

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

Email: priceprotectionpolicy@ofgem.gov.uk

Date: 23 May 2025

Domestic Gas and Electricity (Tariff Cap) Act 2018

Section 5(2)

Modification to standard licence condition 28AD of all gas and electricity supply licences (the “Final Notice”)

1. Each of the companies to whom this Final Notice is addressed holds either (1) an electricity supply licence granted, or treated as granted, pursuant to section 6(1)(d) of the Electricity Act 1989 (an ‘electricity supply licence’); or (2) a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 (a ‘gas supply licence’).
2. In accordance with section 4(2) of the Domestic Gas and Electricity (Tariff Cap) Act 2018 (‘the 2018 Act’), the Gas and Electricity Markets Authority (‘the Authority’)¹ gave notice on 12 December 2024 (the ‘Notice’) of our proposal to modify Standard Licence Condition (SLC) 28AD (Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts) of the gas and electricity supply licences, namely the conditions which impose a cap on all standard variable and default rates that may be charged by the holders of a supply licence for the supply of gas or electricity under domestic supply contracts, subject to section 3 of the 2018 Act (exemptions from the tariff cap). We proposed to amend SLC 28AD, Annex 1 and Annex 5 of SLC 28AD of the Gas and Electricity Supply Licences to replace the Operating Cost (OC) and Payment Method Adjustment (PA) allowances with four new components: (i) a new Core Operating Cost (CO) allowance; (ii) a new Debt-Related Cost (DRC) allowance; (iii) a revised Smart Metering Net Cost Change (SMNCC) allowance; and (iv) a new Industry Charge (IC) allowance. We stated that

¹ The terms “the Authority” and “we” are used interchangeably in this document.

any representations to the modification proposal must be made on or before close of business:

- for our proposal to extend the current debt-related costs adjustment allowance by 11:59pm on 23 January 2025;
- for the rest of the proposals set out in the consultation by 11:59pm on 6 February 2025.

3. We received nine responses to our proposal to extend the current debt-related costs adjustment allowance and have published the non-confidential responses on our website. Most responses were in favour of the extension. On 25 February 2025, we confirmed our decision to proceed with our proposal. The letter is available at: <https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debt-allowances-consultation>.
4. We received 15 responses to the rest of the proposals set out in the consultation. We have published the non-confidential responses on our website. Most responses agreed with the restructuring of allowances into the four new components and with our approach to benchmarking costs. But concerns were raised with our approach to allocating costs between payment methods, the baseline period used to set allowances and potential for future cost pressures. A detailed description of the responses received and our consideration of them can be found across the decision documents at: <https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debt-allowances-consultation>. There were no substantive comments on the proposed modifications to the SLC 28AD set out in the Notice.
5. Under the powers set out in section 1 of the 2018 Act, the Authority has decided to modify the standard licence conditions for all gas and electricity supply licences, by amending SLC 28AD, Annex 1 and Annex 5 of SLC 28AD of the gas and electricity supply licences as detailed above (and in line with our proposals). The effect of this decision is to replace the OC and PA allowances with four new components: (i) a new Core Operating Cost (CO) allowance; (ii) a new Debt-Related Cost (DRC) allowance; (iii) a revised Smart Metering Net Cost Change (SMNCC) allowance; and (iv) a new Industry Charge (IC) allowance.
6. We have also made minor typographical and clarificatory changes to the modifications set out in the Notice, including the following:
 - Paragraph 28AD.40 of the Electricity Supply Licence and 28AD.33 of the Gas Supply Licence: included a sentence in the definition of the Core Operating

Cost Allowance to clarify that these costs do not include Debt-Related Costs and Industry Charges;

- Paragraph 28AD.12 of the Electricity Supply Licence: corrected the reference from paragraph 28A.6 to 28AD.6;
- Renamed 'Smart Metering Net Cost Change' to 'Smart Metering Net Cost Change Allowance' throughout the Electricity Supply Licence and the Gas Supply Licence.

7. The modifications are set out in Appendix 1 and 2. The Authority hereby publishes these modifications, pursuant to section 5 of the 2018 Act.

