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## Levelisation of payment method cost differentials: a call for evidence

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### 1. Introduction

The sharp increase in energy prices, and associated market volatility, has put an unprecedented strain on energy consumers. Ofgem’s principal objective is to protect the interests of energy consumers, including having regard to the interests of vulnerable consumers (our ‘vulnerability duty’).<sup>1</sup>

Ofgem determines the methodology of the Default Tariff Cap (‘cap’) in line with the legislation set out by parliament through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the ‘Act’).<sup>2</sup> In setting the methodology, we must do so with a view to protecting existing and future domestic customers, having regard to the five key matters (Section 1 of the Act). This requirement does not mean all five are achieved, or have equal weighting, but we must have regard to these when protecting the interests of consumers. We have generally followed the principle of cost reflectivity to ensure that the cap reflects the efficient costs suppliers face in supplying different groups of customers. In line with common industry practice before the introduction of the cap, and competitive tariffs outside the cap, this leads to customers on prepayment meters (PPM) and standard credit (SC) payment methods usually paying more than equivalent customers paying by direct debit (DD).

This Call for Evidence (CfE) is to consider whether we should make payment charges more equal or equitable (but less cost-reflective), by socialising (or ‘levelising’) PPM costs across DD customers. We will also give regard to SC costs in the same manner.

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<sup>1</sup> Our principal objective, and vulnerability duty, are contained in the Gas Act 1986 and the Electricity Act 1989. How we interpret and apply our vulnerability duty is also informed by other sources, such as the Equality Act 2010 and human rights law.

<sup>2</sup> Domestic Gas and Electricity (Tariff Cap) 2018.  
<https://www.legislation.gov.uk/ukpga/2018/21/contents>

In January<sup>3</sup>, we flagged concerns relating to PPM practices and whether PPM customers are being treated fairly and, earlier this month, we launched a new Code of Practice for involuntary PPM installations.<sup>4</sup> As part of this work, we are particularly concerned that vulnerable customers may account for a higher proportion of consumers on PPM and SC compared to DD and pay higher charges as a result.

The term 'levelisation', within this document, refers to the process of adjustment of charges between different payment methods that deviates from cost reflectivity. Due to variances between suppliers in the proportion of consumers, using different payment methods, any equalisation of customer prices may require a reconciliation process between suppliers. Although most customers are currently on tariffs covered by the price cap, the levelisation principles discussed could apply to any tariff, and irrespective of the scope and format of the price cap, which the government is consulting on this Summer.

Through this CfE, we seek views on how we could levelise particular aspects of charges, such as on unit rates and/or standing charges, and on full or partial levelisation of these charges. Using illustrative examples, we present our initial analysis on consumer impacts by payment method, with particular focus on distributional impacts. We also request views on the potential mechanisms through which reconciliation between suppliers may be undertaken, with particular consideration of the impacts on competition and the ability of suppliers to finance their activities. The government has requested<sup>5</sup> we report by Autumn 2023 on the regulatory options to remove cost premiums associated with the PPM payment method – potentially ready for any implementation once the Energy Guarantee (EPG)<sup>6</sup> ends in March 2024.

The scope of this CfE does not include the reasoning behind the existing level of cost reflective payment differentials in the cap. A separate review of the Operating Cost allowances in the price cap will consider whether changes to the enduring base allowances are appropriate and needed. Additionally, a separate review<sup>7</sup> is underway to assess the costs and allowances for debt-related costs, with a view to consider whether an adjustment to the price cap is necessary.

We are calling on views and evidence from all interested parties to help us shape our

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<sup>3</sup> Ofgem (2023), Tackling inappropriate energy supplier prepayment meter practices. <https://www.ofgem.gov.uk/news-and-views/blog/tackling-inappropriate-energy-supplier-prepayment-meter-practices>

<sup>4</sup> Ofgem, Involuntary PPM - Supplier Code of Practice.

<https://www.ofgem.gov.uk/publications/involuntary-ppm-supplier-code-practice>

<sup>5</sup> HM Treasury (2023), Spring Budget. <https://www.gov.uk/government/publications/spring-budget-2023/spring-budget-2023-html>

<sup>6</sup> In the near term, the government will use EPG payments from July to remove the PPM premium paid by over 4 million households and bring their charges into line with comparable DD customers until the scheme ends in March 2024.

<sup>7</sup> Ofgem (2023), Price cap – Call for Input on the allowance for debt-related costs.

<https://www.ofgem.gov.uk/publications/price-cap-call-input-allowance-debt-related-costs>

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## Call for Evidence – Levelisation of payment method cost differentials

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approach to levelisation, including whether we should proceed with levelisation, how we could levelise and through which means. We particularly welcome responses from energy suppliers, industry bodies, consumer groups and charities. We would also welcome responses from other stakeholders and the public. We set out specific questions in the relevant chapters of this document. We are seeking written comments to these questions by **18 May 2023**. Please send comments to [priceprotectionpolicy@ofgem.gov.uk](mailto:priceprotectionpolicy@ofgem.gov.uk). We will consider all responses and provide an update on our timings in the Summer.

For transparency, we will publish the non-confidential responses we receive alongside a decision on next steps on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations). If you prefer your response – in whole or in part – to be considered confidential, please indicate this 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.

## 2. Context

The cap was introduced on 1 January 2019 to protect existing and future default tariff customers, by ensuring that less engaged consumers pay a fair price for their energy. The cap is set out in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the 'Act').<sup>8</sup>

The cap sets a maximum amount suppliers can charge default tariff customers for energy. It varies based on several different parameters, including fuel type, benchmark consumption level, meter type, regional differences and payment method. Broadly, this means there is a separate cap level to reflect the three different payment methods of i) DD - regular automated payment each month, ii) SC - pay on receipt of bill and ii) PPM – prepay top up in advance.

### UNC Modification 0840

A recent change to price cap inputs is UNC modification 0840<sup>9</sup>. This modification, which will be effective from October 2023, equalises Unidentified Gas (UIG) allocation for PPM and non-PPM sites. UIG is the difference between the amount of gas that entered the system and the amount of gas measured off the system once shrinkage has been accounted for. Reasons for this difference include theft, meter errors, shipper-less and unregistered sites. A higher proportion of these costs are currently assigned to PPM than DD/SC customers. We anticipate the implementation will result in lower gas unit rates for PPM customers and higher gas unit rates for non-PPM customers. **Table 1** presents what would have been the impact on payment methods for cap period 10a (1 April 2023 to 30 June 2023) by applying modification 0840. We will use this as the baseline payment method differential in the rest of this document.

**Table 1: Breakdown of 10a cap levels by payment method and fuel type after application of Modification 0840**

	DD	PPM	SC
<b>10a Dual Fuel Cap Level with Modification 840</b>	£3,284	£3,257	£3,485
<b>Cost Change from 10a Cap</b>	+£4	-£68	+£4

<sup>8</sup> Domestic Gas and Electricity (Tariff Cap) 2018.

