

To: All holders of a gas supply licence

Notice under section 4 of the Domestic Gas and Electricity (Tariff Cap) Act 2018

Proposal to modify the standard conditions of all Gas Supply licences

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the standard conditions of all Gas Supply licences granted or treated as granted under section 7A of the Gas Act 1986 by amending Standard Condition 28AD (Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts).
2. A detailed description of the background, reasons and effects of the proposed licence modification, along with the proposed modifications, are set out in Schedule 1, 2 and Ofgem's Statutory consultation on Changing standing charges for prepayment meters and debt-related costs across payment methods²
3. In summary, the reason for amending this condition is to:
 - Require licensees to offer the same standing charges on equivalent Direct Debit and Prepayment Meter tariffs, in line with levelisation aims.
 - Ensure that the licensee participate in and complies with the terms of the levelisation reconciliation mechanism.
4. In summary, the effect of the amended condition is:
 - To allow for a levelisation allowance to be added to the benchmark maximum charge for each cap period
 - To provide the Authority the ability to set the levelisation allowance to zero
 - To add an obligation so that suppliers provide relevant data to the Authority and Reconciliation Operator and make payments as required
 - Provide definitions to allow for the levelisation reconciliation mechanism
 - Provide a link to the additional Annex 9 which sets out the methodology for the levelisation allowance.
5. Any representations with respect to the proposed licence modifications must be made on or before 2nd January 2024 to: Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to priceprotectionpolicy@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
7. If we decide to make the proposed modifications, they will take effect not less than 25 working days after the decision is published.

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Dan Norton
Deputy Director
Duly authorised on behalf of the
Gas and Electricity Markets Authority

23/11/2023

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

² Ofgem (2023), Changing standing charges for prepayment meters and debt-related costs across payment methods, Appendix 2. <https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs>

Schedule 1 - Standard conditions of gas supply licence

Calculation of the Benchmark Maximum Charges for 28AD Charge Restriction Periods

28AD.6 For each 28AD Charge Restriction Period, the Authority will calculate the Benchmark Maximum Charge for each:

- (a) Benchmark Annual Consumption Level;
- (b) Charge Restriction Region; and
- (c) Payment Method

in accordance with the following formula:

$$\begin{aligned} ChargeMax_{i,j,k,p} &= (WC_{j,k,p} + NC_{i,j,k,p} + PC_{j,k} + AA_{i,j,k,p} + OC_{j,k,p} + PA_{i,j,k,p} + E_{i,j,k,p} + H_{i,j,k,p} \\ &\quad + L_{j,k,l,p}) \end{aligned}$$

where (the following units all being in pounds sterling):

$ChargeMax_{i,j,k,p}$	means the Benchmark Maximum Charge in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , and Payment Method p ;
$WC_{j,k,p}$	means the Wholesale Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for payment method p , calculated in accordance with paragraph 28AD.7;
$NC_{i,j,k,p}$	means the Network Cost Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for payment method p determined in accordance with paragraph 28AD.8;
$PC_{j,k}$	means the Policy Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , calculated in accordance with paragraph 28AD.9;
$AA_{i,j,k,p}$	means the Adjustment Allowance in Charge Restriction Region i , in Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.10A;
$OC_{j,k,p}$	means the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for payment method p , calculated in accordance with paragraph 28AD.10;
$PA_{i,j,k,p}$	means the Payment Method Adjustment in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.11;
$E_{i,j,k,p}$	means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , calculated in accordance with paragraph 28AD.12;

$H_{i,j,k,p}$ means the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.13;

$L_{j,k,l,p}$ means the Levelisation Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p calculated in accordance with paragraph 28AD.13A.

Levelisation Allowance

28AD.13A For the purposes of 28AD.6, the Levelisation Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l and for Payment Method p is an adjustment to the amounts paid by customers on different Payment Methods, subject to paragraphs 28AD.13B and 28AD.15, calculated in accordance with the methodology set out in Annex 9.

28AD.13B If the Authority has published a statement in writing to terminate the Levelisation Policy, the value of the Levelisation Allowance is zero.

28AD.15 The Authority may from time to time, and following consultation, amend the methodology set out in Annex 2, Annex 3, Annex 4, Annex 5, ~~or~~ Annex 8 or Annex 9 by way of a statement in Writing, where the Authority considers that either:

- (a) there has been a significant and unanticipated change of circumstances such that Annex 2, Annex 3, Annex 4, Annex 5, ~~or~~ Annex 8 or Annex 9 no longer reflects an efficient level of any of the Wholesale Cost Allowance, Network Cost Allowance, Policy Cost Allowance or Smart Metering Net Cost Change, Adjustment Allowance or Levelisation Allowance; or
- (b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4, Annex 5, ~~or~~ Annex 8 or Annex 9 such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

28AD.20A In the event of exceptional circumstances, and the Authority taking steps set out in paragraph 28AD.15(a) in making amendments to the methodology set out in Annex 2, Annex 3, Annex, 4, Annex 5, ~~or~~ Annex 8, or Annex 9, the Authority may:

- (a) determine revised Benchmark Maximum Charges which shall apply for the remainder of a 28AD Charge Restriction Period j (for which the Authority has already published the Benchmark Maximum Charges pursuant to paragraph 28AD.18(c) or paragraph 28AD.20), replacing the Benchmark Maximum Charges previously published from a date specified by the Authority by way of a statement in Writing, by calculating such values in accordance with paragraph 28AD.6;
- (b) in so determining the revised Benchmark Maximum Charges which shall apply for the remainder of a 28AD Charge Restriction Period j from the date

specified by the Authority pursuant to paragraph 28AD.20A(a), take into account any modification made to SLC 28AD, notwithstanding that any such modification may not have come into effect at the time of publication of the updated Benchmark Maximum Charges in accordance with paragraph 28AD.20(c), provided that any such modification has come into effect by no later than the date specified by the Authority pursuant to paragraph 28AD.20A(a); and

- (c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

Obligation to interact with the Levelisation Reconciliation Mechanism

28AD.32A The licensee must ensure that it participates in and complies with the terms of the Levelisation Reconciliation Mechanism, including:

- (a) Submission of Verified Data to the Authority and Reconciliation Operator, as required in a timely and accurate manner, and
- (b) Pays into the Reconciliation Mechanism any Levelisation Charges notified to it and on the date specified for payment, by the Reconciliation Operator

Guidance

28AD.32B The Authority may issue, from time to time, guidance for the purposes of paragraphs 28AD.13A and 28AD.32A

Definitions for condition

28AD.33 In this condition:

'Levelisation Allowance' means an amount calculated to adjust the amount paid by customers on different Payment Methods in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l and for Payment Method p. The aforementioned amount would be calculated by the Authority for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 9;

'Levelisation Charges' means, for the purposes of this condition 28AD, those charges calculated from the Levelisation Allowance for the purposes of levelisation, and notified to the licensee on a monthly basis as calculated by the Reconciliation Operator;

'Levelisation Policy' means an adjustment to the caps on Payment Methods derived by the operation of Relevant Maximum Charge in paragraph 28AD.7;

'Levelisation Reconciliation Mechanism' refers to obligations, processes and/or systems of that name set out, or to be set out, in the Retail Energy Code or such other document designated under standard licence conditions from time to time;

'Reconciliation Operator' means Retail Energy Code Company (RECCo), or other such industry body or bodies, which the Authority has notified the licensee to have been selected, to develop or administer existing and future iterations of the Levelisation Reconciliation Mechanism;

'Verified Data' means data requested by the Authority for the purposes of levelisation and reconciliation which is accompanied by a statement from a named Statutory Director or

authorised company officer confirming that they have taken all reasonable steps to satisfy themselves that the return is a true and accurate reflection of the data held by the licensee used for its customer billing purposes. The Authority may share the aforementioned data with the Reconciliation Operator for the purpose of, amongst other things, Levelisation Charge calculations;

Annex 9 – Methodology for Levelisation Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs>

Schedule 2 – Rationale for change to proposed SLCs

SLC paragraph	Change	Description and rationale
Gas - 28AD.6	Addition of a Levelisation Allowance (L) to the maximum charge	The addition of this term allows for a Levelisation Allowance to be added to the benchmark Maximum Charge for each cap period, consumption level (nil/typical), meter type (single rate/multi-register), region and payment method.
Gas -28AD.13A	Levelisation Allowance Definition	This clause provides the definition of the Levelisation Allowance.
Gas -28AD.13B	Levelisation Allowance set to zero	This clause provides the Authority the ability to set the levelisation allowance to zero when required via a written statement.
Gas - 28AD.15	Addition of Annex 9	Annex 9 has been added to the list of Annexes that can be amended in writing following a consultation when a significant and unexpected change of circumstance or mathematical error is identified.
Gas -28AD.20A	Addition of Annex 9	Annex 9 has been added to the list of annexes for which the Authority may use to determine revised Benchmark Maximum Charges.
Gas -28AD.32A	Addition of an obligation to interact with Levelisation Reconciliation Mechanism	This obligation has been added so that the suppliers (i) provide relevant data to the Authority and to the Reconciliation Operator and (ii) pay the Reconciliation Operator any charges.
Gas -28AD.32B	Addition of guidance document	Addition of a clause so that the Authority may publish guidance for the Levelisation Allowance or Levelisation Reconciliation Mechanism.
Gas -28AD.33	Addition of definitions	Addition of the Levelisation Allowance, Levelisation Charges, Levelisation Policy, Levelisation Reconciliation Mechanism, Reconciliation Operator and Verified Data descriptions to be used in other clauses.

Gas - Annex 9	Addition of the Methodology for Levelisation Allowance annex	Inclusion of a link to the additional annex which sets out the methodology for the levelisation allowance.
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