8. The modifications will take effect from 1 July 2025.

9. This Final Notice is published alongside a decision setting out our modifications to the gas and electricity supply licences. A detailed description of the reasons for the decision, the effects of these licence modifications, how we have taken account of any representations made, and, if applicable, the reasons for any difference between the modification and those set out in the Notice can be found in the accompanying documents (decision overview and appendices) to this Final Notice, which is available at: <https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debt-allowances-consultation>.

10. A copy of the modifications and other documents referred to in this Final Notice have been published on our website (<https://www.ofgem.gov.uk>). Alternatively, you can request a paper copy by emailing foi@ofgem.gov.uk.

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Daniel Newport

Deputy Director, Retail Price Protection

Duly authorised on behalf of the Gas and Electricity Markets Authority

23 May 2025

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

Deletions are denoted with a *strike-through* and new text is denoted with a *double underlining*.

Condition 28AD of the Electricity Supply Licence – Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts

Requirement to adhere to a Charge Restriction

28AD.1 In respect of each Relevant 28AD Customer and in accordance with the requirements of this condition, the licensee must ensure that at all times the aggregate amount of all Charges for Supply Activities applicable to each Relevant 28AD Customer does not exceed the Relevant Maximum Charge within each 28AD Charge Restriction Period.

28AD.2 Unless a direction has been issued by the Authority pursuant to paragraph 28AD.32 in order to comply with 28AD.1, the licensee must ensure that for each of its Tariffs the aggregate Charges for Supply Activities applicable to any Relevant 28AD Customer at any consumption level (x kWh) in respect of a 28AD Charge Restriction Period do not exceed the Relevant Maximum Charge.

Compliance in respect of Single-Register Tariffs

28AD.3 For all Single-Register Tariffs, compliance with the Charge Restriction will be assessed against the Relevant Maximum Charge determined on the basis of the Benchmark Metering Arrangement values for Single-Rate Metering Arrangements. The licensee must ensure that each of its Multi-tier Tariffs complies with the Charge Restriction for all possible divisions of consumption between the different months within the 28AD Charge Restriction Period.

Compliance in respect of Multi-Register Tariffs

28AD.4 For all Multi-Register Tariffs, compliance with the Charge Restriction will be assessed against the Relevant Maximum Charge determined on the basis of the Benchmark Metering Arrangement values for Multi-Register Metering Arrangements.

Scope of condition 28AD

28AD.5 This condition 28AD does not apply in relation to:

- (a) a Domestic Customer in respect of any periods of time during which that Domestic Customer benefits from the requirements of condition 28A; or
- (b) a Tariff chosen by a Domestic Customer in respect of which the Authority has issued a direction to the licensee under paragraph 28AD.25 to the effect that this condition 28AD does not apply to that Tariff by reason of section 3(2)(b) of the Act.

Determination of Relevant Maximum Charge

28AD.6 For each Benchmark Metering Arrangement (denoted l), Payment Method (denoted p), 28AD Charge Restriction Period of length t months (denoted j), and for each of the 14 Charge Restriction Regions (denoted i), the Relevant Maximum Charge for a given level of consumption x shall be determined by reference to the Benchmark Maximum Charges applicable during a Charge Restriction Period at two Benchmark Annual Consumption Levels denoted below as nil and m , as follows:

$$ChargeMax_{i,j,l,p}(x) = \left[ChargeMax_{i,j,l,p}(nil) \times \frac{t}{12} \right] + \left[\frac{ChargeMax_{i,j,l,p}(m) - ChargeMax_{i,j,l,p}(nil)}{m} \times x \right]$$

$ChargeMax(m)$ and $ChargeMax(nil)$ are defined as described in paragraph 28AD.7.

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:

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

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 <u>28AD</u> 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;
<u>$CO_{j,k,l,p}$</u>	means the <u>Core</u> 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;
<u>$DRC_{i,j,k,l,p}$</u>	means the <u>Payment Method Adjustment Debt-Related Cost Allowance</u> in Charge Restriction Region i , in <u>28AD</u> 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;
<u>$SMNCC_{j,k,p}$</u>	<u>means the Smart Metering Net Cost Change Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Payment Method p, calculated in accordance with paragraph 28AD.12A;</u>
<u>$IC_{j,k,l}$</u>	<u>means the Industry Charge Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, calculated in accordance with paragraph 28AD.12B;</u>
$E_{i,j,k,l,p}$	means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in <u>28AD</u> 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.

