

Decision

Administration of the Green Gas Levy consultation decision

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Ofgem has been named by the Department for Business, Energy and Industrial Strategy (BEIS) as the intended administrator of the Green Gas Support Scheme (GGSS) and associated Green Gas Levy (GGL). BEIS consulted on the proposed policy, and issued the subsequent government response, in March 2021¹.

On 5 July 2021 we published a consultation seeking stakeholder views on our proposed administration of the Green Gas Levy (GGL) following the Government's Future Support for Low Carbon Heat & the Green Gas Levy: Government response to consultations.

This document summarises the responses to our consultation and details our final administrative position.

¹ <https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat>

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1. Introduction

Context and related publications

- 1.1. In March 2021, the Department for Business, Energy and Industrial Strategy (BEIS) issued the “Future Support for Low Carbon Heat & The Green Gas Levy: Government response to consultations”² on the proposed Green Gas Support Scheme (GGSS) and associated Green Gas Levy (GGL). This was in response to the “Future Support for Low Carbon Heat”³ and the “Proposals for a green gas levy”⁴ consultations, which closed on 7 July 2020 and 2 November 2020, respectively.
- 1.2. Ofgem (‘we’, ‘us’ and ‘our’ in this document) will be the administrator of the GGSS and GGL. On 5 July 2021 we published a consultation seeking stakeholder views on certain aspects of our proposed administration of the GGSS. This document summarises the responses we received and details our final position on the questions we consulted on. Where relevant, we also explain where we were unable to incorporate any suggestions made.
- 1.3. Within the consultation document we described the government position to add context to the aspects we consulted on. The government response and when available the GGSS Regulations should be referred to for further details. For the purposes of this document, we have assumed the draft as laid before Parliament on 9 September 2021 will be made and come into force without any amendment.

²
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970565/green-gas-levy-future-support-low-carbon-heat-govt-response.pdf

³
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/88736/future-support-for-low-carbon-heat-consultation.pdf

⁴
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/919901/consultation-green-gas-levy.pdf

1.4. A list of related publications is detailed below:

- Ofgem: [‘Consultation on Ofgem's administration of the Green Gas Support Scheme and associated Green Gas Levy’](#)
- BEIS: [Draft Green Gas Support Scheme Regulations 2021](#)
- BEIS: [‘Future Support for Low Carbon Heat & the Green Gas Levy: Government response to consultations’](#)
- BEIS: [‘Future support for low carbon heat’ consultation](#)
- BEIS: [‘Consultation on a Green Gas Levy’](#)

Our decision-making process

1.5. We received 16 responses to our consultation from suppliers, suppliers who are also shippers, a biomethane certification scheme and a trade body. There were 43 attendees at the GGL consultation stakeholder event held on 29 July 2021. Once the consultation closed, all responses were considered and decisions were made for all the question areas. A list of respondents can be found in Appendix 1 and all responses, except for those that requested to remain confidential, can be viewed on our website.

1.6. This decision document outlines our final position on the aspects of our administration detailed in the consultation. The following chapters consider each consultation area in turn. Each section, relating to a specific consultation question, summarises the stakeholder responses and then sets out Ofgem’s decision. The only exception is for questions 1 and 2 where we have combined the response. We have also included an additional chapter to clarify the government position in relation to how the final payment from former scheme suppliers will be paid.

1.7. There were some questions posed by respondents on our planned administration of the GGL which have been incorporated into the specific areas that they related to. Where feedback related to policy decisions made by government in respect of the GGL, rather than our administration, we have shared them with BEIS. We also received some feedback relating to points outside the scope of this consultation and we may follow up on these separately.

- 1.8. In developing our final administrative approach, we carefully considered all the points raised by respondents, even if they are not specifically mentioned in this consultation response.

Preparations for scheme launch

- 1.9. We continue to work on designing the digital services for both the GGSS and the GGL, according to the 14 Government Digital Service (GDS)⁵ service standards. We have been engaging with gas suppliers and potential GGSS users throughout this process as part of user research and usability testing sessions.
- 1.10. Both services are following a user centred and digital first approach, with the aim to streamline processes wherever possible. This includes looking at options to automate certain aspects of the services, reducing touch points and providing the ability for users to communicate with us online. We are working using an agile approach with the aim to deliver a minimum viable service and further iterate and provide continuous improvement based on user feedback and prioritisation exercises. Furthermore, our digital services will comply with WCAG 2.1 accessibility guidelines so will be accessible to people with disabilities or access needs.
- 1.11. On the GGL, we are currently in the beta phase of delivery where we are using previous research and planning integration of parts of existing digital services where possible, in order to build the digital service and prepare for transition to a live service.
- 1.12. Gas suppliers will be obligated under the GGL and will be required to engage regularly with our digital service. We are keen to continue to receive their input on how we can design the digital service to be user centred and streamlined.
- 1.13. If you are a licenced gas supplier and would like to help test the system and provide feedback on prototypes and early designs of how the system may be built please send an email to Future.Heat@Ofgem.gov.uk.

⁵ <https://www.gov.uk/government/organisations/government-digital-service>

- 1.14. We are also preparing procedural guidance that we will publish in draft form for comment. We intending to publish the first phase this autumn.

