the impact of introducing the new EUCs across both the networks and wholesale allowances could decrease the cap by approximately £6 per PPM customer per year at the benchmark annual consumption level. This figure is based on the impact that would have been observed in cap period seven. The actual impact in future cap periods will vary, dependent on the costs determined for each specific period.

The shaping allowances are being considered separately as part of the '*Reviewing the potential impact of increased wholesale volatility on the default tariff cap*' consultation.[4] Therefore, we do not propose to take into consideration the shaping allowances as part of this consultation.

Cap period seven allowance

Taking into account recent market conditions, we are not proposing to take into account any potential overfunding experienced during cap period seven resulting from the new EUCs in our future cap allowances at this time.

Going forward

We invite stakeholder views on any aspect of this consultation by **17 December 2021**. Stakeholders' responses will inform our decision, which we intend to publish in February 2022.

[4] Ofgem (2021), Reviewing the potential impact of increased wholesale volatility on the default tariff cap. https://www.ofgem.gov.uk/publications/price-cap-consultation-potential-impact-increased-wholesale-volatility-default-tariff-cap

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 "customers pay a fair price for energy and benefit from rights and protections" within our Forward Work Programme for 2021-22.[5] 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 Competition and Markets Authority (CMA) designed and introduced a price cap for prepayment meter (PPM) customers in April 2017 as part of the package of remedies resulting from the energy market investigation.[6] This price cap is referred to in this document as the 'CMA Prepayment Meter Price Cap'.

1.3. In August 2020, Ofgem announced that the cap would continue to protect PPM customers after 31 December 2020, the date the CMA Prepayment Meter Price Cap expired.[7] This currently covers around 4 million customers.

1.4. When we set the cap, domestic customers were categorised within one End User Category (EUC). In August 2019, the industry modification XRN 4665 led to the creation of new EUCs to help improve Non Daily Metered (NDM) Nominations/Allocations and reduce the effect to UIG.[8,9] The change split the previous band 01 EUC by Market Sector Code (ie Domestic / Industrial and Commercial) and Meter Type (ie Prepayment / Non-Prepayment).

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[5] Ofgem (2021), Forward work programme 2021/22. https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-202122

[6] CMA (2016), Energy market investigation final report. https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf

[7] Ofgem (2020), Protecting energy customers with prepayment meters: August 2020 decision. https://www.ofgem.gov.uk/publications/decision-protecting-energy-consumers-prepayment-meters

[8] Xoserve (2019), Creation of new End User Categories XRN 4665. https://www.xoserve.com/change/change-proposals/xrn-4665-creation-of-new-end-user-categories/

[9] Gas nomination is the process of calculating estimates of gas consumption ahead of and during the gas day, to inform the Shippers' gas purchasing decisions. Gas allocation is the process where actual gas usage is shared out, after the gas is used.

1.5. This resulted in a change to how industry report and account for gas Annual Load Profiles (ALPs),[10] Peak Load Factors (PLFs)[11] and Unidentified Gas (UIG)[12] for different categories of customers. In particular, the modification introduced unique EUCs for domestic gas PPM customers, which more accurately reflect their consumption behaviour.

1.6. This consultation sets out our considerations on the new domestic ALPs, PLFs and UIG and their interactions with the cap methodology. We discuss any potential amendments required to our methodology to account for the new ALPs, PLFs and UIG.

1.7. The purpose of this consultation is to give stakeholders the opportunity to comment on these proposals.

1.8. We have published the statutory notice for the licence amendment alongside the consultation. We have published revised versions of 'Annex 2 – Methodology for determining the Wholesale Cost Allowance' and 'Annex 3 – Methodology for determining the Network Cost Allowance' of Standard Licence Condition (SLC) 28AD of the gas standard supply licence conditions alongside this document. We have published a revised version of the supplementary workbook 'The Default Tariff Cap Level' which is used to calculate the benchmark maximum charges for SLC 28AD charge restriction periods. These models reflect our proposals alongside this consultation.

