

Consultation

Price Cap - Statutory consultation on removal of the cap end date from licence conditions

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We are consulting on removal of the price cap end date from supplier licence conditions, and extension of the price cap models. We would like views from people with an interest in the default tariff cap. We particularly welcome responses from suppliers, consumer groups and charities. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

The default tariff cap (the 'cap') was introduced on 1 January 2019 to protect existing and future default tariff customers, ensuring that less engaged customers pay a fair price for their energy, that reflects the efficient underlying cost to supply that energy. The cap is set out in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the '2018 Act').

Originally, the 2018 Act set out that, following a series of annual reviews, the cap would ultimately cease to have effect at the end of 2023. The Energy Prices Act 2022¹ (the '2022 Act') amended the 2018 Act; removing the December 2023 end date for the cap, to support the operation of the Energy Price Guarantee (EPG).

The 2022 Act also amended the 2018 Act to introduce more flexible arrangements for ending the cap. The 2018 Act now provides that the Secretary of State may, at any time, give notice that the cap ceases to have effect. The cap therefore now extends by default, differing from the original position outlined above.

In February 2023, we consulted on amendments to the gas and electricity supplier standard licences conditions (SLCs), proposing a number of modifications to SLC 28AD, to reflect the removal of the December 2023 cap end date.²

In this consultation, we summarise the responses from our February 2023 consultation, and publish a draft modification notice to amend four paragraphs in SLC 28AD of the Gas and Electricity Supply Licences, to remove the cap end date. We also outline our proposals to extend price cap models beyond 2023.

If you wish to respond to this consultation, please send comments and representations to priceprotectionpolicy@ofgem.gov.uk, before close of business on Monday 24 April 2023.

¹ Energy Prices Act 2022 <https://www.legislation.gov.uk/ukpga/2022/44/contents/enacted>

² Ofgem (2023), Price Cap – Removal of the cap end date from licence condition <https://www.ofgem.gov.uk/publications/price-cap-removal-cap-end-date-licence-conditions>

1. Consultation process

What are we consulting on?

- 1.1 In this statutory consultation we are seeking views on our proposed modifications to the gas and electricity supplier standard licence conditions (SLCs) and models annexed to the price cap. The changes proposed reflect the amendments made in the Energy Prices Act 2022 ('2022 Act').
- 1.2 This document is split in to three chapters:
- Chapter 1: Consultation process
 - Chapter 2: Introduction
 - Chapter 3: Proposed modifications
- 1.3 Alongside this document we are publishing the following:
- A draft licence modification notice that that outline changes to the gas and electricity supplier standard licence conditions to implement our proposals
 - Updated cap models, incorporating our suggested proposals. These include:
 - Annex 2 – Wholesale cost allowance methodology
 - Annex 3 – Network cost allowance methodology – electricity
 - Annex 3 – Network cost allowance methodology – gas
 - Annex 4 – Policy cost allowance methodology
 - Annex 5 – Smart metering net cost change methodology
 - Annex 8 – Adjustment allowance methodology
 - Supplementary workbook to annex 2,3 and 4 – demand and losses
 - Overview model – Default tariff cap level
 - A non-confidential response submitted as part of the February 2023 consultation.

Related publications

- 1.4 The main documents relating to the removal of the cap end date from licence conditions and models are:

Consultation - Price Cap - Statutory consultation on removal of the cap end date from licence conditions

- February 2023 policy consultation:
<https://www.ofgem.gov.uk/publications/price-cap-removal-cap-end-date-licence-conditions>
- Energy Prices Act 2022:
<https://www.legislation.gov.uk/ukpga/2022/44/contents/enacted>

Consultation stages

- 1.5 Our first consultation proposed modifications to gas and electricity SLCs to reflect the amendments made to the 2018 Act by Schedule 3 of the 2022 Act. This consultation opened on 3 February 2023 and closed on 3 March 2023.
- 1.6 The first consultation received one response, from a supplier. Other suppliers were contacted and confirmed they had no substantive comments.
- 1.7 In this statutory consultation we consider the stakeholder feedback from our February 2023 consultation and include a draft modification notice to update supplier licence conditions.³ In this statutory consultation we also seek views on proposed updates to price cap models.
- 1.8 We intend to publish a final decision and modification in advance of the original cap expiry date of December 2023.