<https://www.legislation.gov.uk/ukpga/2018/21/contents>

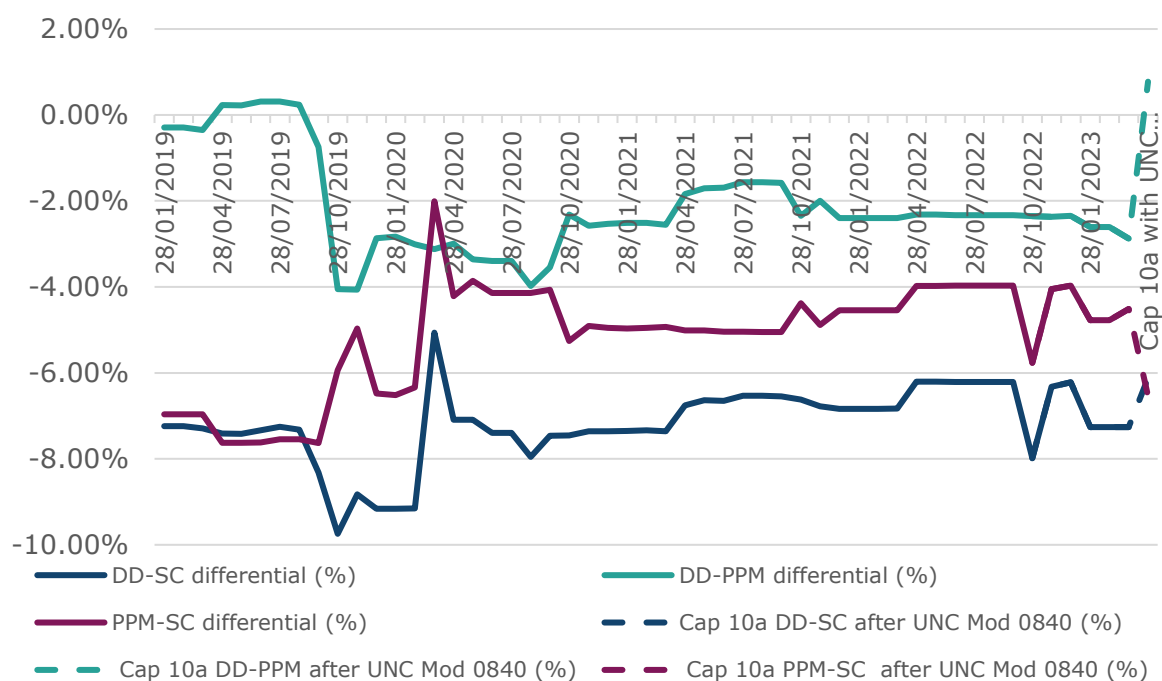
<sup>9</sup> Ofgem, Decision to approve Uniform Network Code (UNC) 840:

<https://www.ofgem.gov.uk/sites/default/files/2023-04/2023.04%20UNC%20840%20-%20Accept.pdf>

## Payment Differentials

Due to differences in cost to serve assumptions within payment methods, the weighted average SVT prices for each have varied over time, as illustrated in **Figure 1**. For PPM, the cap was originally designed by the Competition Market Authority (CMA), and introduced in 2017, before we moved this into the wider default tariff cap methodology in January 2021.<sup>10</sup> Since the introduction of the price cap on all payment methods, with a consistent calculation methodology, the differentials between the three payment methods have been fairly stable for a typical dual fuel consumer with DD c. 7.2% below SC, PPM c. 5.2% below SC and DD c. 2.1% below PPM.

**Figure 1: Dual Fuel Price Differential Trends by Payment Method (%) at Typical Domestic Consumption Values**

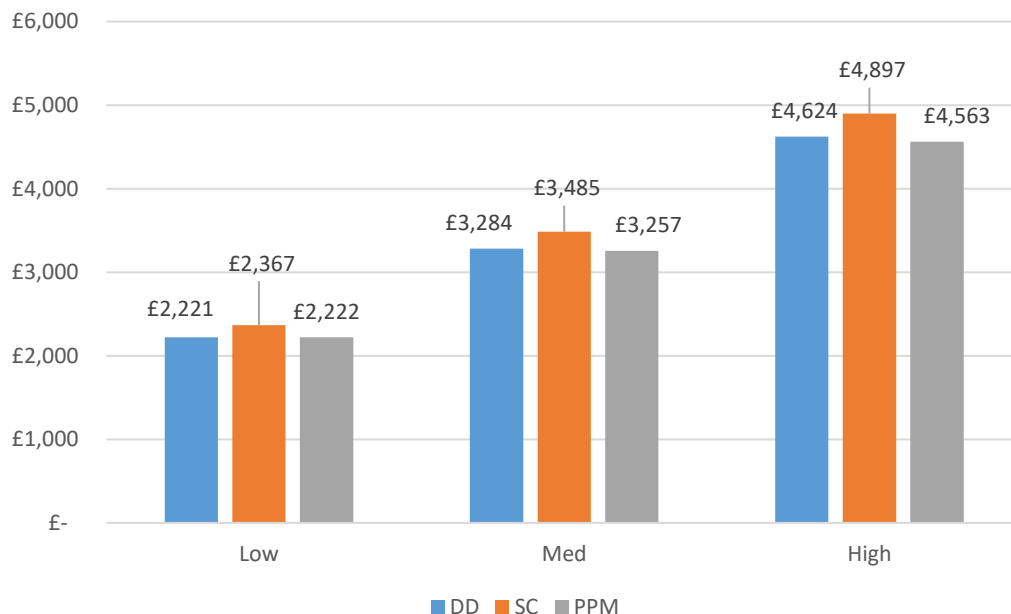


Source: Ofgem analysis (2023) based on dual fuel medium consumption profiles (2900kWh Elec, 12000kWh Gas)

**Figure 2** presents the latest dual fuel cap levels by payment method. After UNC Modification 0840 is accounted for, PPM is the cheapest payment for a dual fuel customer, followed by DD then SC. This does not change when looking at cases of medium and high consumption, however at low consumption, DD is the cheapest, followed by PPM then SC.

<sup>10</sup> Ofgem (2020), Protecting energy consumers with prepayment meters, page 9, para 1.11. [https://www.ofgem.gov.uk/sites/default/files/docs/2020/08/protecting\\_energy\\_consumers\\_with\\_prepayment\\_meters\\_-\\_august\\_2020\\_decision.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2020/08/protecting_energy_consumers_with_prepayment_meters_-_august_2020_decision.pdf)

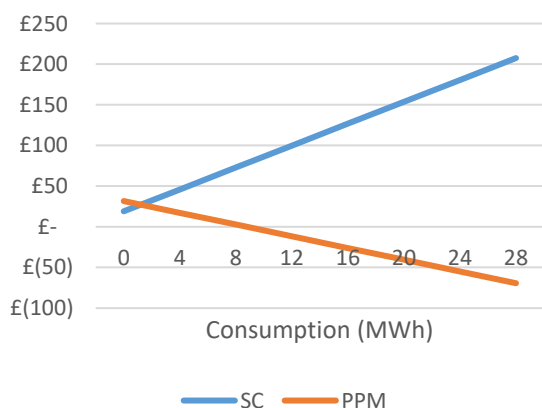
**Figure 2: Cap 10a (1 April 2023 to 30 June 2023) dual fuel cap levels by payment method accounting for UNC modification 0840**



Source: Ofgem analysis (2023) based on cap 10a dual fuel consumers across all consumption levels

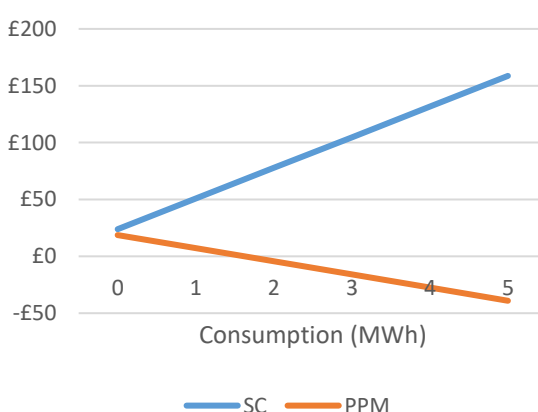
After UNC Modification 0840, PPM is the cheapest for electric and gas, where before this was only the case for electric see **Figure 3, Figure 4 and Figure 5**.

