

To: All holders of a domestic gas
and/or electricity supply licence

Email: pricecapchanges@ofgem.gov.uk

Date: 4 August 2022

Domestic Gas and Electricity (Tariff Cap) Act 2018
Modification of the standard conditions of all gas & electricity supply licences

1. The Gas and Electricity Markets Authority ('the Authority')¹ has decided to modify the standard conditions of all gas and electricity supply licences granted or treated as granted under section 6(1)(d) of the Electricity Act 1989 and section 7A(1) of the Gas Act 1986, pursuant to section 1 of the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act') by amending Standard Licence Condition (SLC) 28AD, namely the conditions which impose a cap on all standard variable and default rates that may be charged by the holders of supply licences for the supply of gas or electricity under domestic supply contracts ('the tariff cap conditions'), subject to section 3 of the Act (exemptions from the tariff cap). The modifications are set out in Appendix 1 and Appendix 2.
2. Under section 4(2) of the Act, the Authority gave Notice on 16 May 2022 (the 'Notice') that we proposed to modify standard licence condition (SLC) 28AD in order to decrease the length of each SLC 28AD charge restriction period to three months, and to reduce the approximate two-month period between setting the cap level and this taking effect to 25 working days. These modifications, which mean updating the cap level four times per year and a shorter notice period, help mitigate growing volume risk caused by the current volatile market conditions. We stated that any representations to the modification proposal must be made on or before 14 June 2022.
3. We received responses to the consultation from 19 stakeholders and carefully considered them to reach our decision. We have published all non-confidential

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

responses on our website². Our responses to these comments are set out in the accompanying document.

4. One respondent indicated that the electricity SLC 28AD.11 and gas SLC 28AD.10 needed to be amended in accordance with the new definitions of subsequent charge restriction periods being introduced under this notice.
5. In the Notice provided on 16 May 2022, the Authority proposed to apply amendments to paragraphs 28AD.19 and 28AD.40 of the electricity supply licences, and paragraphs 28AD.18 and 28AD.33 of the gas supply licences.
6. We have decided to proceed with the proposed modification. We have made further consequential changes to SLC28AD.11 and SLC28AD.10 of the electricity and gas supply licences respectively, to align with our definition of subsequent charge restriction periods and address the stakeholder's comments. Introducing the policy will significantly reduce the volume risk suppliers face from a sharp increase in wholesale prices. This will provide benefits to suppliers through better recovery of the efficient costs they incur and customers through greater market stability and lower risk of supplier failure costs.
7. A more detailed description of the reasons for and effects of these licence modifications can be found in the following documents:
 - the accompanying documents to this modification, which are available at: <https://www.ofgem.gov.uk/publications/price-cap-decision-changes-wholesale-methodology>; and
 - consultation document: <https://www.ofgem.gov.uk/publications/price-cap-statutory-consultation-changes-wholesale-methodology>.
8. Under the powers set out in section 1 of the Act, we hereby modify the standard licence conditions for all gas and electricity supply licences in the manner specified in attached Appendix 1 and 2. This decision will take effect from 1 October 2022.
9. These modifications have an effect in relation to supply licences, whenever granted, and on domestic supply contracts, whenever entered into.
10. This document is notice of the reasons for the decision to modify the gas supply licences and electricity supply licences as required by section 5 of the Act.

² Ofgem (2022), Price cap – Statutory consultation on changes to the wholesale methodology <https://www.ofgem.gov.uk/publications/price-cap-statutory-consultation-changes-wholesale-methodology>

11. Copies of this modification and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, you can request a paper copy by emailing pricecapchanges@ofgem.gov.uk.

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Dan Norton

Duly authorised on behalf of the Gas and Electricity Markets Authority

4 August 2022

Appendix 1 – Modification of the standard licence conditions of all electricity supply licences.

Deletions are denoted with a strike-through and new text is denoted with double underlining

Changes following the statutory consultation are highlighted in yellow.

Condition 28AD of the electricity supply licence

[AMEND EXISTING PARAGRAPH]

28AD.19 For each Subsequent Charge Restriction Period, subject to paragraphs 28AD.20, and 28AD.21, and 28AD.21A ~~no later than the fifth Working Day of February in relation to a forthcoming 28AD Charge Restriction Period j starting on 1 April, or no later than the fifth Working Day of August in relation to a forthcoming 28AD Charge Restriction Period j starting on 1 October,~~ the Authority will, at least 25 working days before the start of a forthcoming 28AD Charge Restriction Period j :

- (a) determine the updated Benchmark Maximum Charges which shall apply for any forthcoming 28AD Charge Restriction Period j by calculating such values in accordance with paragraph 28AD.7;
- (b) in so determining the updated Benchmark Maximum Charges which shall have effect from the first day of any forthcoming 28AD Charge Restriction Period j , take into account any modification made to SLC 28AD, notwithstanding that any such modification may not have come into effect at the time of publication of the updated Benchmark Maximum Charges in accordance with paragraph 28AD.19(c), provided that any such modification has come into effect by no later than the first date of any forthcoming 28AD Charge Restriction Period j ; and
- (c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

[AMEND EXISTING PARAGRAPH]