Your feedback

- 1.15. We believe that consultation is at the heart of good policy and scheme administration development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
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. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

Please send any general feedback comments to future.heatpolicy@Ofgem.gov.uk

2. Data Submission

Section summary

In our consultation we outlined two potential approaches to securing and verifying daily meter point data which will be used to calculate credit cover requirements and GGL payments. The two approaches were either to require suppliers to provide this data or to secure it from a third party and ask suppliers to confirm that it is correct.

The majority of respondents who expressed a view in response to questions 1 and 2 preferred us to secure the data from a third party. This is the approach we are planning to take, though it remains subject to feasibility and system development timelines. For this reason, we expect to require suppliers to provide data for the first meter point submission.

Questions

Question 1: Do you have any comments on the first proposal on data collection methods? Do you have any further suggestions for how data collection could be improved?

Question 2: Do you have any comments on the alternative proposal that Ofgem could collect data from a third-party and require suppliers to validate this?

Questions 1 & 2

Question 1:

Do you have any comments on the first proposal on data collection methods? Do you have any further suggestions for how data collection could be improved?

Summary of responses

- 2.1. We received 13 responses to this question. Of the ten respondents who expressed a clear preference, nine were not in favour of data being requested from suppliers and preferred the use of third party data. The remaining respondent was in favour of

suppliers providing the data, stating that suppliers should have this as a routine part of running their business.

- 2.2. Of the three respondents that did not express a clear preference, one outlined a concern that the approach to deeming the number of meter points served by a supplier should they fail to provide the data could disincentivise suppliers to provide data.
- 2.3. Reasons for preferring the third party data approach included the desire to ensure consistency, accuracy, pragmatism, and efficiency in using a 'single source of the truth', reducing the level of administrative burden for suppliers in not needing to provide data.
- 2.4. Two respondents highlighted the importance of providing early clarity on the data set to be used and a data dictionary to avoid confusion and enable suppliers to provide feedback. In particular, a respondent asked for clarification on whether meter point data will be required for each day of the previous quarter, whether alignment is with the financial year or calendar year, and whether daily meter point data is needed for the first scheme year.
- 2.5. In support of the use of third-party data, another supplier suggested using the same data as is used for settlement invoicing.

Question 2:

Do you have any comments on the alternative proposal that Ofgem could collect data from a third-party and require suppliers to validate this?

Summary of responses

- 2.6. Of the 13 respondents who stated a preference, ten were in favour of the other approach whereby third-party meter point data is presented to suppliers to validate. Reasons stated for this preference included pragmatism and cost efficiency. For example, the use of third-party data was understood to reduce the likelihood of inaccurate data submissions resulting in additional administration costs.
- 2.7. Three respondents were mindful of the BEIS intention to move to a volumetric approach in the future and were in support of this approach being used then. However, one of these respondents expressed a preference for using third party data

for the meter point approach only and not following a transition to a volumetric data charging approach. The reason given was that there are concerns with the quality of centralised industry volumetric data currently.

- 2.8. Three respondents were not in favour of using third party data. Reasons for not supporting this proposal included the suggestion that it would be complicated for a supplier to validate third party provided data due to the challenges of overlaying supplier datasets with third party datasets. Another two respondents indicated that supplier provided data would be more accurate. One respondent expressed concern that there would be a perverse incentive for suppliers to validate inaccurate data that was lower than the actual meter point data.
- 2.9. One supplier suggested that it would help to reduce the administrative burden for suppliers if the data set used for the GGL were the same as is included on settlement invoices.

Ofgem response & final administrative approach to Questions 1 and 2

Approach to providing data

- 2.10. The GGSS Regulations require each supplier to provide us with the total number of domestic and non-domestic meter points (sum of Meter Point Reference Numbers (MPRNs)) they served for each day of the previous quarter. To enable consistency and accuracy across all obligated suppliers, we are planning an approach to secure quarterly meter point data from a third-party central data source to validate supplier submissions. We intend to streamline this process where possible by securing the data at the start of the quarter and then providing the total number of meter points based on this report to each supplier to confirm. We believe this will help to drive the efficiency of both Ofgem's and suppliers' administration of the GGL, and ultimately provide the best value for money to gas bill payers.
- 2.11. Whilst we expect suppliers to have this data and be able to provide it to Ofgem, there are advantages in ensuring the data is in the same format, so that it may be automatically populated and calculated within our system to enable a digital service solution for quarterly meter point data collection and verification. Suppliers will be required to provide accurate information within the required timescales. This responsibility will also apply to information that suppliers are verifying or declaring

to be correct. This must also be accurate and validated within the required timescales so suppliers must ensure they have suitably robust governance arrangements in place in order to be able to do this. We may carry out supplier audits to provide assurance that suppliers are complying with the scheme requirements. Compliance and enforcement action may be taken if a supplier provides or verifies incorrect information or fails to provide or verify information within the timescales requested.

- 2.12. Due to development timescales, we expect to require suppliers to provide data for the first meter point data collection in February 2021. It is also worth noting that we may require suppliers to provide meter point data at any point throughout the scheme, this would include if third party data becomes unavailable for any reason.
- 2.13. The preferred approach set out above relates to the provision of meter point data. BEIS have committed to moving to a volumetric approach to levy charging in the future as soon as feasibly possible. When this occurs, we will consider our administration of the GGL including our approach to data collection and validation.