Wholesale cost allowance

28AD.8 For the purposes of paragraph 28AD.7, 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 shall be the sum of the Direct Fuel Cost Component and the Capacity Market Cost Component and, subject to paragraphs 28AD.15 and 28AD.16 below, calculated in accordance with the methodology and data sources set out in Annex 2. The value of the Wholesale Cost Allowance at nil consumption will be zero.

Network Cost Allowance

28AD.9 For the purposes of paragraph 28AD.7, 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 shall be calculated based on the data within the published charging statements of the Network Companies and, subject to paragraph 28AD.15 and 28AD.16 below, in accordance with the methodology and data sources set out in Annex 3. The day:night split used for calculating network charges shall be 58:42, unless the Authority issues a direction pursuant to paragraph 28AD.38 amending the percentages in paragraph 28A.21, in which case the new peak and off-peak consumption levels specified for all Economy 7 Tariffs shall also be used for calculating network charges.

Policy Cost Allowance

28AD.10 For the purposes of paragraph 28AD.7, the Policy Cost Allowance in ~~28AD~~ Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , is the cost of the environmental and social schemes set out in Annex 4 and, subject to paragraphs 28AD.15 and 28AD.16, calculated in accordance with the methodology and data sources set out in Annex 4.

Adjustment Allowance

28AD.10A For the purposes of paragraph 28AD.7, the Adjustment Allowance in ~~28AD~~ 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 a sum of adjustments to the default tariff cap, subject to paragraph 28AD.16, calculated in accordance with the methodology set out in Annex 8.

Core Operating Cost Allowance

28AD.11 For the purposes of paragraph 28AD.7, the Core Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l and for Payment Method p shall be calculated as follows:

$$\underline{\underline{CO_{j,k,l,p}OC_{j,k,l}} = (\underline{\underline{CO_{0,k,l,p}OC_{0,k,l}}} \times \frac{CPIH_j}{CPIH_0}) + \underline{\underline{SMNCC_{j,k,p}}}}$$

where:

$\underline{\underline{CO_{0,k,l,p}OC_{0,k,l}}}$ means the Baseline Value for the Core Operating Cost Allowance at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17A;

$CPIH_j$ means the value of the consumer prices index including owner occupiers' housing costs, series ID: L522 (the "CPIH Index"), published by the Office for National Statistics. The value used shall be chosen as follows:

- For the First Charge Restriction Period the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a Mid Charge Restriction Period beginning on 1 April of each year and ending on 30 September of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a Mid Charge Restriction Period beginning on 1 October of each year and ending on 31 March of the subsequent calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 June of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 December of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

$CPIH_0$ is the Initial Value of the CPIH Index for the Core Operating Cost Allowance, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17A.

~~$SMNCC_{j,k,p}$~~ is the value of the ~~Smart Metering Net Cost Change in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p comprising:~~

- ~~the Smart Metering Pass Through Net Cost Change, which the Authority will, subject to paragraph 7.28AD.15 and 7.28AD.16 below, determine and publish semi-annually in accordance with paragraph 28AD.19 or otherwise in accordance with paragraph 28AD.21A and in the format set out in Annex 5; and~~
- ~~the Smart Metering Non-Pass Through Net Cost Change, which the Authority will publish in the format set out in Annex 5 and:~~
 - ◊ ~~following consultation, re-publish in the format set out in Annex 5 following a review of the Smart Metering Non-Pass Through Net Cost Change which the Authority will undertake during the course of 2019, such re-publication to take effect for the 28AD Charge Restriction Period starting on 1 October 2019; and;~~
 - ◊ ~~otherwise, and subject to paragraphs 7.28AD.15 and 7.28AD.16 below, re-publish in the format set out in Annex 5 where it appears to the Authority that it is necessary to do so, such re-publication not to take effect before the first day of the 28AD Charge Restriction Period immediately following the date on which it is published.~~