Structure of this consultation

1.9. 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.

[10] ALPs refer to the typical annual gas consumption profile by region.
[11] PLFs refer to the ratio of average load compared to the maximum load over a given period by region.
[12] UIG refers to gas that is off taken from the Local Distribution Zone (LDZ) system, but not attributed to an individual Supply Meter Point or accounted for as Shrinkage. There are several reasons for UIG including leakage, theft, or consumption by unregistered supply points.

- Chapter 3 discusses our proposals to amend the licence and annex models to allow for the introduction of a specific domestic PPM EUC. It also discusses the materiality of the changes and other considerations.

- Chapter 4 sets out our proposal for how we approach new EUCs in the cap methodology and specifically in the annex models of the electricity and gas standard supply licence conditions.

The default tariff cap

1.10. We set the cap with reference to the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('Act').[13] 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:

- 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

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

1.11. 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 customers 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.

[13] Domestic Gas and Electricity (Tariff Cap) Act 2018, Section 1(6).
http://www.legislation.gov.uk/ukpga/2018/21/section/1/enacted

1.12. In setting the cap, we may not make different provisions for different holders of supply licences.[14] This means that we must set one cap level for all suppliers.

Background to EUCs, ALPs, PLFs and UIG

1.13. EUCs represent different consumption profiles for gas customers. They ensure that a wide range of customers can be categorised by their usage patterns and help distinguish different gas consumption behaviours. They can be used in activities such as demand attribution, capacity invoicing and opening read estimations.

1.14. The cap methodology uses EUCs to estimate how customers typically consume gas during a year. Following the introduction of the new EUCs in 2019, there are individual consumer profiles for non-prepayment and prepayment domestic customers. These profiles are captured by the ALPs published by Xoserve.

1.15. In the wholesale cost methodology, we weight ALPs by region to estimate the quarterly share of gas demand. This is used to weigh wholesale prices to determine the direct fuel cost component of the wholesale cost allowance.

1.16. The cap methodology also uses EUCs to estimate peak daily gas load.[15] The new EUCs have resulted in individual estimates of peak gas demand for non-prepayment and prepayment domestic customers. These are captured by the PLFs published by Xoserve and reflected in the methodology as 'load factors'.

1.17. In the network cost methodology, we combine regional load factors with our assumed level of annual domestic consumption to produce estimates of peak daily load. These are used to estimate total network capacity charges.

1.18. The EUCs are also used to categorise the UIG values published in Xoserve's Allocation of Unidentified Gas (AUG) statement.[16] The gas wholesale methodology was designed

[14] Domestic Gas and Electricity (Tariff Cap) Act 2018, Section 2(2). http://www.legislation.gov.uk/ukpga/2018/21/section/2/enacted
[15] Peak daily gas load is the proportion of daily gas demand that is consumed at peak times.
[16] Xoserve (2021), Final AUG Statement 2021-2022. https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-03/Final%20AUG%20Statement%20v1.4.pdf

to allow an uplift for UIG costs. In our 2018 decision, we set out how we set the (2017) baseline with the UIG values in mind.[17] The UIG allowance was developed using the EUCs available at that time and was set as a fixed percentage of the direct fuel costs for each subsequent cap charge restriction period (period).

[17] Ofgem (2018), Default Tariff Cap: Decision overview – Appendix 4. https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/appendix_4_-_wholesale_costs.pdf

2. Consultation process

Consultation stages

July 2021 update

2.1. We published an update in July 2021 to inform stakeholders of an industry change relating to the introduction of new EUCs and the implications for the cap, with respect to the PPM cap level.[18] It set out our intention to consult on whether to implement changes related to the new EUCs in the cap methodology for cap period eight onward (ie from 1 April 2022). We also said that we would consider whether it is appropriate to review costs associated with the new EUCs with respect to cap period seven (ie 1 October 2021 – 31 March 2022) and take into account any over/underfunding in setting future price cap levels.