Response to queries on meter point data

- 2.14. We will provide guidance in relation to the submission of meter point data. One respondent queried whether unregistered sites should be included. We can confirm that all meter points within a supplier's portfolio must be included. This will exclude unregistered sites but include capped or clamped meter points. In response to the queries set out by another respondent, we will require supplier meter point data for both domestic and non-domestic supply points, for each day of the previous quarter by the dates set out in our published scheme schedule. Any monthly or quarterly totals required will be the sum of the totals for each day within that period rather than an average or snapshot position for a particular date. It is for the purposes of ensuring that the meter point data used to calculate supplier's obligations is consistent for each supplier, that we plan to use third party data and ask suppliers to verify this.
- 2.15. In line with the GGSS Regulations, GGL scheme years will run from 1 April to 31 March, and levy payments will be necessary in line with financial quarters. It should be noted that the process will differ slightly for the first meter point data submission. Suppliers will be asked in February 2022 to submit their meter point data for each day of the period beginning with 31 August 2021 and ending with 31 December 2021

to inform the first credit cover obligation due in March 2022. In April 2022 we will ask suppliers to provide meter point data for the period beginning 30 November 2021 to 31 March 2022 to inform the first levy collection.

- 2.16. One supplier suggested that we use the same data as is provided with Xoserve settlement invoices. We have been liaising with a third party to secure meter point data, who explored whether this was feasible. Unfortunately, there are a few reasons why this is not feasible, including that the data used for these invoices does not reflect customer switching in the way that is needed for a meter point per day approach required for the GGL.

3. Exemptions for suppliers providing 95 – 100% green gas

Section summary

The GGSS Regulations will allow gas suppliers who will be providing 95% or more certified biomethane over the full scheme year to be exempt from the GGL. There will be an upfront provisional exemption process before each financial year, during which we will require evidence to be provided to enable us to make a determination of provisional exemption for each applicable licence. Following the end of each financial year the GGSS Regulations will require suppliers to evidence the supply of green gas to be granted exemption.

We asked for comments on the proposed list of evidence which we would require from a supplier seeking provisional exemption before each year. Concerns were raised by a few suppliers in relation to the proposed use of a letter of intent. Our response sets out the evidence that we will require. This will include a letter of intent alongside additional evidence for all suppliers seeking provisional exemption, and not as a stand-alone evidence option.

Questions

Question 3: Do you have any comments on the proposed list of information required to support a notification that a supplier is likely to be an exempt supplier? Is there any additional information that you believe will help support a notification?

Question 3

Do you have any comments on the proposed list of information required to support a notification that a supplier is likely to be an exempt supplier? Is there any additional information that you believe will help support a notification?

Summary of responses

- 3.1. There were ten responses received to this question. Regarding the proposal that we may require a supplier to submit a letter of intent, signed by a responsible person, two respondents expressed concerns that this may not be a particularly stringent means of evidencing provisional exemption. One of these respondents suggested that a letter of intent should be signed by a Director at a minimum. One indicated a concern that a letter of intent alone would not be sufficient evidence to prevent gaming and provide robust compliance.
- 3.2. Two respondents made statements indicating support for the publication of the process to be used to determine the approved biomethane certification scheme list.
- 3.3. One respondent noted that the supply of green gas for transport purposes is not evidenced through green gas certificates and indicated that this should be considered for the purposes of the exemption mechanism.
- 3.4. Three respondents expressed concerns relating to the GGL policy. Specifically, these queried whether a previously exempt supplier failing to meet an obligation would trigger a mutualisation event, or whether a shortfall could occur due to an exemption, prompting a mutualisation event.
- 3.5. Two respondents were concerned about the risk of a supplier attempting to game exemptions, particularly if a letter of intent was accepted as the sole evidence of that supplier's likelihood of providing at least 95% certified biomethane in the next scheme year.
- 3.6. One respondent flagged the need for greater clarity about whether the GGL would apply to gas suppliers that provide gas for the purposes of power generation.

Ofgem response & final administrative approach

3.7. Each scheme year, suppliers who are likely to supply 95% or more green gas in the next scheme year for any of the licences that they serve, will be required to provide the following by the required date in the scheme schedule, or in the first year (2021) within 10 working days of the GGSS Regulations coming into force for each applicable licence:

- A letter (following the template in guidance, see below) from the supplier signed by a responsible officer (director or a person exercising management control) providing:
 - A notification from the supplier indicating that they consider it likely they will be an exempt supplier in relation to the next year.
 - Confirmation that the supplier intends to be a green gas supplier (supplier of certified biomethane) for the duration of that scheme year.
 - Confirmation that the evidence provided (see list below) is correct.
- The notification must be supported by evidence of one or a combination of:
 - Copies of Gas Purchase Agreements (GPAs) for the relevant scheme year.
 - Any contractual agreements related to the purchase or trading of green gas certificates that are separate to the above.
 - Evidenced detail on the volume of gas supplied in the previous years, and the proportion of gas certified as green within that supply volume.
- The total number of meter points currently served, and the number of meter points expected to be served in that scheme year for each applicable licence.

3.8. Our first phase of draft guidance is intended to be published this autumn for comment. We will provide guidance including a letter of declaration template which must be used by suppliers seeking provisional exemption providing notification to us within 10 days of the regulations coming into force in 2021 as mentioned above in section 3.7. We may update this for future years based on any feedback we receive on the draft guidance.

