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Sent by email to: [RetailPriceRegulation@ofgem.gov.uk](mailto:RetailPriceRegulation@ofgem.gov.uk)

Dear Christopher

Thank you for the opportunity to respond to your consultation on the Introduction of a Network Charge Compensation Scheme Allowance in the energy price cap.

While it is positive that Ofgem recognises the need for EII costs to be allowed for in the price cap, the proposed approach requires substantial revision to be fit for purpose. In particular, the final methodology needs to incorporate EII levy administration fees and reserve funds which are missing from Ofgem's current proposal. Ofgem should also ensure that EII exempt volumes are not erroneously included when calculating levy rates. Please find further detail in our specific responses to the consultation questions set out on the following pages.

It is unfortunate that the present consultation and engagement with stakeholders was not launched sooner given that the schedule for implementation of the EII levy has been known for some time. Prior engagement with industry could have enabled a more considered design solution from the outset and avoided the need for urgent clarifications around demand weighting while the consultation was on foot. Given that clarification was necessary, we would have welcomed a corrected model being published alongside this clarification for the avoidance of any confusion when responding to the consultation.

In future, we urge Ofgem to ensure that similar consultations on methodology for inclusion of other schemes such as the Nuclear RAB levy are conducted on a timely basis once the mechanism is known, even if precise timing remains to be confirmed. Doing so will allow the benefit of more industry stakeholder engagement to ensure correct functioning well-ahead of when the new costs commence.

Yours sincerely

James Knight

Regulatory Manager  
Industry Transformation, Governance & Forecasting  
**Centrica Regulatory Affairs & Policy**

## Appendix: response to consultation questions

Q1. Do you agree with our approach of placing this allowance in Annex 4?

Yes, as a policy cost, we believe this is the right annex to put this levy in.

Q2. Do you agree with our proposed methodology and relevant inputs we propose to base the NCC scheme allowance on?

No, the proposed methodology will create price cap allowances significantly below the EII levy costs that suppliers will face.

The Estimated Levy fund does not include all costs that suppliers will face through the EII levy. Reserve funds and administration costs (including additional costs of initiating the NCC scheme, to be recovered in the first year) are not catered for within the proposed methodology.

Suppliers are yet to know the true materiality of the EII levy costs but in a recent webinar<sup>1</sup> Elexon gave an example with a cost to industry of £55 million for the reserve fund alone in the first year of the scheme.

In principle we agree with the simplified rolling approach, given the expected quantum of the levy but we do not believe that cost elements should be systematically omitted.

Q3. If you do not agree with our proposals, do you have any views on alternative approaches Ofgem should consider?

There are two changes that should be made to the methodology:

- EII Levy Administrator costs should be included in the price cap allowance.
- EII Levy Reserve Fund costs should be included in the price cap allowance.

We also seek clarification in the methodology that in calculating the supplier metered volume input, Elexon should exclude all volume that is exempt of EII payments.

### EII levy costs

As per The Energy-Intensive Industry Electricity Support Payments and Levy Regulations 2024, suppliers will pay a share of the 'EII support payment total' not just the amounts in the 'Estimated Levy Fund'. The Estimated levy fund is purely the amount paid out to EII and does not include the costs of scheme administration or building up a reserve fund.<sup>2</sup>

Additional line items should be added for forecasts of administration costs and required reserve fund payments which should be sourced from Elexon. To align to the proposed methodology for 2025 price caps where 12 months of data will not be available, these estimates could be prorated to the number of months of industry volumes (i.e. 5 months and 11 months).

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<sup>1</sup> [NCC-supplier-webinar-slides-12-september-2024](#)

<sup>2</sup> [Elexon – Supplier Payments](#)

### **Industry metered volumes input**

Although we note that this is specified in the proposed annex, it is not clear in the consultation document methodology that only volumes that attract EII charges should be included in the industry volume input. Only at 3.13 is EII exemptible demand mentioned in reference to the market share calculation using suppliers' chargeable demand.

We suggest that the wording of the proposed methodology be changed to ensure this intention is reflected consistently and to avoid any ambiguity.