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Dear Leonardo

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

Thank you for the opportunity to respond to your consultation on reflecting prepayment End User Categories (EUCs) in the default tariff cap.

Ofgem is proposing to amend the licence conditions to allow for the introduction of the new EUCs in both the network cost and wholesale cost methodologies from cap period eight onwards. This is in response to the introduction in 2019 of a new EUC for domestic PPM customers which impacts the gas network cost and wholesale cost allowances. Ofgem estimates that the net impact of these changes will be to reduce the PPM price cap by £6, comprising a reduction of £12 in network allowance, a reduction of £3 in wholesale allowance, an increase of £9 in UIG allowance.

We agree that it is appropriate to introduce new EUCs for PPM customers to better reflect the efficient costs to supply PPM customers and adjust the default tariff cap accordingly. We also agree with Ofgem's decision, given current market conditions, not to take account of any potential over recovery experienced during cap period seven. However, we disagree with Ofgem's conclusions and decisions in this consultation document in two areas.

Ofgem should amend the UIG allowance for non-PPM customers

Ofgem is amending the unidentified gas (UIG) allowance from 2% to 5.39% for PPM customers which we are supportive of and reflects the increased level of UIG. Ofgem then states in paragraph 3.24 that it does not propose amending the allowance for non-PPM customers as it is "satisfied that the current UIG allowance remains appropriate for non-PPM customers". As we have shared in our response to the 'Reviewing the potential impact of increased wholesale volatility on the default tariff cap' consultation, the current UIG allowance of 2% is far too low as an aggregate allowance and suppliers have under-recovered costs.

In 2021 ScottishPower's demand-weighted UIG volumes have been greater than [~~3~~]% ([~~3~~]% greater than the allowance), and our current forward trading assumption is that UIG will be above [~~3~~]%. This consultation is purely concerned with the impact of different end user profiles on the UIG allowance and it provides no assessment of the adequacy of the UIG allowance overall to support Ofgem's conclusion that the current allowance for non-PPM customers remains appropriate. Based on our own evidence as we set out above, we consider that Ofgem must reassess its approach to UIG since in our experience actual costs are above [~~3~~]% and therefore well above the current fixed 2% allowance. We suggest Ofgem should commission a reconciliation to independently invoice actual UIG costs at say 6 months after each price cap period end, and true up/down the allowance accordingly.

Ofgem must consider the impact of the new EUCs on gas shaping allowances

Ofgem proposes not to take into consideration the impact of the new EUCs on gas shaping allowances as gas shaping allowances are being considered elsewhere. Whilst one-off adjustments for increased volatility-related shaping and imbalance costs are being considered separately as part of the 'Reviewing the potential impact of increased wholesale volatility on the default tariff cap' consultation, the change to PPM EUCs is ongoing and it is not clear that this will be taken into account in the other consultation. Indeed, this issue was not explicitly mentioned there for consideration. We ask Ofgem to address this in its decision.

Yours sincerely,



**Richard Sweet**  
Head of Regulatory Policy