3.9. As set out in the consultation, there will be a year-end process whereby suppliers will be required to provide evidence, in the form of retired certificates issued under

an approved certification scheme, that at least 95% of the gas they supplied during the scheme year was certified green gas. If they are unable to provide sufficient evidence of this, they will be required to make backdated levy payments, which will include any mutualisation contributions that the supplier would have paid if they had not been provisionally exempt. In line with the GGSS Regulations, this money will be treated as surplus funding that will be netted off against the next year's levy rate for all suppliers. If the supplier fails to make this payment, the GGSS Regulations will not require the defaulted amount to be mutualised and non-payment of a backdated levy amount will not present a shortfall risk for levy cashflows. Ofgem will have compliance and enforcement powers to act should a supplier provide false information to secure provisional exemption, exemption, or should they fail to make a required backdated payment.

- 3.10. As set out in the GGSS Regulations, any supplier that was not provisionally exempt but is able to provide sufficient evidence that at least 95% of the gas they supplied during the scheme year was certified biomethane, will receive a refund for any levy payments they have made and any contributions to mutualisation exercises made in that year.
- 3.11. The BEIS Secretary of State will be required by GGSS Regulations to publish and maintain a list of approved green gas certification schemes to be used as evidence for the purposes of this exemption process. We have shared consultation feedback with them regarding the publication of a methodology and requirements that determine which certification schemes are approved. We have also shared a suggestion from one respondent that suppliers should be able to evidence green gas in their portfolio which is used for transport.
- 3.12. We may review the need to consider further the query raised in relation to gas suppliers that provide gas for the purposes of power generation, which is outside the scope of this consultation.

4. Credit Cover

Section summary

All Scheme suppliers will be required to lodge credit cover before the start of each quarter as part of their GGL obligations, which may be drawn down from the next working day if they fail to make a levy or mutualisation payment in full. Suppliers will be able to provide cash credit cover and or a letter of credit.

We sought feedback in our consultation on the ability of suppliers to provide a letter of credit meeting the criteria and timelines set out in our proposal, our approach to discretionary return of excess cash credit cover in quarters 1-3 and on any aspects of credit cover provision that could be made more efficient, based on experience of having provided credit cover for other purposes previously.

Questions

Question 4: From your experience of providing credit cover for other purposes previously, do you anticipate any difficulties in being able to obtain the issue of a letter of credit that would meet the criteria requested and in the timeframes required? If there are concerns or there have been previous issues please provide evidence of this within your response.

Question 5: Do you agree or disagree with Ofgem's proposed approach to the discretionary return of excess credit cover in quarters 1-3 each year, including limiting requests to once per year, and the proposed de minimis threshold for returns? If you disagree, please provide alternative suggestions, including any evidence, to support your response.

Question 6: From your experience of providing credit cover for other purposes do you have any feedback on any of the aspects proposed which could be made more efficient or easier to administer for either Ofgem or suppliers? Please provide evidence to support your response.

Question 4

From your experience of providing credit cover for other purposes previously, do you anticipate any difficulties in being able to obtain the issue of a letter of credit that would meet the criteria requested and in the timeframes required? If there are concerns or there have been previous issues please provide evidence of this within your response.

Summary of responses

- 4.1. Of the 11 respondents that expressed a direct view, eight indicated that they didn't anticipate any problems being able to obtain a letter of credit that would meet the criteria and timeframes required. Several cited that there were similar requirements within the industry already for other purposes such as for Contracts for Difference.
- 4.2. Three respondents commented on the importance of making the template letter of credit available as early as possible, noting that it would take longer to obtain in the first instance. One commented that, once the GGL was established, ten working days rather than 14 calendar days would be a more suitable timeframe for providing a letter of credit to consider bank holidays which could occur around the end of Quarter 3 (Christmas) and Quarter 1 or 4 (Easter). Another indicated that, as securing a letter of credit can take more resource and forward planning, the early provision of deadlines would help suppliers to be prepared.
- 4.3. Another respondent flagged the importance of ensuring that adequate counter-fraud protections were in place for the letter of credit template, and means of draw down were secure, expressing concerns that there could be an increased fraud risk if electronic draw down without a signature were used.
- 4.4. Two respondents highlighted concern relating to the cost of lodging credit cover and one suggested that the administrative cost of doing so could exceed the cost of the GGL for suppliers consistently serving a few meter points each quarter. Another expressed unease regarding the additional cost caused by the GGL, such as credit cover. Specifically, they were concerned that it may not be considered as part of the price cap.

- 4.5. One respondent indicated it would be more appropriate to draw down any credit cover needed from the second working day after the due date as payments may not be visible within a recipient's bank account until the following day.
- 4.6. Parent company guarantees were mentioned by one respondent as an additional means of credit cover which would be welcomed.
- 4.7. Another respondent queried whether equivalent ratings would be accepted for Fitch and Standard & Poor's as only Moodys is listed as having a long-term rating.

