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By email to: Retailpriceregulation@ofgem.gov.uk

Dear Leonardo

Price Cap – Consultation on the Energy Company Obligation scheme allowance methodology in the default tariff cap¹

Centrica welcomes the opportunity to respond to Ofgem's consultation, the context for which is the strong likelihood of a significant extension of supplier obligations and associated costs at a time of unparalleled pressure on supplier finances – albeit with final detail of ECO4 yet to be confirmed.

In summary, we believe it is vital the near inevitable regulatory hiatus (i.e. gap between ECO3 concluding in March 2022 and the formal start of ECO4) is not exacerbated by a policy cost allowance hiatus in cap period eight. As outlined further below, using the consultation stage IA enables Ofgem both to avoid its own hiatus and minimise the need for unsatisfactory reliance on subsequent adjustments (which it should not in any event pre-judge).

We support using BEIS' consultation stage impact assessment on ECO4 scheme costs

Ofgem states that it intends to use the latest available information from BEIS on the ECO4 scheme costs at the time it sets the cap as the input to estimate the annualised scheme year ECO allowance.² Ofgem also notes that currently this is the consultation stage impact assessment (IA) published in July 2021.

We support using the consultation stage impact assessment. While we understand that the final IA might be published sometime in February, this will most likely be too late for the purpose of confirming period eight cap allowances at the beginning of February. However, the

¹ [Price Cap – Consultation on the Energy Company Obligation scheme allowance methodology in the default tariff cap | Ofgem](#)

² Consultation document, paragraph 3.

consultation IA should remain relevant in any event as ECO targets are derived from an overall cost envelope and the cost envelope is not under consultation.

In addition, as Ofgem will be aware, there is a possibility that Scotland may withdraw from the ECO scheme. If so, it is quite possible the final BEIS IA would contain budget for England and Wales only which would not appropriately reflect the cost of future supplier obligations (in whatever final form) across GB. If Scotland withdraws, we understand the Scottish Government's intention would be to move Scotland's ECO budget across to WHD, so suppliers in Scotland will have similar funding requirements whether the obligation they face is modelled on ECO or WHD. The timing of the various pieces of legislation necessary to confirm final obligations across GB is unlikely to be synchronised.

For all these reasons, we believe it would be in the best interest of consumers to use the consultation IA, ensuring that the period eight policy cost allowance is reflective of GB costs whatever the legal state of play, to avoid material corrections taking place in period nine.

Ofgem should not prejudge hypothetical future adjustments

Ofgem states that it needs to consider how to ensure that it corrects any under or over-allowance for cap period eight in the event the draft ECO4 legislation is not approved by Parliament, BEIS decides to not introduce ECO4, or the government response and updated impact assessment indicate a material change in the costs of the scheme. It proposes to correct for any material under or over-allowance of these costs in cap period nine.

While the various scenarios Ofgem posits may be possible in theory, we see no basis to infer that any of them is probable in practice. Nor do we think Ofgem can sensibly prejudge how it would respond in each contingency ahead of time and without further consultation. The appropriate course of action would depend on the facts and Ofgem should take care not to fetter its discretion.

The Government's Sustainable Warmth Strategy published in February committed to extending ECO from 2022 to 2026 and expanding its value to £1bn per annum.³ As matters stand, suppliers are being actively encouraged by BEIS to continue funding through the regulatory hiatus to keep the supply chain going – meaning suppliers will need to recoup funding provided to installers during Q2 in any event. We therefore take issue with Ofgem's contention that "*For the avoidance of doubt, if an ECO scheme is not in force in cap period eight, then we do not expect suppliers to spend the cap period eight ECO allowance*". This is not axiomatically correct, and plainly at odds with BEIS' expectations.

In relation to potential material change in overall cost, we note that ECO targets are derived from the cost envelope and the cost envelope is not under consultation. We therefore think it highly unlikely that there will be material change in the overall costs i.e. the annual budget of £1bn rising with inflation.

Yours sincerely

Don Wilson
Market Design and Policy

³ [Sustainable warmth: protecting vulnerable households in England \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/90444/sustainable-warmth-protecting-vulnerable-households-in-england.pdf)
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