This consultation

2.2. This consultation sets out our proposed amendments to the licence conditions and annex models. We invite stakeholders to submit comments on these proposals and on any aspect of this consultation on or before 17 December 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; and

[18] Ofgem (2021), Industry change related to gas End User Categories. https://www.ofgem.gov.uk/publications/default-tariff-cap-industry-change-related-gas-end-user-categories

- 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 new EUCs in the cap are:

- Xoserve, creation of new EUCs: https://www.xoserve.com/change/change-proposals/xrn-4665-creation-of-new-end-user-categories/; and

- Ofgem letter to industry regarding change related to gas EUCs: https://www.ofgem.gov.uk/publications/default-tariff-cap-industry-change-related-gas-end-user-categories.

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.

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 4.

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

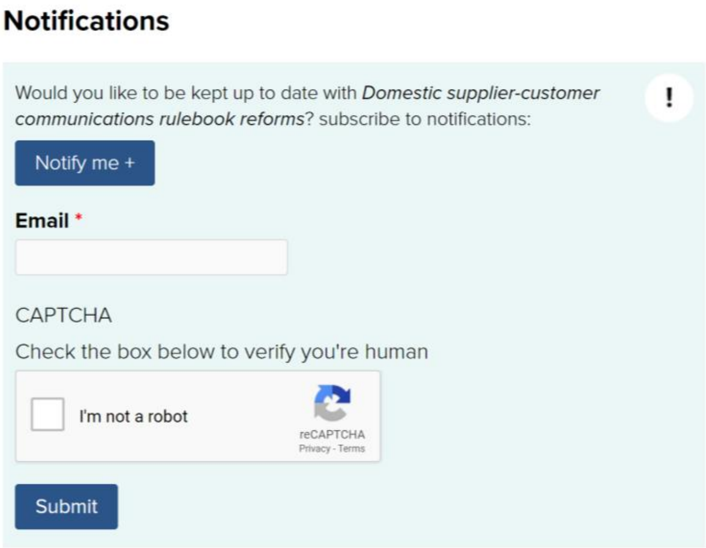
2.13. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

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?

2.14. Please send any general feedback comments to stakeholders@ofgem.gov.uk.

How to track the progress of the consultation

2.15. 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.



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3. Discussion on proposals to amend the cap

Section summary

In this chapter, we discuss our proposals to amend the licence and annex models to allow for the introduction of a specific domestic EUC for PPM users. We discuss the materiality of this amendment to the cap level. We also discuss our considerations on amending the cap methodology to include this change from cap period eight onward.

Context

3.1. Under the cap methodology, we combine network charges and direct fuel prices individually with estimates of demand and losses. These are used to estimate the network and wholesale costs a supplier incurs for each customer type for a given cap period.

3.2. When the networks and wholesale methodologies were designed, the PLFs, ALPs and UIG values published by Xoserve reflected the historic band 01 EUC that applied to all customers with Annual Quantity (AQ) less than 73,200kWh, regardless of payment method. For that reason, the network and wholesale methodologies did not include separate gas demand shares, load factors or UIG uplift for customers paying by different payment methods.

3.3. As a result of the new EUCs, suppliers now face different gas network and wholesale costs for customers paying by different payment methods.

3.4. We set out to only 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.

Proposals and considerations

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 PPM-specific EUC for ALPs and PLFs would not in itself necessitate the inclusion of a new input in the cap.

We would only consider including an input if it systematically and materially departed a cost from an efficient level.

3.6. We consider that the introduction of the new EUCs impacts the gas network cost and wholesale allowances in a material and systematic manner. We consider that using the current EUCs on an ongoing basis no longer adequately reflects the efficient costs to supply PPM customers.

3.7. We estimate the impact of introducing the new EUCs across both the networks and wholesale allowances could decrease the cap by approximately £6 per year at the benchmark annual consumption level. This figure is based on the impact that would have been observed in cap period seven. The actual impact in future cap periods will vary, dependent on the costs determined for each specific period.