How to respond

- 1.9 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- 1.10 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.11 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.12 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or

³ Ofgem (2023), Licences and licence conditions <https://www.ofgem.gov.uk/industry-licensing/licences-and-licence-conditions>

where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

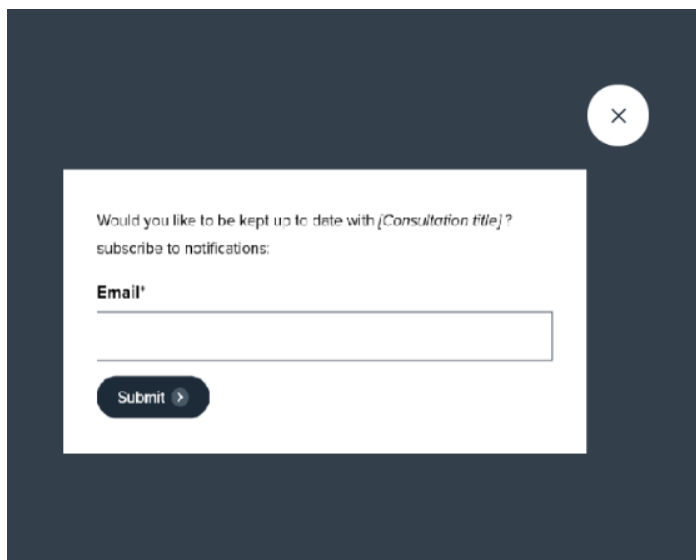
- 1.13 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.14 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.15 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.
- 1.16 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 2. Do you have any comments about its tone and content?
 3. Was it easy to read and understand? Or could it have been better written?
 4. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?
 6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Introduction

Background

- 2.1 The default tariff cap ('cap') was introduced on 1 January 2019 to protect current and future default tariff customers and to ensure that less engaged customers pay a fair price for their energy. At the time the cap was introduced, it was estimated that it would save roughly £1 billion per year for energy customers on default tariffs.⁴ At present, the cap protects around 27 million customers.⁵
- 2.2 More recently, the government has recognised that high and volatile energy prices have put customers under a significant amount of pressure, and it has taken additional action to support customers through the introduction of the Energy Price Guarantee (EPG).
- 2.3 The EPG was legislated for as part of the Energy Prices Act 2022, as part of a package of measures to help customers struggling to pay their energy bills. The 2022 Act also amended the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('2018 Act') to support the operation of the EPG.
- 2.4 Before amendment, the 2018 Act set out that the cap would cease to have effect at the end of 2020, unless the Secretary of State published a statement that the conditions for effective competition are not yet in place. In which case, the cap would extend to the end of the following year.
- 2.5 The same approach was applied for all following years of the cap, up until the end of 2023, when the cap would ultimately cease to have effect. In addition, every year, Ofgem was responsible for reviewing whether the conditions for effective competition had been met, as well as advising the Secretary of State on whether the cap should be extended.
- 2.6 The 2022 Act amends the 2018 Act to remove the December 2023 end date for the cap to support the operation of the EPG. In addition, it also amends the 2018 Act to introduce more flexible arrangements for ending the cap. The 2018 Act now provides that the Secretary of State may, at any time, give notice that the

⁴ Ofgem (2018), Price cap press release <https://www.ofgem.gov.uk/publications/energy-price-cap-will-give-11-million-fairer-deal-1-january>

⁵ Ofgem (2023), Ofgem announces latest quarterly price cap update <https://www.ofgem.gov.uk/publications/ofgem-announces-latest-quarterly-price-cap-update>

cap ceases to have effect. The cap therefore now extends by default, differing from the original position outlined above.