Payment Method Adjustment Debt-Related Cost Allowance

28AD.12 For the purposes of paragraph 28AD.7, the ~~Payment Method Adjustment Debt-Related Cost 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 shall be calculated as follows:

$$\begin{aligned}
 PA_{i,j,k,l,p} &= \left(PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0} \right) \\
 &+ [PAP_{t,p} \\
 &\times (WC_{t,j,k,l} + NC_{t,j,k,l} + PC_{t,j,k,l} + AA_{t,j,k,l,p} + OC_{j,k,l,p})] \\
 DRC_{i,j,k,l,p} &= \left(AC_{0,k,p} \times \frac{CPIH_j}{CPIH_d} \right) \\
 &+ \left[BDC_{p=c} \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + AA_{i,j,k,l,p=c} + CO_{j,k,l,p=c} + SMNCC_{j,k,p=c} + IC_{j,k,l}) \right] \\
 &+ \left[BDC_{p=ppm} \times \left(WC_{i,j,k=m,l} + NC_{i,j,k=m,l} + PC_{i,j,k=m,l} + AA_{i,j,k=m,l,p=ppm} \right. \right. \\
 &\quad \left. \left. + CO_{j,k=m,l,p=ppm} + SMNCC_{j,k=m,p=ppm} + IC_{j,k=m,l} \right) \right] \\
 &+ \left[\left(WCC_p \times \frac{CoC_j}{CoC_0} \right) \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + AA_{i,j,k,l,p} + CO_{j,k,l,p} + \text{yellow box} SMNCC_{j,k,p} + IC_{j,k,l}) \right]
 \end{aligned}$$

where:

$k=m$ means Benchmark Annual Consumption Level m as defined in 28AD.6.

$p=c$ means Payment Methods Standard Credit and Other Payment Method.

$p=ppm$ means Payment Method Prepayment.

$PAC_{0,p}$ means the Baseline Value for the ~~Payment Method Adjustment~~
~~Additional Cost~~ Debt-Related Administrative Cost at Benchmark
Annual Consumption Level k , for Payment Method p , as published by
the Authority by way of a statement in Writing pursuant to paragraph
28AD.17A.

$PAP_{i,p}$ $BDC_{p=c}$ means the Baseline Value for the ~~Payment Method Adjustment~~
~~Percentage Debt-Related Bad Debt Cost~~, for Benchmark Metering
Arrangement i , for Payment Method p where p equals to c denoting
Payment Methods Standard Credit and Other Payment Method, as
published by the Authority by way of a statement in Writing pursuant
to paragraph 28AD.17A.

$BDC_{p=ppm}$ means the Baseline Value for the Debt-Related Bad Debt Cost, for
Payment Method p where p equals to ppm denoting Payment Method
Prepayment, as published by the Authority by way of a statement in
Writing pursuant to paragraph 28AD.17A.

WCC_p means the Baseline Value for the Debt-Related Working Capital Cost,
for Payment Method p , as published by the Authority by way of a
statement in Writing pursuant to paragraph 28AD.17A.

$CPIH_j$ has the meaning given to in paragraph 28AD.11.

$CPIH_{0d}$ has the meaning given to in paragraph 28AD.11 is the Initial Value of
the CPIH Index for the Debt-Related Cost Allowance, as published by
the Authority by way of a statement in Writing pursuant to paragraph
28AD.17A.

CoC_j means the Cost of Capital in 28AD Charge Restriction Period j , as used
in the calculation of the Earnings Before Interest and Tax Margin
Percentage.

CoC_0 means the Initial Value of the Cost of Capital for the 28AD Charge
Restriction Period, as published by the Authority by way of a
statement in Writing pursuant to paragraph 28AD.17A.

Smart Metering Net Cost Change Allowance

28AD.12A For the purposes of paragraph 28AD.7, the Smart Metering Net Cost Change
Allowance in 28AD Charge Restriction period j , at Benchmark Annual

Consumption Level k , for Payment Method p is the value of the **Smart Metering Non-Pass Through Net Cost Change Allowance**, which the Authority will publish in the format set out in Annex 5; and, subject to paragraphs 28AD.15 and 28AD.16 below, re-publish in the format set out in Annex 5 where it appears to the Authority that it is necessary to do so, such re-publication not to take effect before the first day of the 28AD Charge Restriction Period immediately following the date on which it is published.