3.8. The development of PPM specific EUCs across industry results in a more structurally granular view of PPM demand, allowing for a more accurate reflection of PPM customers' consumption behaviour. This impacts our methodology in a way such that costs in future cap periods will systematically depart from an efficient level.

3.9. We propose to amend SLC 28AD of the gas supply licence to enable us to differentiate between payment methods in the wholesale cost allowance and network cost allowance. We are also proposing to amend the annex models and a supplementary workbook to include PPM EUCs. Details of these changes and policy considerations can be found below.

Network Costs

3.10. We propose to amend the network cost methodology to introduce specific load factors for PPM customers from cap period eight onward.

3.11. We estimate that PPM-specific load factors would reduce the network allowance for PPM customers by around £12 per year at the benchmark annual consumption level. This estimation is based on cap period seven network costs and load factors consistent with domestic PPM PLFs from the 2020/21 gas year.[19] The actual impact of this change

[19] Following our methodology, load factors are not updated with PLFs from gas year 2021/22 until the 2022 summer cap period (ie April 2022 – September 2022).

in the next and subsequent cap periods will depend on the network costs determined for that cap period, amongst other factors.

3.12. The introduction of PPM specific load factors will not impact the cap level for other payment methods. The load factors currently used within the methodology for the default tariff cap for standard credit and other payment types are in line with the latest domestic non-PPM EUCs available.

Wholesale Costs

Quarterly shares of gas demand

3.13. We propose to amend the direct fuel cost methodology to introduce specific quarterly shares of gas demand for PPM customers from cap period eight onward.

3.14. In cap period seven, we estimate that PPM specific quarterly shares of gas demand would have reduced the wholesale allowance for PPM customers by around £3 at the benchmark annual consumption level.

3.15. The impact of this issue will vary in the next and subsequent cap periods depending on the wholesale costs determined for that cap period, amongst other factors. Based on current wholesale costs and 2021/22 gas year ALPs, we consider it likely that the materiality will be less than £1 in cap period eight. This is primarily due to a smaller differential between winter and summer gas prices. As a result, the quarterly shares of gas demand have less of an impact when used to weight prices.

3.16. The introduction of PPM specific quarterly shares of gas demand will not impact the cap level for other payment methods. The quarterly shares of gas demand currently used within the cap methodology for standard credit and other payment types are the latest domestic non-PPM EUCs available.

Additional allowances

3.17. We propose to amend the wholesale cost methodology to reflect the use of new EUCs within the UIG allowance for PPM customers from cap period eight onward.

3.18. As part of our 2018 decision, the additional UIG, shaping and forecast error allowances in the wholesale methodology were set as fixed inputs. It was not envisaged that these inputs would be systematically updated.

3.19. In our 2018 statutory consultation we proposed a UIG allowance based on our estimate of underlying gas losses that reflected the historic band 1 EUC.[20] As part of our 2018 decision, we acknowledged that there was not enough evidence to confirm the level of UIG.[21] However, after considering the information provided, we considered that the proposed allowance of 0.96% was likely to be an underestimate of UIG. We also considered that elements of UIG can be influenced and controlled by suppliers, and that there are actions they can take to reduce UIG below the observed levels at the time.

3.20. Taking into account missing costs, volatility and incentives to reduce UIG, amongst other factors, we considered 2% to be a better estimate of UIG. This has been applied as a fixed percentage of the direct fuel allowance since the start of the cap.

3.21. The 2021-2022 AUG statement set outs forecast figures for UIG volumes and consumption in the target year. This allows us to consider how to change the PPM calculation as a consequence of the new EUC bands. We calculate the annual UIG uplift for PPM end users to be 5.39%, when dividing the EUC band 1PD total UIG by the forecast consumption in the target year for the same EUC band.

3.22. Applying this uplifted figure as the UIG allowance in cap period seven would have resulted in the wholesale cost allowance increasing by approximately £9 per PPM customer per year, compared to the actual cap period seven allowance. The materiality of the impact can vary in future cap periods depending on wholesale costs, so this figure is illustrative only.

