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By email to: Retailpriceregulation@ofgem.gov.uk

Dear Leonardo

Consultation on changes to 'Annex 4 - Policy cost allowance methodology' of SLC 28AD to include a Green Gas Levy allowance in the default tariff cap¹

Centrica welcomes the opportunity to respond to the above consultation.

We responded to Ofgem's June update² making the case that Ofgem a) should include an appropriate allowance and b) should do so in time for cap period seven given that suppliers must have an opportunity to collect levy payments from customers before they fall due next April. Assuming Parliament approves the draft regulations currently before it, the Green Gas Support Scheme (GGSS) will commence at the end of November and suppliers will therefore incur Green Gas Levy (GGL) liabilities during cap period seven. It was disappointing, therefore, that Ofgem did not include an appropriate allowance prospectively when it set the period seven cap in August.

As Ofgem stated in its recent open letter:³

"In order to protect the interests of consumers, we must ensure that the regulatory frameworks, including the price cap, fully reflect the costs, risks and uncertainties facing the supply companies we regulate."

We agree with this statement. As regards the GGL, it follows that Ofgem must now include an appropriate allowance for the first scheme year as well as the second scheme year when setting allowances for cap periods eight and nine.⁴ There is no case for further postponing the

¹ [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 | Ofgem](#)

² [Price Cap - Update on the Green Gas Levy and default tariff cap | Ofgem](#)

³ [Rising wholesale energy prices and implications for the regulatory framework | Ofgem](#)

⁴ As Ofgem notes, the draft statutory instrument defines the first scheme year as the period beginning 30 November 2021 and ending 31 March 2022. The second scheme year is the financial year beginning 1 April 2022. The Green Gas Support Scheme Regulations 2021, Section 2(1).

introduction of an appropriate allowance (despite Ofgem's questionable suggestion that it does not consider levy costs in cap periods seven or eight to be material in themselves).⁵ Such an approach would be arbitrary and inappropriate given the systematic and cumulative nature of materiality in this case. We therefore welcome Ofgem's express confirmation, for the avoidance of doubt, that it does propose to include the costs associated with both the first scheme year and the second scheme year in its determination of the GGL allowance for cap period eight and nine.⁶

Finally, we note that BEIS intends for the levy to transition to a volumetric basis as soon as feasibility allows. We note that Ofgem's current proposals reflect the flat rate per meter basis BEIS proposes for the GGL's initial introduction. We agree that it will be appropriate for Ofgem to reconsider the methodology for allowances in the context of transition to a volumetric basis for levy collection. However, this does not in any way detract from the pressing need for Ofgem to include an allowance that reflects the initial flat rate levy from period eight onwards.

Yours sincerely

Don Wilson
Market Design and Policy

⁵ Consultation document paragraph 3.8

⁶ Consultation document, paragraph 3.10.