- 2.7 The cap is implemented through SLC 28AD of gas and electricity supply licences and calculated in models annexed to SLC 28AD. The SLCs and price cap models currently have a December 2023 end date included within them and therefore changes need to be made to accurately reflect the amendments to the 2018 Act.
- 2.8 This consultation only considers the implementation of amendments to the 2018 Act which were made by the 2022 Act and is not seeking to make any new policy decisions or changes to the price cap methodology. For this reason, given there are no new significant impacts, we have considered that it is not proportionate to publish an Impact Assessment alongside this consultation and the final decision.
- 2.9 We continue to assess the impact of price cap changes, including on those groups with protected characteristics, when making substantive decisions on the price cap methodology. We will also continue to monitor the impact of the cap on customers and update the methodology, as necessary, to ensure it reflects the efficient costs of supplying energy so that we can continue to protect existing and future customers in line with our principal objective.
- 2.10 We are proposing modifications to gas and electricity SLCs and cap models to accurately reflect the amendments to the 2018 Act, to prevent the SLCs and models from ending prematurely, and to avoid any confusion from potential differences between legislation and SLCs and models.
- 2.11 Accompanying this consultation is a draft modification notice, which details proposed changes to gas and electricity SLCs. These are consistent with the proposals set out in our February 2023 consultation. In addition, we include proposed changes to price cap models, with accompanying updated draft models. We are seeking stakeholder views on both of these aspects.

3. Proposed modifications

Supplier Licence Conditions

The proposal

- 3.1 In February 2023 we proposed to modify Condition 28AD of the gas and electricity supplier SLCs to remove the December 2023 cap end date and remove reference to the Secretary of State's annual statement on competition.
- 3.2 We intend to continue with this position and have published an accompanying draft modification notice to reflect this. We welcome any additional views on the draft modification notice.

Stakeholder responses

- 3.3 We received one response from a supplier to our February 2023 consultation. The supplier's non-confidential response has been published on our website. Several other suppliers confirmed that they had no substantive comments.
- 3.4 The supplier who responded welcomed the consultation on SLCs and models and agreed that changes were needed to reflect the 2022 Act. No specific comments were made regarding the proposed text modifications.

Considerations

- 3.5 We have considered modifications which update SLCs to remove the December 2023 cap end date and remove reference to the Secretary of State's annual statement on competition.
- 3.6 We are seeking to update the SLCs to provide as much clarity as possible for suppliers, while also ensuring we do not pre-empt any decisions made by the Secretary of State.
- 3.7 Proposed modifications replace reference to the December 2023 cap end date with new wording to reflect that the Secretary of State will specify the date on which the price cap ceases. In addition, we propose removing the definition of the 'final charge restriction period' given a final period is no longer referenced within the SLCs.
- 3.8 Proposed modifications remove reference to the Secretary of State's statement on competition in 2020, 2021 and 2022, reflecting the new flexibility introduced by the 2022 Act.

Questions

Q1. Do you have any views or comments on the draft modification notice, published alongside this document?

Price Cap Models

The proposal

- 3.9 The price cap is accompanied by several models which set out detail on the methodology used to calculate different elements of the cap. These models are annexed to the standard conditions 28AD of electricity and gas supply licences.
- 3.10 To reflect the removal of the price cap end date, we propose to extend the cap models to 2030. This date does not intend to pre-empt the decision that the Secretary of State can decide, at any time, that the cap ceases to have effect.
- 3.11 We also propose amending models to reflect the move to quarterly cap updates, replacing 6-monthly columns with quarterly columns, though noting that for figures normally updated every 6 months we would retain the same value for the two quarters, as we are not proposing to update the inputs more frequently.
- 3.12 In addition, we propose using this consultation as an opportunity to 'tidy-up' 'Annex 2 - Wholesale cost allowance' model by removing the tabs and the calculations associated to indexation approaches that are no longer in use (ie the 6-2-12 index and the quarterly transitional arrangement). This includes removing calculation tabs used to compute the direct fuel cost component and the backwardation allowance.
- 3.13 Proposed updates can be found in the updated draft models published alongside this consultation, where changes are logged on the front sheet. We have also summarised the model changes in Appendix 1 of this consultation.
- 3.14 Proposed changes relate to the following models:
- Annex 2 – Wholesale cost allowance methodology
 - Annex 3 – Network cost allowance methodology – electricity
 - Annex 3 – Network cost allowance methodology – gas
 - Annex 4 – Policy cost allowance methodology
 - Annex 5 – Smart metering net cost charge methodology
 - Annex 8 – Adjustment allowance methodology
 - Supplementary workbook to annex 2,3 and 4 – demand and losses
 - Overview model – Default Tariff cap level