**Figure 3: Cap 10a - Difference on DD (Gas)**



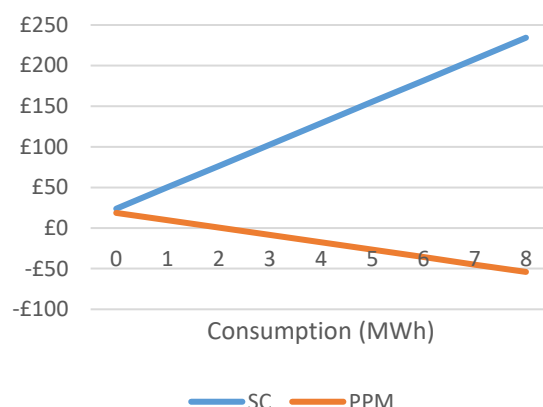
Source: Ofgem analysis (2023) based on cap 10a gas only figures

**Figure 4: Cap 10a - Difference on DD (Single-Rate Electric)**



Source: Ofgem analysis (2023) based on cap 10a electricity only figures

**Figure 5: Cap 10a - Difference on DD (Multi-Rate Electric)**



As such, for default tariff consumers, the cheapest method of payment varies by fuel type and consumption level, due to differences in how costs are accounted for. For cap period 10a:

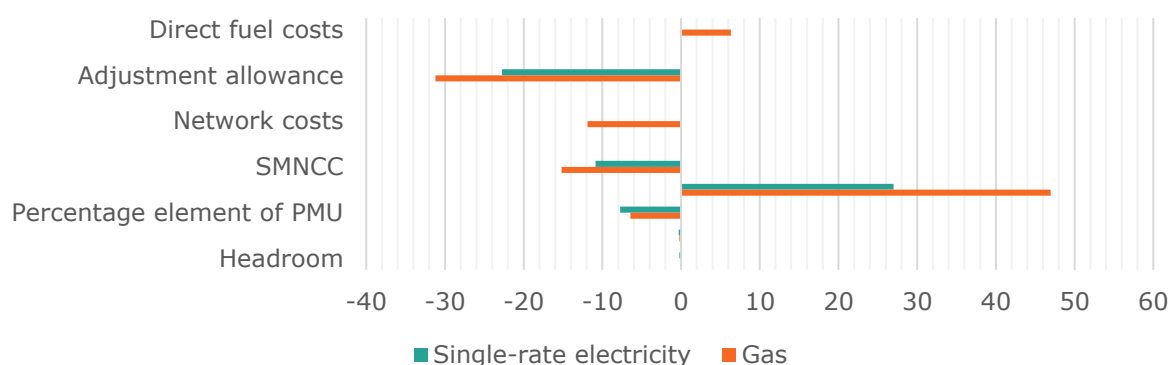
- Electricity, PPM is marginally more expensive than DD for low consumption due to their higher fixed costs, but cheaper for greater levels of usage. This is also the case for gas once we account for the UNC Modification 0840, as discussed earlier in this chapter.
- SC remains most expensive for both fuels, as SC customers have both greater fixed costs and generate greater debt related costs which scale with consumption.
- The trends do not differ for multi-register meters (eg E7) but the payment differences are greater due to higher consumption on this meter type.

The approach and rationale behind these cost differences is explored further in the next sections.

### **PPM to DD Differences by Cap Component**

For the current cap period (cap period 10a), after accounting for UNC modification 0840, the PPM to DD differential is -£15 for electricity and -£12 for gas at Typical Domestic Consumption Value (TDCV). See **Figure 6** for further information. Before UNC Modification 0840 was accounted for, the PPM to DD gas differentials for cap period 10a was £60. If we expect wholesale prices to decrease over the next few cap periods and, due to updates in the standing charge calculation from October 2023, then preliminary analysis suggests the PPM to DD differential will become positive in future price cap periods.

**Figure 6: Cap 10a PPM to DD difference by cap component (£/customer)<sup>11</sup>**

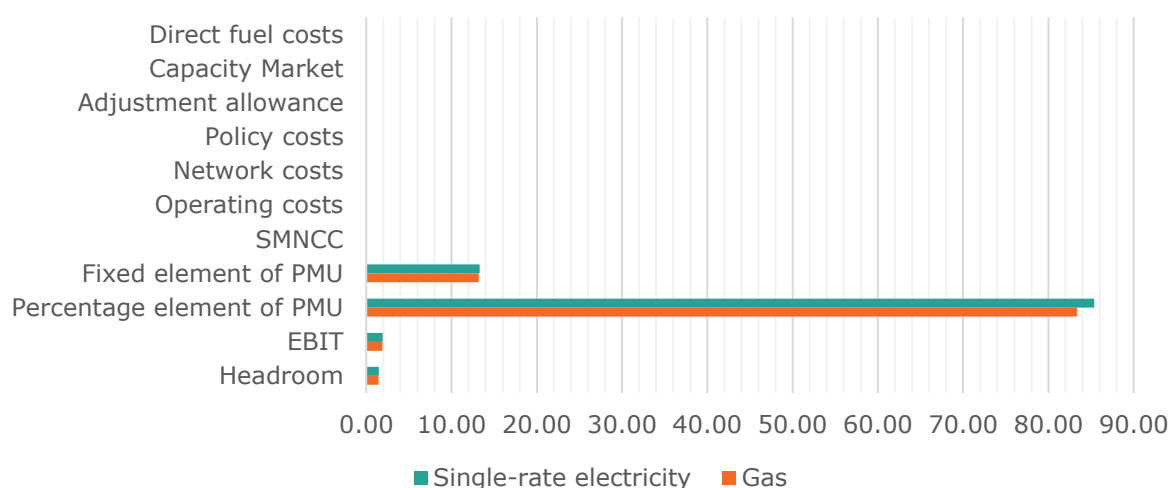


Source: Ofgem analysis (2023) based on dual fuel at 2900kWh (electric) and 12000kWh (gas) consumption cap 10a rates

### SC to DD Differences by Cap Component

For the current cap period (Cap 10a), after accounting for UNC Modification 0840, the SC to DD differential is £102 for electricity and £100 for gas at TDCV. The SC to DD differential is largely driven by debt-related costs (as SC customers generate a higher level of debt), operating costs and working capital differences (due to consumer payments in arrears). See **Figure 7** below for further information.

**Figure 7: Cap 10a SC to DD difference by cap component (£/customer)**



Source: Ofgem analysis (2023) based on dual fuel at 2900kWh (electric) and 12000kWh (gas) consumption cap 10a rates

<sup>11</sup> For an explanation of each component, refer to Table A1 & A2 in Appendix 1.



## Payment method vulnerability

Consumer research from Department for Energy Security & Net Zero<sup>12</sup> shows that there are differences in the level of fuel poverty<sup>13</sup> and vulnerability between customers on different payment methods. Proportionally, the percentage of households that are classed as being within fuel poverty are higher for PPM and SC, than those that pay via DD for consumption of electricity and gas. However, of households in fuel poverty, a much higher proportion pay by DD than those paying by SC and PPM. See **Table 2** for more information.

**Table 2: Fuel Poverty statistics by household (Electricity & Gas) 2022**

Method of payment	Proportion of fuel poor households within group (%)	Number of households (thousands) - Fuel poor	Proportion of total fuel poor households (%)
Electricity direct debit	10.5	1,989	61.0
Electricity standard credit	17.5	426	13.1
Electricity prepayment	27.8	842	25.9
Gas direct debit	9.7	1,631	50.1
Gas standard credit	17.7	371	11.4
Gas prepayment	27.2	697	21.4
N/A - no Gas	19.6	558	17.1

In this context, government categorises “vulnerable” to mean a fuel poor household, as measured by Low Income Low Energy Efficiency (LILEE).<sup>14</sup> As regulator, our duty extends beyond this to categorise definitions of vulnerability as (a) individuals who are disabled or chronically sick; (b) individuals of pensionable age; (c) individuals with low incomes; and (d) individuals residing in rural areas. In the following chapter, we set out illustrative examples on how levelisation may be achieved, including consumer impacts under each payment type as well as an initial assessment of distributional impacts of any potential changes, mapped against our consumer archetypes. These archetypes have regard to these vulnerability characteristics, whilst reflecting our need to take account of the best interests of all consumers.

<sup>12</sup> DESNZ (2023), Fuel poverty detailed tables (2022 data).

<sup>13</sup> Fuel Poverty in England is measured using the Low-Income Low Energy Efficiency (LILEE) indicator. <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2023-2022-data>  
<https://www.gov.uk/government/collections/fuel-poverty-statistics>

<sup>14</sup> DESNZ (2021), Sustainable warmth: protecting vulnerable households in England. <https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england>

### 3. Levelisation Approach (Initial Case Analysis)

#### Introduction

We have modelled several illustrative levelisation cases, with consideration for how cost differences could be spread between different payment methods (PPM to DD, SC to DD and PPM to DD and SC). These variables include:

- Charge types (standing charge and unit rate).
- Individual elements of the price cap (eg bad debt allowance).
- Extent to which levelisation should occur (full or partial equalisation between payment methods).