Ofgem response & final administrative approach

- 4.8. Suppliers will be required by legislation to provide credit cover in the form of a letter of credit or by providing cash credit cover in advance of each quarter. Letters of credit will need to meet defined criteria which include indicating that Ofgem is the intended beneficiary, be set out within the format of the template letter of credit and meet the required bank credit ratings which will be set out in the legislation and our guidance.
- 4.9. A letter of credit may be provided to cover more than one quarter's obligation. However, it will be a supplier's responsibility to monitor the credit rating of the bank providing the letter of credit and to update us and provide alternative cover should the bank rating fall and the letter no longer meet the requirements of the GGL. Additionally, should a supplier's credit cover requirement increase in subsequent quarters they will also need to provide additional credit cover.
- 4.10. We will publish the template letter of credit to be used by suppliers proposing to provide credit cover in the form of a letter of credit as early as possible in advance of our request for the first credit cover requirement. This will be first published as part of our draft guidance later this year. If feasible, we are minded to provide suppliers with additional time (more than the statutory required 14 calendar days) when setting the deadline for suppliers to arrange their first credit cover requirements to take into account the number of working days for example when there are bank holidays.
- 4.11. We set out within our consultation that suppliers will be required to provide credit cover within 14 calendar days which aligns with the draft GGSS Regulations which indicate this timeframe should be no less than 14 days. However, where possible, we

intend to set this deadline with a consideration for the number of working days. This will be published in the scheme schedule which will set out key dates and deadlines for all activities during the obligation year.

- 4.12. Due to the publication of the scheme schedule, suppliers should be able to anticipate when credit cover is required and pro-actively plan additional provision of credit cover for further quarters as required.
- 4.13. Suppliers do not have to provide credit cover in the form of a letter of credit, and will be able to provide cash credit cover if this is preferred. The GGSS Regulations will not enable parent company guarantees to be used as they take longer to draw down funds from than cash cover or letters of credit and this may have increased the likelihood of mutualisation occurring across all non-defaulting suppliers. Another reason is due to the difficulty in monitoring the consistency in minimum credit ratings for parent company guarantees.
- 4.14. Ofgem will not be able to accept credit ratings for letters of credit other than those set out in the GGSS Regulations. We will be able to accept a letter of credit that covers a period of up to one full year from a bank with a short-term credit rating. However, it will be the responsibility of the supplier to monitor the credit rating and alert us should the rating change and the letter provided no longer be an acceptable letter of credit for the purposes of GGL.
- 4.15. Ofgem recently published a consultation⁶ to seek views on how the default tariff cap methodology should be adjusted to take into account the Green Gas Levy. Ofgem will consider responses to this consultation once it has closed and decisions will be announced separately as a response to that consultation.

⁶ [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](#)

Question 5

Do you agree or disagree with Ofgem’s proposed approach to the discretionary return of excess credit cover in quarters 1-3 each year, including limiting requests to once per year, and the proposed de minimis threshold for returns? If you disagree, please provide alternative suggestions, including any evidence, to support your response.

Summary of responses

- 4.16. There were ten responses to this question. Five of the respondents agreed with the proposed approach to the discretionary return of excess credit cover, whilst a further two agreed with the proposal subject to certain caveats. The caveats included that the process may need to be reviewed in future years, and that there should be a mechanism to also provide a timelier return of cash credit cover, citing that industry is often required to provide credit cover at short notice but then must wait a longer period for this to be returned.
- 4.17. Two respondents commented that there didn’t appear to be a process through which the value of letters of credit could be reduced and argued that this is particularly relevant if a longer-term letter of credit has been provided for up to a year.
- 4.18. Three of the ten respondents to this question indicated they did not agree with the proposals made on the discretionary process for the return of excess credit cover. Reasons included that excess credit cover should be returned to suppliers on a quarterly basis after a payment has been made, that it could affect company cash flows for collateral to be held and not returned, and that this is the practice in some other scenarios where credit cover is required such as for the Capacity Market scheme and Contracts for Difference.
- 4.19. A need was also identified for a process to enable suppliers to be able to reduce the value of a letter of credit.

Ofgem response & final administrative approach

- 4.20. We propose to proceed with the discretionary process for the return of excess cash credit cover as set out within our consultation document.

- 4.21. There will not be defined credit obligation periods after which credit cover is released as it will not be administratively efficient to routinely return credit cover before re-submitting potentially the same value prior to the start of the next quarter.
- 4.22. We have considered the comments made in relation to reducing the value of a letter of credit, and there will not be a regulatory requirement to do this. We appreciate that there is a benefit for both suppliers and Ofgem in encouraging the provision of letters of credit for periods longer than a quarter. Therefore, we will allow suppliers who have lodged a letter of credit for a period longer than a quarter to be able to lodge a replacement letter of credit for a lower level of cover if their credit cover requirement has reduced due to a change in circumstances (e.g. a significant reduction in meter point numbers served). This action would be processed as part of the quarterly credit cover processes before the start of each quarter, and the alternative credit cover lodged must still meet or exceed the supplier's quarterly credit cover requirement.

Question 6

From your experience of providing credit cover for other purposes do you have any feedback on any of the aspects proposed which could be made more efficient or easier to administer for either Ofgem or suppliers? Please provide evidence to support your response.

Summary of responses

- 4.23. The draw down of credit cover the next working day after a payment deadline was highlighted as potentially problematic by two respondents. This was identified to be particularly problematic if the failure to pay had been due to an administrative error, and it was suggested a supplier should be notified of an intention to draw down credit cover in advance. Two respondents suggested a buffer period of three or five days, respectively, between the failure to pay and actual credit cover being draw down to provide suppliers with notice and to allow for any administrative errors to be resolved.
- 4.24. To reduce administrative burden, one supplier indicated it would be helpful to be able to lodge credit cover at a parent company level rather than licence level.