Stakeholder responses

3.15 The response received to the February 2023 consultation welcomed the opportunity to comment more fully on model proposals within the statutory consultation and encouraged Ofgem to fully explain changes, with stakeholders given enough time to fully consider and respond.

Considerations

3.16 We have considered updates which extend models to a future date (2030) for which the models can be continually used, without having to make regular updates (eg on a quarterly basis or at some other frequency). This date does not intend to pre-empt the decision of the Secretary of State to end the cap, at any time.

3.17 If, closer to the year 2030, the cap and accompanying models are still in place, we will consider whether to consult on a further extension of the models.

3.18 We have also considered updates to models to reflect the move to quarterly cap updates, replacing 6-monthly columns with quarterly columns. This is not intended to change the frequency at which we normally update 6 monthly figures but amends the models for future usability purposes (as needed).

3.19 The proposed changes do not entail any modifications to the cap methodology, or the calculations employed within the models.

Questions

Q2. Do you have any views or comments on the model proposals set out above and in accompanying documents?

Q3. Have you identified any other areas of models that need to be updated?

Q4. Do you expect there to be any knock-on impact of the removal of the cap end date?

Appendices

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Appendix 1 – Summary of model changes

Table A1.1: Changes to Annex 2 – Wholesale cost allowance methodology model

Type	Change	Description
Input	Updated tabs '3a allowances', '3b Demand', '3c Electricity losses', '3d(i) Price data elec S+n', '3d(ii) Price data elec Q+n', and '3e Price data gas'.	Changes made to extend tables to 2030. Tabs/tables removed to aid 'tidy up' of model.
Direct Fuel Cost	Updated tabs '2a(iii) Elec 3-1.5-12', '2b(iii) Non-PPM gas 3-1.5-12', '2c(iii) PPM gas 3-1.5-12'.	Changes made to extend calculations to 2030. Tabs/tables removed to aid 'tidy up' of model.
Backwardation	Updated tabs '8a(i) Backwardation', '8a(iii) Backwardation calc', '8b(ii) Elec 3-1.5-12', '8b(iv) Elec 3-1.5-3', '8c(ii) Non-PPM gas 3-1.5-12', '8c(iv) Non-PPM gas 3-1.5-3', '8d(ii) PPM gas 3-1.5-12' and '8d(iv) PPM gas 3-1.5-3'.	Changes made to extend calculations to 2030. Tabs/tables removed to aid 'tidy up' of model.
Output	Updated tabs '1a Wholesale allowance' and '1b Direct Fuel Cost Component'.	Changes made to extend tables to 2030.
Capacity Market - Input	Updated tabs '6a Losses', '6b Obligated cap', '6c Clearing price', '6d Winter peak demand', '6e Admin costs'.	Changes made to extend tables to 2030, including new rows on tabs 6b and 6c to reflect additional CM auctions.
Capacity Market - Calculation	Updated tabs '5a Apply losses', '5b Supplier charge', and '5c Uplift clearing'.	Changes made to extend calculations to 2030, including new rows on tabs 5b and 5c to reflect additional CM auctions.
Capacity Market - Output	Updated tab '4a Capacity market component'.	Changes made to extend tables to 2030.
CFD - Input	Updated tabs '7c CFD input', and '7d losses'.	Changes made to extend tables to 2030.
CFD - Calculation	Updated tab '7b CFD calculation'.	Changes made to extend calculations to 2030.
CFD - Output	Updated tab '7a CFD allowance'.	Changes made to extend tables to 2030.