It is important to note that the scope of the review is not necessarily restricted to (or dependent on) customers covered by of the price cap. The review considers that levelisation could apply to all tariffs (within or outside of the default price cap) or may similarly be restricted to a subset of households following the government's review of future price protection. We would expect that costs to DD customers would likely be lower than modelled in our illustrative cases if we widen levelisation to all tariffs, due to a larger pool of DD customers to spread the associated cost or restrict the benefit of levelisation to households which become eligible under a future energy consumer protection scheme, with a wide pool of levy payers.

To inform the illustrative cases, we have used price cap data as the underlying data for levelisation. In our cases, we used unit rates and standing charges contained within price cap 10a (1 April to 30 June 2023) as the base case in our analysis, updated as if modification 0840 had been implemented in April 2023, and calculated the difference between charge types. The difference is then spread proportionately based upon the proportion of SVT customers in each payment method. The base unit rates and standing charges are provided in **Table 3**. Once we receive responses from this CfE and narrow down the scope of our review, we will refine our analysis.

When considering the different impact this may have on multi-rate customers, we adjust the single-rate cap level to 4,200 kWh TDCV. Although a simplification, this provides a rough estimate as to the impact of levelisation on multi-rate customers.<sup>15</sup> Once we receive responses from this CfE and narrow down the scope of our review, we will refine our analysis.

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<sup>15</sup> This is sensitive to two variables that will be addressed in more detail in future impact assessments. Firstly, the difference between single-rate and multi-rate tariff rates, which is small. Secondly, the difference in the share of customers in each payment method between single-rate and multi-rate which is also small.

**Table 3: Cap 10a unit rate and standing by fuel type and payment method after application of modification 0840**

Fuel Type	Payment method	Actual 10a Cap Level (Single-Rate)	
		Unit Rate (p/kWh)	Standing Charge (p/day)
Electricity	DD	51p	53p
Electricity	PPM	49p	58p
Electricity	SC	53p	60p
Gas	DD	13p	29p
Gas	PPM	12p	38p
Gas	SC	13p	34p

Our initial analysis presented in this CfE does not model targeting particular groups of customers (eg customers in vulnerable situations) within payment methods for levelisation. It also does not model smart and non-smart meters separately<sup>16</sup> or any regional differences between costs, which are not within scope.

## Consideration of levelisation variables

### Payment Methods

There are three different payment methods which can be levelised in pairs (eg PPM can be levelised with DD and then SC can be levelised with the new DD charge type) or as a group of three (which would result in all three being equal across the charge type being levelised). Within our analysis, we have considered different sequential levelisation cases to intentionally keep certain payment methods lower than others.

### Charge Types

There are two components of the price cap through which levelisation can be achieved: unit rates and standing charges, these can be looked at in isolation or at the same time.

- Unit rates – by levelising unit rates, the savings, or costs from levelisation of each payment method would be greater for customers with high consumption and smaller for lower consuming customers.
- Standing charges – by levelising standing charges, costs and savings would be constant across different consumption types. Overall, for an average consuming customer, the costs and savings via this mechanism will be lower than if unit rates were levelised.

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<sup>16</sup> There is currently no difference in the cap between smart and non-smart meters, however we are considering this split as part of our review of Operating Costs as discussed in our Programme of Work – more information here: <https://www.ofgem.gov.uk/publications/price-cap-programme-work-update>

## Consumer Impacts

This section provides a range of cases that broadly demonstrate how costs and savings may change across the different options. However, there may be variation in these estimates depending on the combination of the above options on how to levelise that are chosen, the wholesale prices at the time the price cap is set, market developments, customer movements, and changes in the cap methodology by April 2024. Separate reviews will also be undertaken by Ofgem, which may influence different aspects of payment method costs and allowances.

Within the consumer impact analysis, we consider five different cases to analyse the impact of levelisation, alongside the base case for period 10a accounting for UNC Modification 0840:

- **Case 1:** Levelise DD, PPM & SC standing charges.
- **Case 2:** Levelise PPM standing charges to DD then levelise SC bad debt through unit rates and standing charges to DD.
- **Case 3:** Levelise DD, PPM & SC unit rates and standing charges.
- **Case 4:** Levelise PPM & DD standing charges, and finally SC & DD unit rates.
- **Case 5:** Levelise PPM & DD standing charges, and partially levelise SC & DD unit rates.

The default cap levels at TDCV for period 10a<sup>17</sup> adjusted as if modification 0840 was implemented in April 2023 are shown in **Table 4**. These cap levels form the baseline for our analysis and any changes stated are relative to this baseline.

**Table 4: Breakdown of 10a cap levels by payment method after application of modification 0840**

	DD	PPM	SC
<b>10a Dual Fuel Cap Level</b>	£3,284	£3,257	£3,485
<b>10a Electricity Cap Level (4,200kWh)</b>	£2,319	£2,289	£2,456

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<sup>17</sup> Ofgem (2023), Default tariff cap level: 1 April 2023 to 30 June 2023. [Default tariff cap level: 1 April 2023 to 30 June 2023 | Ofgem](#)

For cap period 10a after application of UNC Modification 0840, the differences between payment methods are:

- PPM is £27 cheaper than DD.
- SC is £202 more expensive than DD.

### Case Analysis

As discussed previously, there are several different ways to levelise costs across payment methods. A selection of cases is presented below for illustrative purposes as well as the consumer impact of each. These figures are given at TDCV level, defined as 2,900 kWh for single-rate electricity, 4,200 kWh for multi-rate electricity and 12,000 kWh for gas and we consider how the impact varies across consumer archetypes and income groups later as part of distributional impacts.<sup>18</sup>

#### Case 1: Levelise Standing Charges

Under Case 1, we levelise DD, PPM & SC standing charges. The results are provided in **Table 5** and has the effect of increasing DD costs, whilst lowering PPM and SC costs. In this case, PPM is the cheapest payment method and SC remains the most expensive payment method however by a smaller differential compared to the baseline.

**Table 5: Breakdown of 10a cap levels by payment method after standing charge levelisation for Case 1**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,300	£3,216	£3,459
<b>Cost Change</b>	+£16	-£41	-£27
<b>10a Electricity Cap Level (4,200kWh)</b>	£2,327	£2,274	£2,440
<b>Cost Change</b>	+£8	-£15	-£16

#### Case 2: Levelise Standing Charges & Bad Debt

Under Case 2, we levelise PPM to DD standing charges, when standing charge for PPM is more expensive, and then levelise SC bad debt through unit rates and standing charges to DD. In this case, PPM is the cheapest payment method and SC is the most expensive payment method however by a smaller differential compared to the baseline. We have

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<sup>18</sup> Consumer archetypes relate to our Vulnerability Duty characteristics, which include categories on disability/sickness, pensionable age, low income, and rural characteristics and are outlined in detail in Table 10.

published a Call for Input on allowances for debt-related costs, if the bad debt allowances change then the figures below will also change.<sup>19</sup>

**Table 6: Breakdown of 10a cap levels by payment method after standing charge and bad debt levelisation for Case 2**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,325	£3,216	£3,367
<b>Cost Change</b>	+£41	-£41	-£119
<b>10a Electricity Cap Level (4,200kWh)</b>	£2,338	£2,274	£2,402
<b>Cost Change</b>	+£19	-£15	-£54

### **Case 3: Levelise Unit Rates and Standing Charges**

Under Case 3, we levelise DD, PPM & SC unit rates and standing charges. This has the effect of increasing DD and PPM costs whilst lowering SC costs. PPM costs are increased due to the higher previous SC costs. The result of this levelisation is that the cap level for all payment methods is equal at TDCV.

**Table 7: Breakdown of 10a cap levels by payment method after unit rate and standing charge levelisation for Case 3**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,317	£3,317	£3,317
<b>Cost Change</b>	+£33	+£60	-£169
<b>10a Electricity Cap Level (4,200kWh)</b>	£2,340	£2,340	£2,340
<b>Cost Change</b>	+£21	-£51	-£116

### **Case 4: Levelise Standing Charges and Unit Rates**

Under Case 4, we levelise PPM to DD standing charges, and finally levelise SC unit rates to DD unit rates. This has the effect of increasing DD costs whilst lowering PPM & SC costs. In this case, PPM is the cheapest payment method and SC is the most expensive payment method but the differential against DD is smaller compared to the baseline.