- 4.25. Three respondents commented on the types of credit cover that will be acceptable, suggesting cheaper forms of insurance (one respondent) or parent company guarantees (two respondents).
- 4.26. Other respondents suggested that drawing together supplier contact lists early in the scheme would assist in ensuring that the relevant teams within a supplier are aware of GGL requirements and updates as early as possible. Related to this, another suggested that it would be helpful to provide a timeline of requirements and deadlines with worked examples to help suppliers prepare.
- 4.27. During the consultation stakeholder session on 29 July 2021, we received several suggestions including that it should be possible to provide credit cover for a longer period than just three months (two comments); that there should be an option for excess credit cover not to be returned; and that there should be a more regular payment schedule.

Ofgem response & final administrative approach

- 4.28. The GGSS Regulations will set out that credit cover must be drawn down no earlier than the next working day after payment was due. We have considered the proposals that credit cover should not be routinely drawn down the next working day, however, we have determined that it is not possible to commit to this as a routine practice. It will be essential to the proper functioning of the GGL and GGSS that payments are made in full and on time. If payments are not made when they are due, it is imperative that we can draw down credit cover promptly, to ensure that funds are collected in sufficient time to be used to pay scheme participants. Any 'buffer period' providing greater leniency on the deadline, and delaying the draw down of credit cover would be unfair on other suppliers who have met payment deadlines, could encourage higher levels of non-compliance and would create a significant administrative burden for Ofgem.
- 4.29. Suppliers will have at least 14 calendar days' notice of when a levy payment is due, and we would encourage suppliers to pay in advance of the deadline to allow time to remedy any mistakes, should they occur, and for bank transfers to have reached the Ofgem bank account. Suppliers should be aware of upcoming deadlines, as set out in the scheme schedule, and will be able to internally calculate their anticipated quarterly invoice total and next credit cover requirement once they have confirmed their meter point data for the relevant quarter.

- 4.30. The legislation will require each licensed gas supplier to provide credit cover, and therefore it will not be possible for credit cover to be lodged at a parent company level. We are aware that on other schemes some activities can be consolidated, for example under the Energy Company Obligation (ECO) suppliers are able to consolidate their obligation onto one licence. Parent company guarantees were considered and discounted by BEIS as set out within their government response⁷, and therefore the legislation does not provide for this option.
- 4.31. Suppliers will be able to provide credit cover for a longer period than just a quarter. This may help to reduce the level of administration required in circumstances where their credit cover is not drawn down on and future credit cover requirements do not exceed the value of the credit cover already lodged.
- 4.32. In regard to the suggestion that a more frequent payment schedule would reduce the size of the payment and the corresponding credit cover requirements, the GGSS Regulations will dictate the frequency of the levy payment and associated credit cover lodging required. It is therefore not possible to implement more frequent payment and credit cover provision schedules.
- 4.33. It will be a supplier's responsibility to ensure that the contact details they provide remain appropriate and up to date, to ensure we are able to contact them in respect of the administration of GGL. We will need suppliers to confirm named contacts, appointed by the responsible officer for this purpose. They will take overall responsibility in respect of GGL obligations and will have the ability to carry out required activities directly or to appoint additional named users where appropriate. We intend to ask suppliers to provide contact details to enable us to establish a log of contact details and beyond this it will be a supplier's responsibility to ensure these remain up to date. We are planning for this to be through an online self-serve solution, but this is subject to feasibility.

⁷ [Future Support for Low Carbon Heat & the Green Gas Levy: Government response to consultations](#)

- 4.34. Scheme deadlines will be set out within the scheme schedule to be published before February each year. We will also publish guidance which will support suppliers in understanding their obligations, as well as what they will be required to do.

5. Mutualisation

Section summary

Should a supplier default on a levy payment and there is insufficient credit cover in place to cover their payment in full, we will be required to carry out a mutualisation process. This will require non defaulting suppliers to pay a share of the outstanding sum to cover the shortfall.

In the consultation we sought feedback on the timeframe within which we expect to require mutualisation payments to be made if they are required.

We will provide 10 working days' notice for mutualisation payments to be made during the first year of the scheme. The funds collected through any mutualisation events will be used to fund the Green Gas Support Scheme which will make quarterly payments to scheme participants, so it is important to ensure funds are collected in a timely manner. It will not be possible to spread mutualisation payments over several quarters.

Questions

Question 7: Do you agree or disagree with the proposed timings for making a mutualisation payment? If you disagree, please provide alternative suggestions, including any evidence, to support your response.

Question 7

Do you agree or disagree with the proposed timings for making a mutualisation payment? If you disagree, please provide alternative suggestions, including any evidence, to support your response.

Summary of responses

- 5.1. Nine respondents to this question (of the 14 who commented) agreed with the proposed timings for mutualisation payments. Several of these respondents emphasised the need for quick and robust enforcement action to act as a deterrent against non-payment, which in turn would reduce the risk of mutualisation being triggered. One respondent suggested that it would be beneficial to have a post-mutualisation review after the first event to determine if timings need to be changed.
- 5.2. A few (three) respondents disagreed with the proposed timings, primarily because it was felt that 10 days is not enough time to make a mutualisation payment, given a concern that there is the potential for large payments to be owed. One respondent suggested that the Renewables Obligation (RO) could be emulated, with suppliers able to spread mutualisation payments over several quarters to minimise the impact on their finances. It was also suggested that the risk of non-payment should be shared between suppliers and biomethane producers, with a minimum threshold before mutualisation is triggered.