3.23. We propose to introduce a separate UIG allowance for PPM which will be set as a fixed 5.39% of the direct fuel cost allowance.

3.24. We do not propose to change the UIG allowance for non-PPM customers (2% fixed allowance). We are satisfied that the current UIG allowance remains appropriate for non-PPM customers.

[20] Ofgem (2018), Default tariff cap overview document – Appendix 4.
https://www.ofgem.gov.uk/sites/default/files/docs/2018/09/appendix_4_-_wholesale_costs.pdf
[21] Ofgem (2018), Default Tariff Cap Decision – Appendix 4.
https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/appendix_4_-_wholesale_costs.pdf

3.25. The gas shaping allowances are also impacted by the new EUCs. These are being considered separately as part of the '*Reviewing the potential impact of increased wholesale volatility on the default tariff* cap' consultation.[22] Therefore, we do not propose to take into consideration the shaping allowances as part of this consultation.

Discussion on cap period seven costs

3.26. In our July 2021 publication, we said that we would consider taking cap period seven cost over/under recovery into account when setting future cap levels if the introduction of the new EUCs materially changed the costs facing suppliers with PPM customers.

3.27. As discussed previously, we deem the introduction of the new EUCs to materially change the costs of supplying PPM customers. However, taking into account recent market conditions, we are not proposing to take account of any potential overfunding experienced during cap period seven at this time.

3.28. This does not preclude us from recovery of any over/underfunding in future. We will assess the recovery of any misalignment of allowances and costs on a case by case basis.

[22] Ofgem (2021), Reviewing the potential impact of increased wholesale volatility on the default tariff cap. https://www.ofgem.gov.uk/publications/price-cap-consultation-potential-impact-increased-wholesale-volatility-default-tariff-cap

4. Methodology for introducing new EUC

Section summary

In this chapter, we discuss the licence amendments and methodology changes to allow for the new EUCs in the gas network and wholesale cost calculations. This includes updates to 'Annex 3 – Network cost allowance methodology', 'Annex 2 – Wholesale cost allowance methodology' and the supplementary workbook 'The Default Tariff Cap Level'.

Proposed methodology amendments

Context

4.1. The cap includes network and wholesale cost allowances to ensure that suppliers can recover costs that are incurred through network charges and purchasing forward energy contracts respectively. The network cost allowance is calculated in 'Annex 3 – Network cost allowance methodology' and the wholesale cost allowance is calculated in 'Annex 2 – Wholesale cost allowance methodology'. At present, the network and wholesale cost annexes do not vary by payment method.

4.2. To calculate the overall cap level for different payment methods we use the supplementary workbook 'The Default Tariff Cap Level'.

Proposal and considerations

4.3. We are proposing to include separate gas network and wholesale allowances for PPM and non-PPM payment methods. The methodology to calculate the allowance for each payment method would not differ from our 2018 decision. However, load factors, quarterly shares of gas demand and UIG that reflect the different domestic EUCs for non-PPM and PPM customers would be used to determine the individual allowances. The allowances would feed into the calculation of the overall cap level for each payment method.

4.4. We are also proposing to introduce modifications to SLC 28AD of the gas supply licence to amend the wholesale and network cost allowances to allow us to set separate allowances for these costs per payment method. A more detailed description of the proposed licence modifications can be found in the Notice published alongside this consultation.

4.5. At present, the drafting of the SLCs of the gas supply licences define payment methods; these are denoted by subscript "*p*" and consist of Standard Credit, Prepayment or Other Payment Method. We are proposing to add payment methods to the wholesale cost allowance and network cost allowance in the formulas used to calculate the Benchmark Maximum Charge, Payment Method Adjustment and Earnings Before Interest and Tax Allowance. We are also proposing to add payment methods to the wholesale cost allowance in the formula to calculate the Headroom Allowance.

Network Cost Methodology Updates

4.6. We propose to include an input for PPM load factors in 'Annex 3 – Network cost allowance methodology' of SLC 28AD of the gas standard supply licence conditions. This input would be used to calculate a unique gas network allowance for PPM customers following the current methodology.