<sup>19</sup> Ofgem (2023), Price cap – Call for Input on the allowance for debt-related costs. <https://www.ofgem.gov.uk/publications/price-cap-call-input-allowance-debt-related-costs>

This case shows that whilst levelising SC unit rates results in more savings for SC, it results in much higher DD costs compared to Case 1 (where only standing charges are levelised).

**Table 8: Breakdown of 10a cap levels by payment method after unit rate and standing charge levelisation for Case 4**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,328	£3,216	£3,361
<b>Cost Change</b>	+£44	-£41	-£125
<b>10a Electricity Cap Level (4,200kWh)</b>	£2,347	£2,274	£2,368
<b>Cost Change</b>	+£28	-£15	-£88

### **Partial Levelisation**

The cases described above have demonstrated full levelisation, ie where a difference exists between a unit rate or standing charge between payment methods, they have been adjusted to be equal across payment methods. We have also investigated the effect of partial levelisation.

By adjusting the percentage of levelisation applied to each of the different cases described above, we observe the opposite effect to that of adjusting wholesale costs. As the percentage of levelisation decreases:

- Those payment methods that decrease in cost because of levelisation observe a smaller decrease in cost.
- Those payment methods that increase in cost because of levelisation observe a smaller increase in cost.

### **Case 5: Levelise Standing Charges and Partially Levelise Unit Rates**

Under Case 5, we levelise PPM to DD standing charges, and finally partially levelise SC unit rates to DD unit rates. This has the effect of increasing DD costs whilst lowering PPM & SC costs. In this case PPM is the cheapest payment method and SC is the most expensive payment method but the differential against DD is smaller compared to the baseline. This case shows that by partially levelising the unit rate difference, SC customers can make similar savings to PPM whilst reducing the cost to DD customers compared to Case 4.

**Table 9: Breakdown of 10a cap levels by payment method after standing charge and partial unit rate levelisation for Case 5**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,306	£3,216	£3,439
<b>Cost Change</b>	+£22	-£41	-£47
<b>10a Electricity Cap Level (4,200kWh)</b>	£2,332	£2,274	£2,423
<b>Cost Change</b>	+£13	-£15	-£33

### Consumer Impact Conclusion

All our cases are bill-payer funded as Ofgem doesn't have access to general taxation funds to support energy bills, therefore some customers will pay more as a result of levelisation. For example, for PPM costs to decrease, DD and/or SC costs must increase. There is no one case where all consumers will benefit from levelisation equally, compared to the status quo. In all cases, the result of this approach is an adjustment to unit rates and/or standing charges.

**Table 10** shows the effects of levelisation for each of the cases presented above.

Overall, the trends observed are:

- The cap level for customers paying by DD increases.
- The cap level for customers paying by PPM decreases (apart from Case 3 where we levelise all payment methods to make the cap equal).
- The cap level for customers paying by SC decreases but SC remains the most expensive payment method at TDCV.



**Table 10: Summary of cap levels and effect of levelisation**

**Base 10a Cap Levels**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,284	£3,257	£3,486
<b>10a Electricity Cap Level (4200 kWh)</b>	£3,358	£3,315	£3,557

**Case 1**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,300	£3,216	£3,459
<b>Difference against base</b>	+£16	-£41	-£27
<b>10a Electricity Cap Level (4200 kWh)</b>	£3,370	£3,293	£3,534
<b>Difference against base</b>	+£12	-£22	-£23

**Case 2**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,325	£3,216	£3,367
<b>Difference against base</b>	+£41	-£41	-£119
<b>10a Electricity Cap Level (4200 kWh)</b>	£3,379	£3,293	£3,503
<b>Difference against base</b>	+£21	-£22	-£54

**Case 3**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,317	£3,317	£3,317
<b>Difference against base</b>	+£33	+£60	-£169
<b>10a Electricity Cap Level (4200 kWh)</b>	£3,389	£3,389	£3,389
<b>Difference against base</b>	+£31	+£74	-£168

**Case 4**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,328	£3,216	£3,361
<b>Difference against base</b>	+£44	-£41	-£125
<b>10a Electricity Cap Level (4200 kWh)</b>	£3,400	£3,293	£3,429
<b>Difference against base</b>	+£42	-£22	-£128

**Case 5**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>10a Dual Fuel Cap Level</b>	£3,306	£3,216	£3,439
<b>Difference against base</b>	+£22	-£41	-£47
<b>10a Electricity Cap Level (4200 kWh)</b>	£3,377	£3,293	£3,509
<b>Difference against base</b>	+£19	-£22	-£48

It is important to note that the cases described above are not the only ways to levelise and are presented as illustrations.

**Questions:**

**Question 1: What do you think the objectives of levelisation should be (eg, full levelisation across payment methods, partial levelisation, anything else)?**

**Question 2: Should we only focus on PPM levelisation or should we also consider SC?**

**Question 3: If SC is included in levelisation, should some degree of price difference remain, whereby SC is higher than DD to maintain an incentive for customers to go on DD?**

**Question 4: After considering the different levelisation options presented (charge type, individual elements of the price cap, extent to which levelisation should occur), are there any further levelisation options that you think should be considered?**

**Question 5: Can you provide any evidence on why one levelisation option should be preferred over another?**

**Question 6: Can you provide any evidence of levelisation effects that should be avoided that have not been shown within our analysis?**

**Question 7: What are your views on targeting levelisation to particular groups of customers within payment methods (eg customers under the price cap or in vulnerable situations)? Do you have evidence to support your views?**

## Distributional Impacts

To assess the impact levelisation may have on different types of vulnerable customers, we used survey data taken from Ofgem consumer research to estimate the distribution of payment methods within income bands.<sup>20</sup> We then overlaid Ofgem’s consumer archetypes onto income bands to estimate the proportion of payment methods within each archetype. These proportions were then used to calculate the distribution of costs and savings across each payment method within each archetype, that we have represented as a percentage of the average yearly income of each archetype. Note the archetypes relate to our Vulnerability Duty characteristics, which include categories on disability/sickness, pensionable age, low income, and rural characteristics. See **Table 11** for a breakdown of the archetypes.

**Table 11: Consumer Archetypes**

Archetype	Key Words
A1	High incomes, owner occupied, working age families, full time employment, low consumption, regular switchers.
A2	High incomes, owner-occupied, middle-aged adults, full time employment, big houses, very high consumption, solar PV installers, care for the environment.
B3	Average incomes, retired, owner occupied - no mortgage, lapsed switchers, late adopters.
B4	High incomes, owner occupied, part-time employed, high consumers, flexible lifestyles, environmental concerns.
C5	Very low incomes, single female adult pensioners, non-switchers, disconnected (no internet or smart phones).
D6	Low income, disability, fuel debt, disengaged, social housing, BME households, single parents.
D7	Middle aged to pensioners, full time work or retired, disability benefits, above average incomes, high consumers.
E8	Low income, younger households, part-time work or unemployed, private or social renters, disengaged non-switchers.
E9	High income, young renters, full time employments, private renters, early adopters, smart phones.
F10 (off gas)	Middle aged to pensioners, full time work or retired, owner occupied, higher incomes, oil heating, rural, RHI installers, late adopters.

<sup>20</sup> This data was taken from Wave 3 of Ofgem’s Consumer Impacts of Market Conditions survey. Data from Wave 3 will be published in due course. Wave 3 was conducted with 3,457 GB domestic energy bill-payers in Nov/ Dec 2022. Details about the survey (including findings from Waves 1 (March 2022) and 2 (July 2022)) can be found here: <https://www.ofgem.gov.uk/publications/consumer-impacts-markets-conditions-survey-waves-1-march-2022-2-july-2022>

<b>Archetype</b>	<b>Key Words</b>
G11 (off gas)	Younger couples or single adults, private renters, electric heating, employed, average incomes, early adopters, BME backgrounds, low levels of engagement.
H12 (off gas)	Elderly, single adults, very low income, medium electricity consumers, never switched, disconnected, fuel debt.
H13 (off gas)	Off gas, low income, high electricity consumption, disability benefits, over 45s, low energy market engagement, late adopters.

Although the exact magnitude of impacts across consumer archetypes will vary depending on what is levelised and how, wholesale market prices and potential changes to the cap methodology, a selection of representative examples of how distributional costs may change are shown in **Figure 8**. This is based on the same cases as set out in the consumer impacts section above. Archetypes can be grouped into the average income band of customers within that archetype, where in **Figure 8** archetypes are ordered by the lowest average income bands on the left, to the highest average incomes on the right, the breakdown of which is shown in **Table 12**.

