

**To: All holders of a domestic gas
and/or electricity supply licence**

Email: pricecapchanges@ofgem.gov.uk

Date: 23 February 2024

**Domestic Gas and Electricity (Tariff Cap) Act 2018
Modification of the standard conditions of all gas & electricity supply licences**

1. The Gas and Electricity Markets Authority ('the Authority')¹ has decided to modify the standard conditions of all gas and electricity supply licences granted or treated as granted under section 6(1)(d) of the Electricity Act 1989 and section 7A(1) of the Gas Act 1986, pursuant to section 1 of the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act') by amending Standard Licence Condition (SLC) 28AD. The modifications are set out in Appendix 1 and 2.
2. Under section 4(2) of the Act, the Authority gave Notice on 23 November 2023 (the 'Notice') that we proposed to modify the standard licence condition (SLC) 28AD to introduce a levelisation allowance. We stated that any representations to the modification proposal must be made on or before 2 January 2024.
3. We received 11 responses to the Notice, and corresponding Statutory Consultation.² We have carefully considered these responses. We have placed all non-confidential responses on our website. Our response to these comments is set out in the accompanying decision document³.
4. We have made several minor alterations to the modifications set out in the Notice. These alterations relate to the previously proposed (but now removed) levelisation reconciliation mechanism SLC and are shown in yellow highlight and double underlined in the attached Appendices 1 and 2. The proposed levelisation reconciliation mechanism SLC provision did not in our view, following further analysis, provide any necessary extra powers to Ofgem (i.e. in addition to existing powers). Therefore, in this case we have decided not to include that SLC provision in the implementation. We have removed the condition to publish guidance because, following further analysis, we consider that due to the removal of the proposed reconciliation mechanism condition, guidance can be included in other broader price cap guidance documents.
5. A detailed description of the background, reasons and effects of the licence modification, along with the modifications, are set out in Appendix 1, 2 and Ofgem's accompanying decision document.
6. 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.
7. In summary, the effect of the amended condition is:

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

² Ofgem (2023), Changes to prepayment meter standing charges and other debt costs, Appendix 2. <https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs>

³ Ofgem (2024), Decision on adjusting standing charges for Prepayment customers, <https://www.ofgem.gov.uk/publications/decision-adjusting-standing-charges-prepayment-customers>

- To allow for a levelisation allowance to be added to the benchmark maximum charge for each cap period, including:
 - i. To provide the Authority with the ability, following consultation, to set the levelisation allowance to zero
 - ii. Provide a link to the additional Annex 9, which sets out the methodology for the levelisation allowance.
- 8. Under the powers set out in section 1 of the Act, we hereby modify the standard licence conditions for all electricity and gas supply licences in the manner specified in attached Appendix 1 and 2. These modifications will take effect from 1 April 2024.
- 9. These modifications have an effect in relation to supply licences, whenever granted, and on domestic supply contracts, whenever entered into.
- 10. This document is notice of the reasons for the decision to modify the electricity supply licences as required by section 5 of the Act.
- 11. Copies of this modification and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, you can request a paper copy by emailing pricecapchanges@ofgem.gov.uk.

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

23/02/2024

Appendix 1 – Modification of the standard licence conditions of all electricity supply licences

Changes are shown in red double underlining for new text to the existing SLC, with deletions crossed through. Changes from the Statutory Consultation version of proposed SLCs are as above and shown in yellow highlight.

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

28AD.7 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;
- (c) Benchmark Metering Arrangement; and
- (d) Payment Method

in accordance with the following formula:

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

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

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

- $E_{i,j,k,l,p}$ means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in 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.13;
- $H_{i,j,k,l,p}$ means the Headroom 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.14.
- $L_{i,j,k,l,p}$ 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.14A.

Levelisation Allowance

- 28AD.14A For the purposes of 28AD.7, 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 and for Payment Method p is an adjustment to the amounts paid by customers on different Payment Methods, subject to paragraphs 28AD.14B and 28AD.16, calculated in accordance with the methodology set out in Annex 9.
- 28AD.14B If the Authority has published a statement in writing to terminate or suspend the Levelisation Policy, following consultation, the value of the Levelisation Allowance is zero.
- 28AD.16 The Authority may from time to time, and following consultation, amend the methodology set out in Annex 2, Annex 3, Annex 4, Annex 5, 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, Smart Metering Net Cost Change ~~or~~ , 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.21A In the event of exceptional circumstances, and the Authority taking steps set out in paragraph 28AD.16(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.19(c) or paragraph 28AD.21), 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.7;

- (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.21A(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.21(c), provided that any such modification has come into effect by no later than the date specified by the Authority pursuant to paragraph 28AD.21A(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.39A The licensee must ensure that it participates in and complies with the terms of the Levelisation Reconciliation Mechanism, including:

- (a) Submission of relevant 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 by the Reconciliation Operator

Guidance

28AD.39B The Authority may issue, from time to time, guidance for the purposes of paragraphs 28AD.14A and 28AD.39A.

Definitions for condition

28AD.40 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 cap 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 determining the Levelisation Allowance

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

Appendix 2 – Modification of the standard licence conditions of all gas supply licences

Changes are shown in red double underlining for new text to the existing SLC, with deletions crossed through. Changes from the Statutory Consultation version of proposed SLCs are as above and shown in yellow highlight.

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:

$$\text{ChargeMax}_{i,j,k,p} = (WC_{j,k,p} + NC_{i,j,k,p} + PC_{j,k} + AA_{i,j,k,p} + OC_{j,k,p} + PA_{i,j,k,p} + E_{i,j,k,p} + H_{i,j,k,p}) + L_{i,j,k,l,p}$$

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

$\text{ChargeMax}_{i,j,k,p}$	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;

$L_{i,j,k,l,p}$ 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, following consultation, 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>