4.7. The PPM load factors would be consistent with the latest available domestic PPM PLFs published by Xoserve. The load factors would be updated annually, as part of the February update, in line with the current methodology.

4.8. The current load factors used in the Network Allowance methodology, which are consistent with domestic non-PPM PLFs, would be relabelled as 'Non-PPM load factors'. This input would continue to be used in the calculation of the 'standard credit' and 'other payment method' gas network allowances.

4.9. Details of the specific changes to the 'Annex 3 – Network cost allowance methodology' can be viewed in Appendix 1.

Wholesale Cost Methodology Updates

4.10. We propose to include inputs for the PPM quarterly share of gas demand and PPM UIG allowance in 'Annex 2 – Wholesale cost allowance methodology' of SLC 28AD of the gas standard supply licence conditions. These inputs would be used to calculate a unique gas wholesale cost allowance for PPM customers following the current methodology.

4.11. The PPM quarterly share of gas demand would be calculated using the latest available information published by Xoserve. The PPM quarterly share of gas demand would be updated annually, as part of the August cap update, in line with the current methodology.

4.12. To estimate the quarterly share of gas demand for PPM customers, the most recent gas year's domestic PPM ALPs would be weighted by region. These would then be summed in each quarter and inputted into the wholesale cost allowance methodology.

4.13. The current quarterly share of gas demand used in the wholesale cost allowance methodology, which is calculated using domestic non-PPM ALPs, would be relabelled as 'Non-PPM quarterly share of gas demand'. This input would continue to be used in the calculation of the 'standard credit' and 'other payment method' gas wholesale cost allowances.

4.14. The PPM UIG allowance would be fixed at 5.39% and used for UIG uplift in the calculation of the PPM wholesale cost allowance. The current UIG allowance of 2% would be relabelled as the 'Non-PPM' UIG Allowance. This input would continue to be used for UIG uplift in the calculation of the 'standard credit' and 'other payment method' gas wholesale cost allowances.

4.15. For the avoidance of doubt, the UIG allowances would not be routinely updated.

4.16. Details of the specific changes to the 'Annex 2 – Wholesale cost allowance methodology' can be viewed in Appendix 2.

Supplementary Workbook – Default Tariff Cap Level update

4.17. We propose to include inputs for separate PPM gas wholesale and network allowances in the supplementary workbook 'Default Tariff Cap Level'. These inputs would be used to calculate the overall cap level for PPM customers.

4.18. The current gas wholesale and network allowance inputs would be relabelled as 'Non-PPM' allowances. These inputs would continue to be used in the calculation of the overall cap level for 'standard credit' and 'other payment method' customers.

4.19. Details of the specific changes to the 'Supplementary Workbook – Default Tariff Cap Levels' can be viewed in Appendix 3.

Appendices

Index

Appendix 1 - Detailed model modifications: Network cost allowance methodology

1.1. In this appendix we summarise modifications to 'Annex 3 – Network 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 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.

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

Model updates

Tab '3b Load Factors'

1.4. Cells B25:AA37 – table extended to include PPM load factors.

1.5. Cell B12 – relabelled as 'Non-PPM load factors'.

Tab '2d Gas distribution'

1.6. Cells B25:Z37 – table extended to include PPM implied peak daily load.

1.7. Cells B64:Z76 – table extended to include PPM LDZ system capacity charges.

1.8. Cells B90:Z102 – table extended to include PPM customer capacity charges.

1.9. Cells B116:Z128 – table extended to include total PPM gas distribution charge.

1.10. Cells B12, B51, B77 and B103 – relabelled as 'Non-PPM' charges.

Tab '2b Gas transmission'

1.11. Cells B25:Z37 – table extended to include PPM implied peak daily load.

1.12. Cells B77:Z89 – table extended to include PPM National Transmission System exit capacity charge (ECN).

1.13. Cells B103:Z115 – table extended to include total PPM gas transmission charge.

1.14. Cells B12, B64 and B90 – relabelled as 'Non-PPM' charges.

Tab '2a Map charges to elec regions'

1.15. Cells B410:Y808 – table added to include PPM network charges by electricity region.

Tab '1a Network Cost Allowance-Gas'

1.16. Cells B62:Y111 – table added to include PPM Network Cost Allowance, Gas, £ per customer per year.

Appendix 2 – Detailed model modifications: Wholesale cost allowance methodology

1.1. We summarise in this appendix modifications to 'Annex 2 – Wholesale 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 2 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 model published alongside this consultation.