Ofgem response & final administrative approach

- 5.3. The GGL and the underlying policy has been designed by government to include a requirement for suppliers to provide credit cover, which will be drawn down on if they fail to make a levy payment or mutualisation payment. There are also a series of compliance and enforcement actions that can be taken should a supplier fail to meet an obligation. These are intended not only to ensure that the levy is collected in a timely manner, but also to attempt to reduce the frequency of mutualisation events. It should also be noted that the quarterly nature of the levy will mean that any shortfalls are likely to be significantly lower than they would be under a scheme with less frequent collections (e.g. the RO).

- 5.4. We will provide 10 working days' notice for mutualisation payments to be made during the first year of the scheme. Should it be necessary, we may review and revise these in future years and any amended timeframe would be set out in guidance.
- 5.5. The funds collected through the levy will be used to fund the Green Gas Support Scheme. Ofgem will make quarterly support payments to scheme participants. For this reason, the GGSS Regulations will not enable us to spread mutualisation payments over several quarters, as the funds must be available in full ahead of each quarterly support payment. If mutualisation is triggered, non-defaulting suppliers will be required to pay their share of the defaulting supplier's quarterly levy payments. As levy payments will be collected quarterly the period within which a supplier can accrue obligation and then default on their payments will be shorter than other schemes, such as the RO. We anticipate this to then, in turn, reduce the expected amount to be mutualised should mutualisation be triggered. It should also be noted that other schemes, such as the RO, do not have credit cover requirements.
- 5.6. The GGSS Regulations will set out a minimum threshold below which mutualisation will not be triggered which is intended to act as a value for money saving to avoid collecting mutualisation payments that amount to less than the cost of running a mutualisation exercise.
- 5.7. Should we receive a late payment from a supplier, the GGSS Regulations will require us to refund the non-defaulting suppliers who have made a mutualisation payment.

6. Public Reporting

Section summary

Ofgem will be required to publish a public register of scheme suppliers who have failed to meet their obligations for the levy.

Feedback was sought on our proposal to also include this information within our Supplier Performance Report (SPR) which reports supplier compliance on the other environmental, energy efficiency and social programmes that we administer, using the same scoring methodology.

We will report supplier non-compliance within the Supplier Performance Report. Following the existing SPR format and processes, a supplier will be contacted to inform them of any forthcoming listing and provide details to give the supplier the opportunity to review the specific entry.

Questions

Question 8: Do you agree or disagree with the proposal to include compliance with the Green Gas Levy in the Supplier Performance Report, and to use the same scoring methodology as used for other schemes? If not, please provide any other suggestions.

Question 8

Do you agree or disagree with the proposal to include compliance with the Green Gas Levy in the Supplier Performance Report, and to use the same scoring methodology as used for other schemes? If not, please provide any other suggestions

Summary of responses

- 6.1. Of the total responses received to this question (15), 13 were supportive of the proposal to include compliance with the GGL in the SPR using the same scoring methodology as other schemes.
- 6.2. Three respondents advocated for collaboration with suppliers to resolve issues before taking public compliance action. Two respondents suggested that Ofgem should warn a supplier in the first instance before reporting non-compliance on the SPR, whilst another felt that a supplier should be given the opportunity to challenge any report in advance to ensure it is accurate.
- 6.3. One respondent also suggested establishing a gas-only SPR report, which would cover GGL non-compliance, to avoid the risk that suppliers with multiple scheme obligations for both gas and electricity being cited and appearing more non-compliant than suppliers with fewer obligations who perhaps provide just gas.
- 6.4. One respondent disagreed with the proposal due to concerns that such practices can accelerate the decline of a business that has failed to comply with a scheme obligation.
- 6.5. One respondent was neutral towards the proposal but requested that there be a grace period before the practice became business as usual.

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- 6.6. The SPR provides a high-level public report of supplier non-compliance on environmental and social obligation schemes. Whilst the GGSS Regulations will require Ofgem to publish a separate register of supplier non-compliance, we plan to also include details of supplier non-compliance on the SPR. This will enable the SPR

to provide a fuller reflection of supplier non-compliance and provide transparency of the delivery and administration of government schemes and promote consumer interest. It will help to hold suppliers to account for non-compliance. Managing cases of non-compliance increases the costs of administering schemes and are passed onto consumers through energy bills. As the future administrator for the levy, we're committed to ensuring the levy works as effectively as possible without unnecessary cost.

- 6.7. The format of reporting non-compliance on the levy on the SPR will follow the existing SPR report format and the same processes will be followed. This will include contacting a supplier to inform them of a proposed listing and provide details of the incident, to give the supplier the opportunity to review that specific entry.
- 6.8. We do not propose to create a separate SPR for gas supplier obligations. The existing report can most efficiently accommodate additional reporting for the GGL. In addition, the overall formatting of the SPR has been previously reviewed to reduce the potential for a supplier with more obligations to appear to be more non-compliant than a supplier with fewer obligations.
- 6.9. We are mindful that suppliers will be completing processes for the first time, and there may be a higher likelihood of administrative errors the first time these processes are implemented. We will work constructively with suppliers and, when we are setting deadlines, allow more time and notice for suppliers where feasible to do so. We encourage suppliers to confirm meter point data, provide credit cover and make payments ahead of the deadlines, where possible, to build in time to remedy any errors before the deadlines pass. We will not be providing a grace period before reporting instances of non-compliance on either the default register, or SPR.