Table A1.2: Changes to Annex 3 – Network cost allowance methodology – electricity model

Type	Change	Description
Input	Updated tabs '3g BSUoS trans arrangement, '3f DUoS charge (DCP268)', '3d DSUoS charges', '3e BSUoS charges', '3c TNUoS charges', '3b losses' and '3a demand'.	Changes made to extend tables to 2030 and update formulas accordingly.
Calculation	Updated tabs '2c BSUoS', '2b DUoS', and '2a TNUoS'.	Changes made to extend calculations to 2030.
Output	Updated tab '1a Network Cost Allowance – elec'.	Changes made to extend table to 2030 and update formulas accordingly.

Table A1.3: Changes to Annex 3 – Network cost allowance methodology – gas model

Type	Change	Description
Input	Updated tabs '3g gas distribution', '3f exit commodity charges', '3e ecn charges', '3d NTS capacity by exit zone' and '3b load factors'.	Changes made to extend tables to 2030.
Calculation	Updated tabs '2d gas distribution', '2c ECN by LDZ', '2b gas transmission', and '2b map charges to elec regions'.	Changes made to extend calculations to 2030.
Output	Updated tab '1a Network cost allowance – Gas'.	Changes made to extend calculations to 2030.

Table A1.4: Changes to Annex 4 – Policy cost allowance methodology model

Type	Change	Description
Input	Updated tab '3h Losses'.	Changes made to extend tables to 2030.
Inputs and calculations	Updated tabs '3b RO', '3e ECO', '3f WHD', '3g AAHEDC', '3i New FIT methodology', '3j GGL'.	Changes made to extend tables to 2030 and update formulas accordingly.
Calculation	Updated tabs '2a Aggregate costs' and '1a Policy Cost All'.	Changes made to extend calculations to 2030.

Table A1.5: Changes to Annex 5 – Smart metering net cost change methodology model

Type	Change	Description
Inputs and calculations	Updated tabs '2a Non-pass through costs', '2b SEGB', '2c DCC cost', '2d SMICoP cost', '2g PPM additional cost'.	Changes made to extend tables to 2030 and update formulas accordingly.
Output	Updated tab '1a SMNCC values'.	Changes made to extend table to 2030 and update formulas accordingly.

Table A1.6: Changes to Annex 8 – Adjustment allowance methodology model

Type	Change	Description
Input	Updated tabs '3d Electricity losses' and '3e CPIH'.	Changes made to extend tables to 2030.
Output	Updated tab '1a Adjustment allowance'.	Changes made to extend table to 2030.

Table A1.7: Changes to Supplementary workbook to annex 2,3 and 4 – demand and losses model

Type	Change	Description
Input	Updated tabs '3a Distribution LLF', '3b ETLMO' and '3c TLF'.	Changes made to extend tables to 2030.

Table A1.8: Changes to Overview model - Default Tariff Cap Level model

Type	Change	Description
Input	Updated tabs '3i SMNCC', '3g CPIH', '3f NC – Gas', '3e NC – electricity', '3D PC', '3b CM' and '3a DF'.	Changes made to extend tables to 2030, and remove tables no longer used.
Calculation	Updated all calculation tabs.	Changes made to extend calculations to 2030.
Output	Updated tab '1a Default tariff cap' and added new output tab '1c Consumption adjusted levels'.	Changes made to extend tables to 2030 and update formulas accordingly. New tab added to convert to latest typical consumption values.

Appendix 2 - Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. ie a consultation.

4. With whom we will be sharing your personal data

We may share consultation responses with officials from the Department for Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

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- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically.
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.