28AD.11 For the purposes of paragraph 28AD.7, the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l and for Payment Method p shall be calculated as follows:

$$OC_{j,k,l} = (OC_{0,k,l} \times \frac{CPIH_j}{CPIH_0}) + SMNCC_{j,k,p}$$

where:

$OC_{0,k,l}$ means the Baseline Value for the Operating Cost Allowance at Benchmark Annual Consumption Level k , for Benchmark Metering

Arrangement 1, as published by the Authority by way of a statement in writing pursuant to paragraph 28AD.17;

$CPIH_j$

means the value of the consumer prices index including owner occupiers' housing costs, series ID: L522 (the "CPIH Index"), published by the Office for National Statistics. The value used shall be chosen as follows:

- For the First Charge Restriction Period the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a **Subsequent Mid** Charge Restriction Period beginning on 1 April of each year and ending on 30 September of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a **Subsequent Mid** Charge Restriction Period beginning on 1 October of each year and ending on 31 March of the subsequent calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- **For a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 June of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year, the value of $CPIH_j$ shall be calculated as:**

$$CPIH_j = CPIH_{Dec\ j-1}$$

- **For a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 December of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year, the value of $CPIH_j$ shall be calculated as:**

$$CPIH_j = CPIH_{Jun\ j-1}$$

- **For the Final Charge Restriction Period the value of $CPIH_j$ shall be calculated as:**

$$CPIH_j = CPIH_{Jun\ j-1}$$

[AMEND EXISTING PARAGRAPH:]

28AD.40 In this condition:

'28AD Charge Restriction Period' means a period, between 1 January 2019 and 31 December 2023, either:

- the First Charge Restriction Period;
- the Mid Charge Restriction Periods;
- a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 ~~September~~ June of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 ~~March~~ December of the ~~subsequent~~ same calendar year; ~~or~~
- ~~the Final Charge Restriction Period.~~

'Mid Charge Restriction Periods' means the six-month periods beginning on 1 April 2019 and ending on 30 September 2022;

'Subsequent Charge Restriction Period' means any 28AD Charge Restriction Period which is not the First Charge Restriction Period nor a Mid Charge Restriction Period;

Appendix 2 – Modification of the standard licence conditions of all gas supply licences.

Deletions are denoted with a strike-through and new text is denoted with double underlining

Condition 28AD of the gas supply licence

[AMEND EXISTING PARAGRAPH]

28AD.18 For each Subsequent Charge Restriction Period, subject to paragraphs 28AD.19, 28AD.20 and 28AD.20A ~~no later than the fifth Working Day of February in relation to a forthcoming 28AD Charge Restriction Period j starting on 1 April, or no later than the fifth Working Day of August in relation to a forthcoming 28AD Charge Restriction Period j starting on 1 October,~~ the Authority will, at least 25 working days before the start of a forthcoming 28AD Charge Restriction Period:

- (a) determine the updated Benchmark Maximum Charges which shall apply for any forthcoming 28AD Charge Restriction Period j by calculating such values in accordance with paragraph 28AD.7;
- (b) in so determining the updated Benchmark Maximum Charges which shall have effect from the first day of any forthcoming 28AD Charge Restriction Period j , take into account any modification made to SLC 28AD, notwithstanding that any such modification may not have come into effect at the time of publication of the updated Benchmark Maximum Charges in accordance with paragraph 28AD.19(c), provided that any such modification has come into effect by no later than the first date of any forthcoming 28AD Charge Restriction Period j ; and
- (c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

[AMEND EXISTING PARAGRAPH]

28AD.1 For the purposes of paragraph 28AD.6, the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k and for Payment Method p shall be calculated as follows:

$$OC_{j,k,p} = (OC_{0,k} \times \frac{CPIH_j}{CPIH_0}) + SMNCC_{j,k,p}$$

where:

$OC_{0,k}$ means the Baseline Value for the Operating Cost Allowance at Benchmark Annual Consumption Level k , as published by the Authority by way of a statement in writing pursuant to paragraph 28AD.16;

$CPIH_j$

means the value of the consumer prices index including owner occupiers' housing costs, series ID: L522 (the "CPIH Index"), published by the Office for National Statistics. The value used shall be chosen as follows:

- For the First Charge Restriction Period the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a **Subsequent Mid** Charge Restriction Period beginning on 1 April of each year and ending on 30 September of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a **Subsequent Mid** Charge Restriction Period beginning on 1 October of each year and ending on 31 March of the subsequent calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 June of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 December of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For the Final Charge Restriction Period the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

[AMEND EXISTING PARAGRAPH:]

28AD.33 In this condition:

'28AD Charge Restriction Period' means a period, between 1 January 2019 and 31 December 2023, either:

- the First Charge Restriction Period;
- the Mid Charge Restriction Periods;
- a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 ~~September~~ June of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 ~~March~~ December of the ~~subsequent~~ same calendar year; ~~or~~
- ~~the Final Charge Restriction Period.~~

'Mid Charge Restriction Periods' means the six-month periods beginning on 1 April 2019 and ending on 30 September 2022;

'Subsequent Charge Restriction Period' means any 28AD Charge Restriction Period which is not the First Charge Restriction Period nor a Mid Charge Restriction Period;