7. Additional Questions

Section summary

We posed an additional question specifically relating to suppliers who serve a low volume of meter points for whom a requirement to provide credit cover and payments for low values may be less than the administration costs associated with them.

We will be required to administer the levy as set out in the GGSS Regulations. However, we invited views on how we might help to reduce the administrative burden for suppliers serving a low number of meter points.

Suppliers serving a smaller number of meter points will not be treated any differently to other suppliers in relation to discharging their obligations. Feedback suggested that securing meter point data from a third party to present to suppliers for validation would simplify the administrative process for suppliers. Due to development timescales, we expect to require suppliers to provide data for the first meter point data collection in February 2021.

Suppliers will be able to provide a letter of credit with the intention of that being valid for the full year. In addition, suppliers who anticipate their meter point count not changing significantly within the year may provide sufficient cash credit cover to account for slight quarterly fluctuations in the level of credit cover required to reduce the need to provide additional cover during the year.

Questions

Question 9: Are there any ways that we can help reduce the administrative burden for suppliers who are serving a low number of meter points, while ensuring that Ofgem and suppliers meet their obligations as will be set out within the regulations? Please provide evidence to support your response.

Question 9

Are there any ways that we can help reduce the administrative burden for suppliers who are serving a low number of meter points, while ensuring that Ofgem and suppliers meet their obligations as will be set out within the regulations? Please provide evidence to support your response.

Summary of responses

- 7.1. Of the eight respondents that provided a view for this question, five made suggestions for reducing the administrative burden of the GGL for suppliers with low meter point numbers. A common theme amongst these responses was to reduce the burden of providing quarterly meter point data submissions by using third-party centralised data sources alongside increased automation of the process. The view that provision of data from a third party would help to reduce the administrative burden was also mentioned in five comments during the consultation stakeholder event held on 29 July 2021. Another key area of administrative burden identified for smaller suppliers was the lodging of credit cover. It was suggested the burden could be reduced by setting minimum thresholds for credit cover requirements and by allowing suppliers to lodge credit on an annual basis, rather than quarterly.
- 7.2. One respondent suggested that suppliers below a certain threshold should be entirely exempt from paying the levy, as the admin burden would likely outweigh their levy contributions.
- 7.3. Three respondents indicated a preference for treating all suppliers in the same way, regardless of their size or number of meter points served. Another respondent felt that the GGL should be treated the same as any other regulatory obligation on suppliers, without further measures to reduce admin burden for specific groups.

Ofgem response & final administrative approach

- 7.4. Suppliers serving a smaller number of meter points will not be treated any differently to other suppliers with regards to discharging their obligations. However, we appreciate that should a supplier serve just a few meter points this may result in an obligation to provide credit cover, levy payments and possibly mutualisation payments that are lower in value and could cost less than the administrative costs associated with providing them.

- 7.5. The most frequent approach that was identified in response to this question, and in the stakeholder event on 29 July 2021, was to access third party data and share this with suppliers. Our approach to accessing meter point data has been set out in our response to Questions 1 and 2 above, and our preferred approach will be to present suppliers with third party data to validate.
- 7.6. We will not be able to set a threshold below which levy payments are not collected. The GGSS Regulations will require all licensed suppliers to pay the levy.
- 7.7. All suppliers will be able to lodge a letter of credit with the intention of that being valid for the full year. However, should the letter of credit cease to be valid or not meet the full credit cover requirement, additional credit cover will need to be provided. Similarly, suppliers will be able to provide cash credit cover sufficient to account for fluctuations in the credit cover requirement between quarters which may help to reduce the level of administration needed in providing further credit cover in subsequent quarters if the number of meter points remains similar between quarters.

8. Former Scheme Suppliers

Clarification on government position and planned approach

- 8.1. In our consultation document we summarised the expected government position in relation to former scheme suppliers.
- 8.2. Should a supplier cease to be a licensed gas supplier they will be required to notify Ofgem within 14 days. This notification will need to include details relating to, for example, the date that they ceased to be a scheme supplier and meter point data for each day of their final quarter. In circumstances such as insolvency, suppliers will be required to notify Ofgem of this within 3 working days.
- 8.3. We indicated within our consultation that we would issue a notification to former scheme suppliers requiring them to make a final payment within 14 days, after which if paid, any remaining cash credit cover will be returned to the supplier.
- 8.4. In fact, the GGSS Regulations will require us to calculate the value of a former scheme supplier's final quarterly levy payment and notify them of this, setting out when we will draw down against their credit cover for this payment. Early and active engagement with Ofgem by former scheme suppliers is encouraged in these circumstances, particularly where credit cover was lodged in the form of a letter of credit.
- 8.5. Should there be credit cover remaining after a former scheme supplier's final payment obligations have been met, this will be returned to the supplier. Should there be insufficient credit cover lodged to cover the full value of the payment, then we will be required to set out within the notification the date by which this amount must be paid.

Appendix 1. List of respondents

1. Centrica
2. Ceres Energy Ltd
3. Drax Group
4. E.ON Energy
5. EDF Energy
6. Industrial & Commercial Shippers & Suppliers (ICoSS)
7. Octopus Energy
8. Ovo Energy
9. Pure Planet
10. Regent Gas
11. Renewable Energy Assurance Limited (administrators of the Green Gas Certification Scheme – GGCS)
12. Scottish Power
13. Sembcorp Energy UK
14. SSE Energy Supply

Two responses are being retained to protect confidentiality.