Industry Charge Allowance

28AD.12B For the purposes of paragraph 28AD.7, the Industry Charge Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l is the sum of pass-through industry charges set out in Annex 5 and, subject to paragraphs 7.28AD.15 and 7.28AD.16, determined and published semi-annually in accordance with paragraph 28AD.19 or otherwise in accordance with paragraph 28AD.21A and with the methodology and data sources set out in Annex 5.

Earnings Before Interest and Tax Allowance

28AD.13 For the purposes of paragraph 28AD.7, 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 Benchmark Metering Arrangement l , for Payment Method p , shall be calculated as follows:

$$E_{i,j,k,l,p} = \text{EBIT Fixed Component}_j + ((\text{EBIT Percentage}_{j,j} \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + AA_{i,j,k,l,p} + OC_{j,k,l,p} + PA_{i,j,k,l,p} + CO_{j,k,l,p} + DRC_{i,j,k,l,p} + SMNCC_{j,k,p} + IC_{j,k,l}))$$

where:

EBIT Fixed Component means the Baseline Value for the Earnings Before Interest and Tax Margin Fixed Component, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17.

EBIT Percentage means the Baseline Value for the Earnings Before Interest and Tax Margin Percentage, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17.

Headroom

28AD.14 For the purposes of paragraph 28AD.7, 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 , shall be calculated as follows:

$$H_{i,j,k,l,p} = HAP \times (WC_{i,j,k,l} + PC_{i,j,k,l} + AA_{i,j,k,l,p} + OC_{j,k,l,p} + PA_{i,j,k,l,p} + CO_{j,k,l,p} + DRC_{i,j,k,l,p} + SMNCC_{j,k,p} + IC_{j,k,l} + E_{i,j,k,l,p})$$

where:

HAP means the Baseline Value for the Headroom Allowance Percentage, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17.

~~*PA_{i,j,k,l,p}*~~ means the ~~Payment Method Adjustment 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.12.~~

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 ~~w~~Writing to terminate or suspend the Levelisation Policy, following consultation, the value of the Levelisation Allowance is zero.

Data sources

28AD.15 If the external data sources referred to in Annexes 2, 3, 4 or 5 are no longer available, the Authority may replace the data sources set out in Annexes 2, 3, 4 or 5 (as applicable) with any suitable successor data sources. If the Authority cannot identify a suitable successor data source, it may, following consultation, either replace the data with an alternative data source, or amend the form of the model to reflect the change in data availability.

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 ~~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, 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 Allowance, Industry Charge Allowance, 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, Annex 8 or Annex 9 such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

Determination and publication of Benchmark Maximum Charges and other values

28AD.17 No later than 1 January 2019, the Authority will publish by way of a statement in Writing the Baseline Values and the Initial Value of the CPIH Index, calculated in the format specified in Annex 1.

28AD.17A No later than 1 July 2025, the Authority will publish by way of a statement in Writing the Baseline Values, and the Initial Values of the CPIH Index for the Core Operating Cost Allowance and the Debt-Related Cost Allowance, and the Initial Value of the Cost of Capital for the Debt-Related Cost Allowance, calculated in the format specified in Annex 1.

28AD.18 No later than 1 January 2019, the Authority will:

- (a) determine the Benchmark Maximum Charges which shall apply for the First Charge Restriction Period j by calculating such values in accordance with paragraph 28AD.7; and
- (b) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

28AD.19 For each Subsequent Charge Restriction Period, subject to paragraphs 28AD.20, 28AD.21 and 28AD.21A the Authority will, at least 25 working days before the start of a forthcoming 28AD Charge Restriction Period j :

- (a) determine the updated Benchmark Maximum Charges which shall apply for any forthcoming 28AD Charge Restriction Period j by calculating such values in accordance with paragraph 28AD.7;
- (b) in so determining the updated Benchmark Maximum Charges which shall have effect from the first day of any forthcoming 28AD Charge Restriction Period j , 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.19(c), provided that any such modification has come into effect by no later than the first date of any forthcoming 28AD Charge Restriction Period j ; and
- (c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

28AD.20 If the information that is required to calculate one or more of the values referred to at paragraph 28AD.18(a) or paragraph 28AD.19(a) is unavailable at the time of the calculation, the Authority may use an alternative source to set the values to determine the Benchmark Maximum Charges. In that event, the Authority will publish the alternative value(s) it has used to determine the Benchmark

Maximum Charges at the same time as publishing the Benchmark Maximum Charges.

