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Sent by email to: RetailPriceRegulation@ofgem.gov.uk

Dear Dan

Changes to the timing and availability of price cap inputs¹

Centrica welcomes the opportunity to comment on the proposed changes outlined in this consultation. We also wish to underline the pressing need for Ofgem to prioritise a fundamental review of the methodology for determining Contract for Differences (CfD) allowances in view of the material and systematic risks arising from the current approach, as we have repeatedly highlighted.

Regarding Ofgem's current proposals, taking the various changes in turn our comments are as follows:

Capacity Market

We support Ofgem's proposals to use the result of the previous year's T-1 auction (T-1 2022) as the clearing price for the T-1 2023 auction and to use the targeted capacity for the T-1 2023 action for the amount of capacity obligated. The auction for T-1 2023 will take place after the price cap allowance is set and actual clearing price and obligated capacity can be updated ahead of the following cap period.

We also support the proposal to update the CM allowance on a quarterly basis where there is more up to date information available at an interim charge restriction period announcement.

EII in the Policy Cost Allowance

¹ [Changes to the timing and availability of price cap inputs | Ofgem](#)

We support the proposal to use inputs which assume the EII 100% exemption from 1 April 2024 and agree that Ofgem should only update policy costs in May 2024 if (against expectation) the relevant EII legislation is not in place.

However, we think there may be confusion about how the EII exemption impacts the FiT allowance.

The consultation states:

“In line with DESNZ (published as BEIS) 2022 decision, all EII exemptions will not be accounted for in FiT allowance for the upcoming price cap 4 Ofgem (2023), Energy price cap wholesale costs review, due to the exemption being removed from the FiT allowance from April 2023. As the methodology for FiT is backwards looking, the upcoming price cap update is the first price cap to cover the period including April 2023.”

In fact, the DESNZ 2022 decision Ofgem refers to does not relate to EII but rather to *Guarantees of Origin*.² Our understanding is that that it is the exemption for renewable electricity generated outside of the UK that is ending, not the EII exemption which is due to increase from 85% to 100% in April 2024. Consequently, Ofgem should not be removing the FiT exemption but rather increasing it in line with the proposed EII change while removing the exemption for renewable electricity generated outside of the UK in line with the 2022 DESNZ decision cited. Based on feedback to our previous query on the draft price cap inputs we understand this is Ofgem’s intention.

Review of CfD allowances must now be prioritised

Finally, while Ofgem is not currently proposing any change regarding CfD we reiterate our concern about the unreliability of the Low Carbon Contracts Company (LCCC) inputs and the resulting risk that suppliers are unable to recover efficiently incurred costs in the absence of a suitable reconciliation mechanism.

We have repeatedly highlighted to Ofgem that the current CfD allowance methodology creates a material and systematic risk that a notional supplier cannot recover its efficient CfD costs. This is fully documented in our recent response to the consultation on wholesale costs where we highlighted that Ofgem should prioritise a review of the CfD allowance methodology.

The LCCC Interim Levy Rate (ILR) from Jan-Mar has been adjusted to £10.748/MWh from £4.540/MWh mid period (from 25 Feb).³ The placeholder ILR used in the draft price cap inputs for Apr-Jun is much lower at £7.755/MWh (based on market prices from 29 November)⁴ although this has now been overtaken by an adjustment to £11.522/MWh⁵ which will presumably be reflected in the April price cap.

Notwithstanding the LCCC’s decision to make a Before Period Adjustment (BPA) in this instance, it remains the case that suppliers lack the necessary certainty as to what

² [BEIS \(2022\), Feed in Tariffs and Contracts for Difference: proposals relating to Guarantees of Origin](#)

³ [LCCC makes an in-period adjustment for Q1 2024 - Low Carbon Contracts](#)

⁴ [LCCC determines ILR and TRA for Q2 2024 - Low Carbon Contracts](#)

⁵ [Adjustment to Interim Levy Rate and Total Reserve Amount from 1 April 2024 - EMR Settlement Limited](#)

adjustments the LCCC *may or may not* make in time to be able to hedge accordingly. As we previously highlighted in our response to the June 2023 consultation on technical changes to the price cap methodology,⁶ contrary to Ofgem’s stated rationale when consulting, the *discretionary option* to make a BPA does not effectively mitigate supplier exposure to CfD hedge timing price risk:

“Ofgem proposes to account for before-period adjustments published at least 30 working days prior to the subsequent period. However, this does not provide suppliers with the certainty they would need to hedge because there is no certainty whether there will in fact be any ‘before-period’ adjustments until this cut-off date, by which time the option to hedge at the time of the quarterly determination is no longer available. Ofgem’s proposals therefore increase rather than reduce uncertainty.”

In its decision last year Ofgem stated:

“We will continue to engage with the LCCC on this area, and where appropriate, will work together to deliver further improvements to the wider CfD cost allowance process where there is evidence this will serve consumers’ interests.”⁷

Regrettably, despite this assurance the underlying risks – which include *volume* risks due to LCCC forecasting as well as *price* risks due to insufficient timing certainty to enable mitigation via hedging – have yet to be addressed satisfactorily. It therefore remains imperative that Ofgem should prioritise a review of the CfD allowance methodology.

Yours sincerely

Don Wilson

Market Design and Policy

⁶ [Price cap – Consultation on technical changes to the price cap methodology – June 2023 | Ofgem](#)

⁷ [Decision on technical changes to the price cap methodology | Ofgem](#)