**Table 12: Average income bands by customer archetype**

<b>Average Income Band</b>	<b>Archetype</b>
<£16,000	C5, H12 (off gas)
£16,000 - £24,000	D6, E8, H13 (off gas)
£25,000 - £44,999	B3, B4, D7, E9, F10 (off gas), G11 (off gas)
£45,000 - £59,999	A1, A2

In the first row of **Figure 8**, Case 1 shows the impact of levelising standing charges for all payment methods. In the second row, Case 2 shows only the impact of equalising standing charges for PPM and DD, whilst spreading bad debt costs for SC. In the third row, Case 3 shows the impact levelisation would have if we equalised both unit rates and standing charges for DD, PPM and SC customers. In the last row, Case 4, shows the impact of equalising PPM standing charges, but for SC we levelise unit rates. Case 5 replicates Case 4, but we only partially levelise SC unit rates.

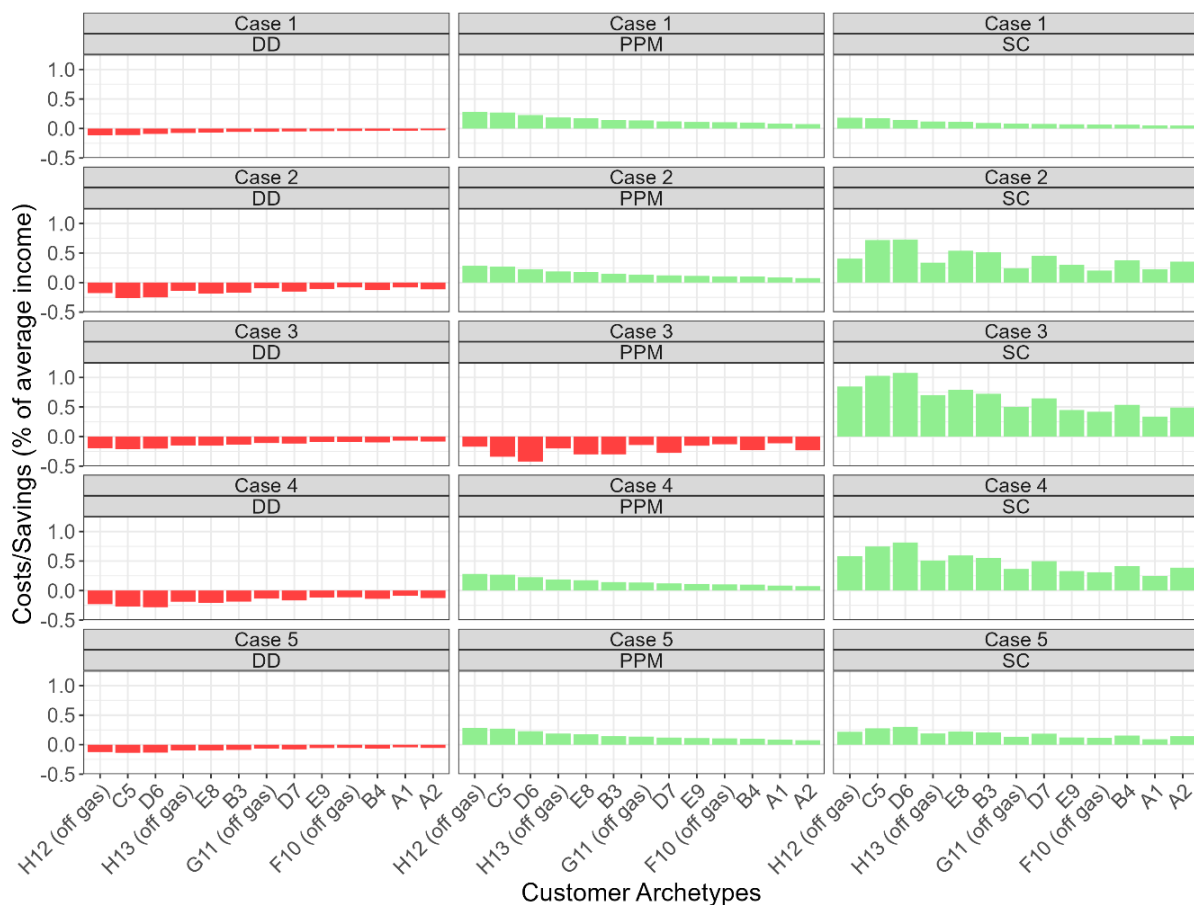
The key insights from this analysis are:

- Equalising standing charges has little variation in impact across the distribution of customers as shown in Case 1 for all payment methods and Case 2, 4 and 5 for PPM.
- When unit rate levelisation occurs (Case 2, 3, 4 & 5), then for SC, the largest gains are for higher consumption archetypes, which tend to have higher average incomes. Conversely, DD in all Cases and PPM in Case 3 see higher costs, this

affects high average income archetypes more for the same reason. However, as a proportion of average income, the savings and costs are larger for lower income groups.

- If SC unit rates are levelised (Case 2, 3, 4 & 5), then this has a large impact on overall costs. The impacts on lower income archetypes are greater. This is because, although the overall costs are smaller, they are larger as a proportion of average income. This can be seen in Case 3, where we equalise unit rates and standing charges across all payment methods. It shows that the gains from levelising for PPM are cancelled out by spreading SC costs across PPM and DD customers.
- As the UNC Modification 0840 reduces PPM gas unit rates, any levelisation of PPM unit rates results in higher costs, affecting higher income archetypes more in absolute terms, as shown in Case 3. The extent to which on-gas and off-gas archetypes are affected differently depends on the difference between the electricity differential and the gas differential.

**Figure 8: Distributional Impact (% of average income)**



Although the above analysis is provided at an individual customer level for each archetype within a payment method, there are different numbers of total customers across each archetype payment method combination.

**Question:**

**Question 8: Given the distributional impacts analysis provided above, what is your view on the benefits to consumers on the levelisation of payment methods?**

**Additional Analysis**

**Wholesale Costs**

For the levelisation cases described above, we have used the same wholesale costs as used to calculate the actual 10a cap levels.<sup>21</sup> Wholesale costs are a major input into the unit rate calculation therefore must be considered within levelisation. We have investigated the impact of levelising under a range of different wholesale costs to illustrate the effect this factor has on the overall results of our analysis.

**Table 13: Wholesale Price Scenarios**

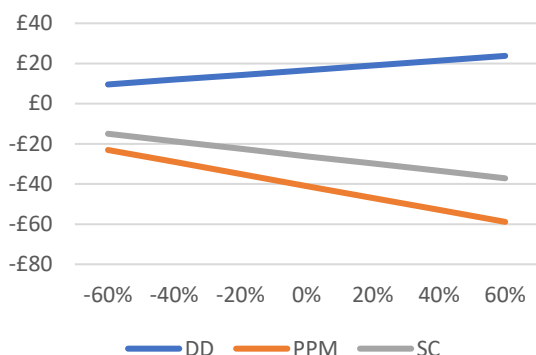
	<b>-60%</b>	<b>-40%</b>	<b>-20%</b>	<b>10a Actual</b>	<b>+20%</b>	<b>+40%</b>	<b>+60%</b>
Electricity (£/MWh)	97	146	194	243	292	340	389
Gas (p/therm)	96	143	191	239	287	335	382

Applying the wholesale price scenarios (in **Table 13**), to the cap after levelisation, results in the following changes to the effects of levelisation, set out in **Figures 9** to **12**.