Model updates

Tab '3a Allowances'

1.4. Cells C19:C26 – table extended to include non-PPM allowances.

1.5. Cell B19 – relabelled as 'Gas Non-PPM'.

Tab '3b Demand'

1.6. Cells D28:D32 – table extended to include quarterly PPM share of gas demand.

1.7. Cells D35:D37 – table extended to include seasonal PPM share of gas demand.

1.8. Cell C28 – relabelled as 'Non-PPM share of demand'.

Tab '2c PPM gas'

1.9. New tab created to calculate the value of the "6-2-12 semi-annual" index for PPM gas, by combining prices for different quarterly gas products with assumed PPM demand weights.

Tab '2b Non-PPM gas'

1.10. Tab renamed to reflect calculation for non-PPM gas index.

Tab '1a Direct Fuel Cost Component'

1.11. Cells B19:AA19 – table extended to include index (live values) for PPM gas.

1.12. Cells B24:AA24 – table extended to include index (hard coded) for PPM gas.

1.13. Cells B29:AA29 – table extended to include calculation to apply allowances for PPM gas.

1.14. Cells B60:AA60 – table extended to include calculation to apply UIG uplift for PPM gas.

1.15. Cells B91:AA91 – table extended to include direct fuel cost component at benchmark annual consumption for PPM gas.

1.16. Cells B18, B23, B29, B59 and B90 – relabelled as 'Non-PPM gas'.

Appendix 3 – Detailed model modifications: Supplementary workbook 'Default Tariff Cap Level'

1.1. In this appendix we summarise modifications to the supplementary workbook 'Default Tariff Cap Level' based on our proposals in Chapters 3 and 4.

1.2. We have published alongside this consultation a revised 'Default Tariff Cap Level' model 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. The 'Default Tariff Cap Level' model published alongside this consultation, highlights the amendments to the model that are required as part of this consultation only. Any amendments required to this model as part of another consultation are set out separately and reference should be made to the appropriate consultation.

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

Model updates

Tab '3f NC-Gas'

1.5. Cells B62:Y111 – table added to input PPM Network Cost Allowance, Gas, £ per customer per year.

Tab '3a DF'

1.6. Cells B42:AA42 – table extended to include direct fuel cost component at benchmark annual consumption for PPM gas.

Tab 'Gas_PPM_12000kWh'

1.7. 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 calculate networks cost component for PPM gas customers at the benchmark annual consumption level in each region.

1.8. Cells W15:Z15, W27:Z27, W39:Z39, W51:Z51, W63:Z63, W75:Z75, W87:Z87, W99:Z99, W111:Z111, W123:Z123, W135:Z135, W147:Z147, W159:Z159 and W171:Z171 – formulas updated to calculate direct fuel cost component for PPM gas customers at the benchmark annual consumption level in each region.

Tab '1b Historical level tables'

1.9. Column M – tables extended to calculate Apr 2022-Sep 2022 'Electricity: Single-Rate Metering Arrangement' cap levels for each payment method.

1.10. Column Z – tables extended to calculate Apr 2022-Sep 2022 'Electricity: Multi-Register Metering Arrangement' cap levels for each payment method.

1.11. Column AM – tables extended to calculate Apr 2022-Sep 2022 'Gas' cap levels for each payment method.

1.12. Column AZ – tables extended to calculate Apr 2022-Sep 2022 'Dual fuel (implied)' cap levels for each payment method.

Appendix 4 – 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.

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 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".