

Dan Norton  
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23 December 2022

Dear Dan

**PRICE CAP: CONSULTATION ON REFLECTING POTENTIAL CHANGES TO BSUoS CHARGES IN THE PRICE CAP**

We welcome Ofgem's updated consultation on reflecting potential changes to BSUoS charges in the price cap and have provided our views on the suggested points in Annex 1. We have two main points:

1. We agree with Ofgem's proposal to update the BSUoS allowance on a quarterly basis, in case of tariff resets, but we disagree with its proposal to consult before including a catch-up adjustment to reflect additional BSUoS costs between the point of tariff reset and the allowance update. We believe Ofgem should specify in advance how the catch-up adjustment will be calculated and incorporate relevant data fields and formulas into the Annex 3 template so that this can be included automatically in the next available quarter's allowance. This is of increased importance given Ofgem's approval of CMP361 WACM3 which brings a much higher risk of mid-quarter BSUoS tariff resets than would have been the case with WACM5 (P77 rated instead of P99 rated).
2. We support the inclusion of a transitional BSUoS adjustment in the price cap, but we think the two stages of recovery should each be spread over 3 months rather than 12 months. In light of recent wholesale market movements it is looking increasingly unlikely that the level of the price cap would drop below the EPG level for the quarters in question. Ofgem needs to balance the benefits of a shorter recovery period (lower cashflow and volume risks for suppliers and hence risk of insolvency costs for consumers) against the benefits of a longer recovery period (smoothing of bill increases in the event that the cap level falls below EPG). We think this balance now lies clearly in favour of a 3 month recovery period.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive style with a large, stylized 'R' and 'S'.

**Richard Sweet**  
Director of Regulatory Policy

**PRICE CAP: CONSULTATION ON REFLECTING POTENTIAL CHANGES TO BSUOS CHARGES IN THE PRICE CAP – SCOTTISHPOWER RESPONSE**

**1. Introduction**

We comment below on the following aspects of Ofgem's consultation:

- implementation of CMP308 from April 2023 without CMP361;
- the possibility of BSUoS tariff changing within the fixed period;
- the recovery period for transitional allowance;
- the revised Annex 3 model.

**2. Implementation of CMP308 from April 2023 without CMP361**

Ofgem invites comments (paragraph 2.22) on how it may minimise any significant impacts on suppliers through the cap, in the event that CMP308 is implemented from April 2023 without CMP361. Ofgem announced on 15 December the approval of CMP361 WACM3, confirming the implementation of an ex-ante BSUoS fixed tariff by April 1. Therefore, we consider this issue settled.

**3. The possibility of BSUoS tariff changing within the fixed period**

We agree with Ofgem's proposal to update the BSUoS allowance on a quarterly basis, in case of tariff resets, but we disagree with its proposal to consult before including a catch-up adjustment to reflect additional BSUoS costs between the point of tariff reset and the allowance update. Including a consultation stage will create an unnecessary regulatory burden for Ofgem and stakeholders, and will unnecessarily delay recovery of relevant costs (with associated cashflow and volume risk impacts).

Ofgem justifies this position (paragraph 3.22) on the grounds that the adjustment falls outside of the regular cap update and depends on the time the reset occurs. As explained below, we believe the adjustment can be formalised in Annex 3 as part of the regular cap update methodology. The quarter in which the adjustment is applied will depend on whether the reset occurs before or after the relevant cut-off date for quarterly price cap updates, but these two possibilities could easily be accommodated.

We believe Ofgem should specify in advance how the catch-up adjustment will be calculated and incorporate relevant data fields and formulas into the Annex 3 template so that this can be included automatically in the next available quarter's allowance.

This is of increased importance given Ofgem's approval of CMP361 WACM3 which brings a much higher risk of mid-quarter BSUoS tariff resets than would have been the case with WACM5. (WACM3 is P77 rated meaning tariffs will be set at a rate requiring tariff reset 23% of the time whereas WACM5 was P99 rated leading to resets 1% of the time).

**4. Recovery period for transitional allowance**

Ofgem invites views (paragraph 5.27) on its assessment that a twelve month recovery period for the transitional allowance strikes an appropriate balance and protects customers better

than a shorter one, while ensuring that suppliers can recover costs in an appropriate timeframe.

We welcome Ofgem's confirmation that a transitional adjustment will be included within the price cap mechanism and agree with the proposal to use the 'actual data' method in which recovery is split into two stages:

- 1) actual data from January 2022-December 2022 is considered, and any adjustment is reflected from cap period 10a (April 2023-June 2023);
- 2) actual data for January 2023-March 2023 is considered and any adjustment is reflected from cap period 10b (July 2023- September 2023).

However, we do not agree that a twelve-month recovery period represents an appropriate timeframe and believe it should instead be recovered over one quarter (Period 10a for Stage 1 and Period 10b for Stage 2).

The Government has announced that the EPG will be maintained at level of £3,000/customer, from April 2023 to March 2024. Ofgem justifies its proposal on the basis that a longer recovery period will protect consumers from a short-term, sudden increase in bills should the level of the cap fall below the EPG.

We do not agree with Ofgem's assessment. As Ofgem will be aware from its own price cap forecasts, recent market movements make it look increasingly unlikely that the cap (£4,279 in Period 9b) would fall below the EPG before September 2023 (ie during Periods 10a and 10b). This means Ofgem's concern that recovering the transitional adjustment over a shorter period would negatively impact customer bills is unlikely to materialise, leaving the customer no worse off if costs were recouped in the price cap over a single quarter or over twelve months. We acknowledge that BEIS is still considering whether some high consuming customers may have their EPG benefits capped, but any such cap would not apply to vulnerable customers who would be most exposed to sharper variations in bill values. We would also note that Periods 10a and 10b fall over the summer, when consumption is much lower, so customers are better able to absorb any increase, in the unlikely event that it occurs.

Ofgem has asked suppliers for clear evidence that a shorter recovery period is likely to deliver significant benefits to customers. We believe the main consumer benefit from a shorter recovery period is the reduced risk of supplier exits from the market, which have demonstrably led to increased consumer costs. A shorter recovery period will have the positive effects for suppliers of reducing volume risk, alleviating cashflow, helping suppliers manage unexpected SVT demand and reducing the need for working capital.

As explained above, it is highly likely that customers on the default tariff cap will be charged at the level of the EPG for at least Periods 10a and 10b. Therefore, the costs of a shorter recovery period on the customer are negligible, while the benefits of preventing supplier exit remain relevant. We note the analysis of the initial impacts of market stability measures, which are the positive benefits of giving suppliers the confidence to hedge appropriately, are estimated at £1 billion. We believe it likely that similar benefits to consumers, though perhaps not in scale, can be achieved with a shorter recovery period.

In the event that Ofgem proceeds with the 12 month implementation period, it will be important to include the risk of non-recovery of the BSUoS adjustment allowance in the MSC methodology alongside the backwardation and unexpected SVT allowances.

## **5. The revised Annex 3 model**

As noted above, we believe Ofgem should specify in advance how the catch-up adjustment will be calculated and incorporate relevant data fields and formulas into the Annex 3 template so that this can be included automatically in the next available quarter's allowance.

In Annex 3 tab "3g BSUoS trans arrangement", the units in column C are shown as '£ per customer per year'. We think the units of the items in cells E9:F10 should be '£/MWh at transmission system'. Is there a missing step in converting from the output of the 'BSUoS Transitional arrangement calculation model' in £/customer per year to the '£/MWh at transmission system' required here?

**ScottishPower**  
December 2022