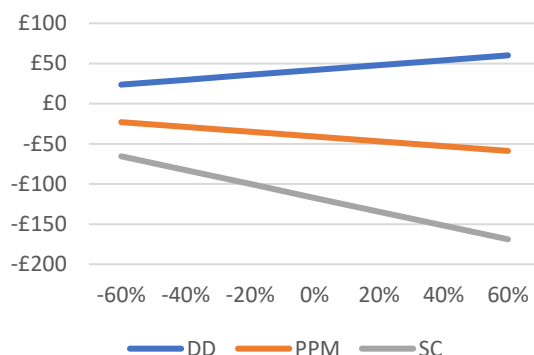
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<sup>21</sup> Electricity - £243/MWh, Gas – 239p/therm

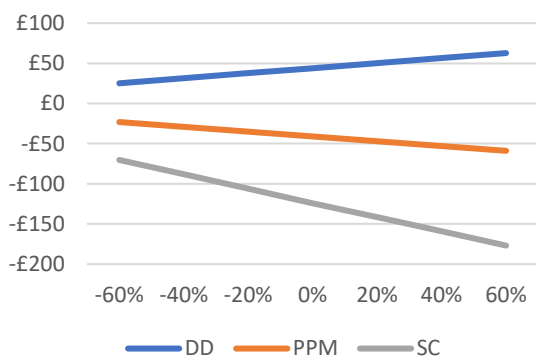
**Figure 9: Case 1 Wholesale Price Impacts**



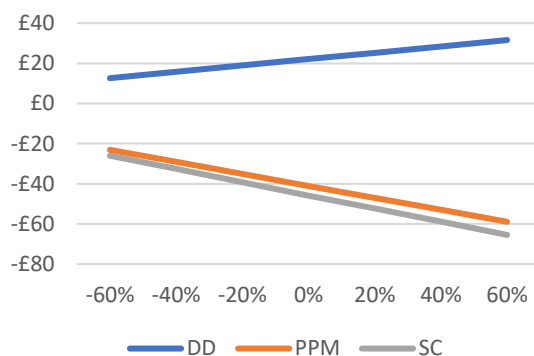
**Figure 10: Case 2 Wholesale Price Impacts**



**Figure 11: Case 4 Wholesale Price Impacts**



**Figure 12: Case 5 Wholesale Price Impacts**



Overall, as wholesale prices increase, the costs or savings caused by levelisation become greater, and as wholesale prices decrease, the costs or savings caused by levelisation become smaller.

### Supplier Impacts

To model the supplier impact of the cases described above, without a reconciliation mechanism, we have created four hypothetical suppliers. Each of these hypothetical suppliers has the same total number of consumers, but with different proportions of consumers by payment methods as shown in **Table 14**.



**Table 14: Proportion of consumers by payment methods for hypothetical suppliers**

	<b>DD</b>	<b>PPM</b>	<b>SC</b>
<b>Supplier A</b>	33%	33%	33%
<b>Supplier B</b>	90%	5%	5%
<b>Supplier C</b>	5%	90%	5%
<b>Supplier D</b>	5%	5%	90%

The percentage impact on revenue is provided within **Table 15**. In all cases, the supplier with a majority of DD consumers experiences an increase in revenue whereas the supplier with a majority of SC and PPM consumers sees a decrease in revenue. This could pose a significant risk to SC and PPM supplier stability if implemented without a reconciliation mechanism.

**Table 15: Case impacts on supplier revenues**

	<b>Case 1</b>	<b>Case 2</b>	<b>Case 3</b>	<b>Case 4</b>	<b>Case 5</b>
<b>Supplier A</b>	-0.5%	-1.2%	-0.7%	-1.2%	-0.6%
<b>Supplier B</b>	0.4%	0.9%	0.7%	1.0%	0.5%
<b>Supplier C</b>	-1.1%	-1.2%	1.4%	-1.3%	-1.2%
<b>Supplier D</b>	-0.7%	-3.1%	-4.2%	-3.2%	-3.1%

## Wider market effects

There are other key aspects to consider that may change the impacts of levelisation. Price differentials in the price cap are driven by the underlying cost to serve differences, but there are some benefits to the differential that might mean we do not want to levelise across all types:

- After accounting for UNC Modification 0840, electricity and gas would be cheaper on PPM at TDCV. Levelising unit rates may result in higher cost for PPM customers.
- On an absolute basis, a greater number of vulnerable customers exist on DD than PPM.<sup>22</sup> Levelising PPM to DD will impact a greater number of vulnerable customers (as proxied by fuel poor customers) but will have a smaller individual impact due to the overall number of DD customer.

As discussed in Chapter 2, the main reason the SC price cap is much higher than DD and PPM is due to allowances in the cap for debt related costs. Levelising SC costs will remove some of the incentive for customers to switch to DD or remain on DD. The

<sup>22</sup> Refer to table 2 above for more information.

potentially larger number of customers on SC tariffs than what would occur in the absence of levelisation could increase the likelihood of debt related costs, leading to more customers building up problematic levels of debt and could have an impact on supplier financeability.

### **Market Competition and Incentives**

Levelisation may have an impact on competition in the market itself. This would depend on how levelisation is implemented, how the market changes as it opens up, how the market will develop going forward and government market reforms.

By reducing price differences between payment methods, levelisation may increase the number of tariffs which a customer considers as potential options. This could create new competitive constraints – for example if a customer considers PPM or SC tariffs when they would not have considered such tariffs before. There are two potential issues this could introduce in the market. Firstly, it could create longer-term inefficiencies as suppliers are not incentivised to encourage consumers onto more cost-efficient payment methods. Secondly, customers may not have the same price incentives to switch payment methods at present. This effect could outweigh any new switching between payment methods for non-price reasons.

There is potentially a risk that levelisation could change the level of competition in the retail market. In particular, an approach to levelisation could:

- Reduce competition between PPM tariffs, as levelisation makes it difficult to differentiate on prices. This may impact smaller suppliers who specialise in PPM tariffs and could reduce one potential area of differentiation for new suppliers to enter the market.
- Make SC relatively a more viable option if bad debt related costs are spread across DD customers. However, as this increases the likelihood of debt related costs, it may introduce longer term inefficiencies and higher overall debt related costs for suppliers. These higher costs could lead to higher bills and could make it more difficult for suppliers to enter or remain in the market.
- Disincentivise customers to engage in the market if tariff prices are similar across payment methods. However, if competition is weaker in PPM and SC markets than in DD as previously observed, then levelisation could have the effect of ‘anchoring’ PPM and SC prices to DD, thereby bringing the benefits of active DD competition to SC and PPM customers.

### Market Opening

As wholesale prices reduce so that suppliers can offer tariffs below the price cap, this could widen the differential between payment methods. This could result from new fixed tariff offerings that are not subject to the price cap, and from SVT tariffs that are priced below the price cap. The re-emergence of fixed tariffs for DD customers that are lower than the price cap could increase the differential between DD and PPM which could be larger than current differentials, even if levelisation is implemented.

The ability for customers to switch between levelised and non-levelised tariffs would have implications for the movement of customers and the impact on market competition. The levelisation of PPM and SC customers to DD could make it unlikely that suppliers could offer competitive fixed tariffs for SC and PPM, particularly when before the crisis there was few fixed offerings for PPM customers. While DD customers will likely have a higher incentive to switch.

One way to reduce this possibility is levelising across both default and fixed tariff customers, such that when PPM customers begin switching onto new fixed offerings, they can still experience some benefit from levelisation.

#### **Questions:**

**Question 9: Do you agree with our characterisation of the effects on competition? Can you explain why or why not?**

**Question 10: Are there any additional impacts on competition or other areas that we should consider? Can you provide evidence of these?**

**Question 11: Do you agree with our assessment on market competition and incentives? Can you explain why or why not?**

**Question 12: Are there any other impacts on your organisation or the market that we have not considered?**

## 4. Mechanisms to deliver reconciliation between suppliers

### Introduction

In this chapter, we outline considerations for potential mechanisms for supplier reconciliation to enable payment method levelisation between customers. We recognise that, without such a mechanism, suppliers will be affected differently by payment method levelisation due to differences in the proportion of customers by payment method (as illustrated in Chapter 3). For example, a supplier with a greater proportion of PPM customers will incur the costs associated with serving those customers but may not be able to recover these due to the reallocation of those costs onto DD customers. Conversely, suppliers with higher-than-average DD customers will be able to charge, in total, excess of their cost to serve.

To compensate for customer type variances between suppliers, we may need to reconcile costs between suppliers due to the stability risk that this may introduce, and to prevent disproportionate impacts on revenue. This reduction in revenue may result in those suppliers being more likely to exit the market or limit the extent to which they can make investments which would support competition.

We are obliged in the Gas and Electricity and Cap Acts to have regard to efficiency and competition in setting a single cap level across suppliers. We consider that the best way for us to deliver against these objectives is to set benchmarks for the different payment methods, on the basis that differences between payment methods are predominantly due to non-efficiency factors, whereas differences within payment types are predominantly efficiency factors. This means that we may intend to use the existing cap Payment Method Uplift (PMU) as the initial basis for levelisation and, if the cap were to cease to have effect, we would need to keep these calculations updated to deliver levelisation to potentially any tariff, irrespective of the scope and format of the price cap. We will shortly be consulting on updating the price cap calculations through the Operating costs review.

Whether we would implement a reconciliation mechanism would depend on the approach to levelisation adopted and the resulting effects to competition and market stability:

- Which tariff(s) levelisation would apply to, eg all tariffs, Tariffs under the Default Tariff Cap or specifically targeted tariffs.
- Meter Type (PPM/Credit).
- Payment Method (DD/SC).

## Current approaches to reconciliation

There are a variety of ways reconciliation could be achieved, and we have set out some current examples of reconciliation below. These examples could be used to inform an approach to reconciliation in a levelisation context:

<b>Scheme</b>	<b>Mechanism</b>	<b>Administrator</b>	<b>Frequency</b>	<b>Reconciliation</b>	<b>Fixed or Volumetric</b>	<b>Impact of Customer Switching</b>
<b>Feed-in Tariff</b>	Reconciliation by difference	Ofgem D&S	Quarterly and Annually	According to Market Share	Volumetric	N/A - Volumetric
<b>Warm Home Discount</b>	Reconciliation by difference	Ofgem D&S	On demand (normally twice a year)	According to Market Share	Fixed per customer	At Suppliers Discretion
<b>Energy Price Guarantee</b>	Reconciliation by difference	Elexon & Xoserve	Weekly, Monthly, Quarterly and 6-Monthly	According to proportion of funds owed	Volumetric	N/A - Volumetric
<b>Market Stabilisation Charge</b>	Reconciliation by difference	RECCo	Monthly	According to proportion of funds owed	Per Customer	N/A - Charge Triggered by switching
<b>Green Gas Levy</b>	Levy and Disbursement	Ofgem D&S	Quarterly	According to the number of meter points served in relevant period	Fixed per customer	N/A - Rate pence per day per meter point
<b>Renewable Obligation</b>	Levy and Disbursement	Ofgem D&S	Quarterly	According to proportion of total obligation for the shortfall period	Volumetric	N/A - Volumetric

## Potential Mechanisms

We have set out below a few options that could be used to reconcile costs associated with levelisation between suppliers.

### Build a new Mechanism

We could introduce a new, custom built, mechanism to manage reconciliation of costs between suppliers. A mechanism run by a third party could be introduced to run a reconciliation exercise to calculate and administer payments required between parties. Further work would be required to design the mechanism and assess costs, but it could potentially mirror existing mechanisms, with suppliers reporting their demand by payment method, the body collecting payments from suppliers that over-recovered and

re-distributing to suppliers that under-recovered. This mechanism would be built to desired specification, allowing flexibility over what is levelised and by how much. We appreciate the frequency of reconciliation could have major impacts on suppliers' cashflows so this would need to be assessed to ensure suitability.

### Use Network Charges

An additional component for all customers may be able to be introduced on network charges to be disbursed to support PPM and SC customers. This additional charge would feed directly into the price cap calculation for consumers (or the network charging element of other tariffs set by suppliers). However, this may not be feasible due to the complexity of the modification required, requirement for industry alignment on approach and accuracy concerns due to data issues.

### Supplier of last resort style mechanism

Like the previous option, network charges could be used to reconcile costs, but instead of adding a premium to all customers to disburse to PPM and SC customers, suppliers would claim (and Ofgem approve) economically incurred costs directly because of levelisation. Suppliers would report the total charged on PPM and SC (by unit rate and standard charge). Ofgem would calculate the total detriment to suppliers, the networks would pay the approved amount and pass through the costs through network charges in the following period to reconcile the cost of levelisation. We recognise that this option would likely result in slower cost recovery for suppliers and potentially increased cost to networks as they would take on the capital risk of non-payment. As with the previous network charging option, this may not be a feasible option due to the complexity of modification required and requirement for industry alignment.

The government has introduced short-term PPM levelisation through the EPG until March 2024. Levelisation discussed in this CfE, including the reconciliation options set out above, would be implemented from April 2024.

Further to these options, our analysis is ongoing and we are considering whether levelisation should be targeted. We are also engaging with the government to develop a new approach to consumer protection from April 2024 onwards, as part of wider retail market reforms. The government intends to consult on options for a new approach in Summer 2023.

## **Dispute and Mutualisation Process**

We acknowledge the likely need for a dispute and mutualisation process and welcome stakeholder views on any key factors that we should consider in its formulation.

**Questions:**

**Question 13: If costs are not reconciled, what would the impact of payment method levelisation be on your organisation, where relevant?**

**Question 14: Do you consider that the costs of levelisation should be reconciled between suppliers? What are your views on the reconciliation mechanisms presented?**

**Question 15: Are there any other reconciliation mechanisms that you think we should consider that we have not discussed?**

## 5. Next steps

We welcome any written comments by **18 May 2023**, sent to [priceprotectionpolicy@ofgem.gov.uk](mailto:priceprotectionpolicy@ofgem.gov.uk). Please include detail and supporting evidence in your comments wherever possible. As part of your comments, please explain how any suggested approaches would be deliverable in practice. We will carefully consider stakeholder feedback following the close of this CfE and provide an update on timelines.

There will also be further opportunities for stakeholders to provide input on our approach as our work progresses. Once we have considered comments from stakeholders and continued development of our approach, we will consider further stakeholder engagement.

### **Question:**

**Question 16: Is there anything else Ofgem should consider with regards to levelising costs across payment methods?**



## Appendix 1

**Table A1: Overview of cap components driving the PPM to DD price differential**

Component	PPM to DD differential drivers
Payment method uplift (fixed element)	PPM customers with Traditional meters incur greater costs for metering (due to greater asset and maintenance costs) and payment service infrastructure.
Smart Metering Net Cost Change (SMNCC)	Smart PPM meters reduce costs compared to traditional (cheaper meters and additional cost to serve benefits). We also use this to offset potential shortfall in the Payment method uplift.  Note: this difference also reflects higher smart meter costs for credit meters.
Payment method uplift (percentage element)	Reflects recovering SC costs over DD customers but not PPM. This is not linked directly to PPM costs, just a driver for the difference.

### Other elements

Component	PPM to DD differential drivers
Direct fuel costs and Network costs	Driven by PPM End User Categories (PPM specific usage profile).  <b>Direct fuel</b> - Greater allocation of unidentified gas costs (UIG) <sup>23</sup> allocated to PPM drives most of this.  <b>Network costs</b> - Lower network costs as PPM use less gas at peak times.
Adjustment allowance	Some ad-hoc allowances (P8 unexpected SVT demand, COVID-19 debt-related costs) do not apply to PPM, as we did not consider that suppliers would have incurred additional costs in these areas for PPM customers.
Indexed allowances (EBIT and Headroom)	Small consequential impacts on indexed allowances.

<sup>23</sup> A decision relating to an industry code modification (UNC840) has recently been published which will reduce the proportion of these costs which are allocated to PPM customers. This change is scheduled to apply from October this year and will reduce PPM gas bills by an average of £64 (based on cap 10a rates medium usage profiles).

<https://www.ofgem.gov.uk/sites/default/files/2023-04/2023.04%20UNC%20840%20-%20Accept.pdf>

**Table A216: Overview of cap components driving the SC to DD price differential**

<b>Component</b>	<b>SC to DD differential drivers</b>
Payment method uplift (percentage element)	SC customers pay further in arrears which incurs a greater working capital cost to suppliers.  SC customers are more prone to building up debt as they have greater control over their payments.
Payment method uplift (fixed element)	SC customers incur higher administration charges. Eg more likely to call into suppliers or greater cost to chase debt given the greater likelihood to incur it.
Indexed allowances (EBIT and Headroom)	Indexed allowances slightly higher as a consequence of the Payment method uplift. These are not customer cost led drivers.