28AD.21 If, owing to a technical issue, the Authority is unable to publish the Benchmark Maximum Charges or the values referred to at paragraph 28AD.18(a) or paragraph 28AD.19(a) within the timetable set out in paragraph 28AD.18 or paragraph 28AD.19, it will publish such Benchmark Maximum Charges or values without delay following resolution of the technical issue.

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, 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.

Duration of the Charge Restriction

28AD.22 This condition will come into force on 1 January 2019 and will cease to have effect on a date specified by the Secretary of State.

28AD.23 Not Used

Direction for the purposes of section 3(2)(b) of the Act (Renewable Tariff Exemption)

28AD.24 The licensee may apply to the Authority to request a direction that a particular Tariff complies with section 3(2)(b) of the Act such that this condition 28AD does not apply pursuant to paragraph 28AD.5.

28AD.25 The Authority may issue a direction following an application made pursuant to paragraph 28AD.24 where the licensee can provide evidence to the reasonable satisfaction of the Authority that all of the following conditions are met:

- (a) the Domestic Customer has chosen an Evergreen Supply Contract;
- (b) the Tariff relating to that Evergreen Supply Contract supports the generation of electricity from renewable sources to an extent that is materially greater than that which may otherwise be brought about as a result of subsidies, obligations or other mandatory mechanisms; and
- (c) the cost to the licensee of supplying electricity by virtue of the particular Tariff relating to that Evergreen Supply Contract is materially greater than the Relevant Maximum Charge for reasons that are directly attributable to the support that Tariff provides to the generation of electricity from renewable sources.

28AD.26 The Authority may refuse to issue a direction pursuant to paragraph 28AD.25 where it is not satisfied that the materially greater cost referred to at paragraph 28AD.25(c) reflects an efficient level of the costs associated with that licensee's supply of electricity by virtue of the particular Tariff.

28AD.27 The licensee must comply at all times with the terms of any direction issued pursuant to paragraph 28AD.25.

28AD.28 The licensee must ensure that any information provided to the Authority pursuant to paragraph 28AD.24, 28AD.25, and/or 28AD.29 is accurate, and must immediately notify the Authority upon becoming aware that any such information is false and/or misleading.

28AD.29 The licensee must give the Authority any information that it reasonably requests about the licensee's compliance with any direction issued pursuant to paragraph 28AD.25 as soon as reasonably practicable after receiving a request.

28AD.30 The Authority may at any time revoke any direction issued pursuant to paragraph 28AD.25 where:

- (a) it appears to the Authority that any information provided by the licensee pursuant to paragraph 28AD.25 is inaccurate; and
- (b) the licensee is unable promptly to provide information which the Authority considers is evidence to its reasonable satisfaction that each of the conditions set out at paragraphs 28AD.25(a)-(c) are met.

28AD.31 The Authority may issue a direction pursuant to paragraph 28AD.25 in accordance with guidance issued by the Authority from time to time.

Direction for alternative compliance assessment

28AD.32 The licensee may apply to the Authority to request a direction concerning the compliance of a particular Tariff with the Charge Restriction where, due to the

structure of the relevant Tariff, the Charges for Supply Activities at certain consumption levels would exceed the Relevant Maximum Charge, but the licensee can provide evidence to the reasonable satisfaction of the Authority that it is unlikely that Relevant 28AD Customers subject to such Tariff will have a consumption level which would cause them to incur Charges for Supply Activities in excess of the Relevant Maximum Charge.

28AD.33 If the Authority has issued a direction to the licensee pursuant to paragraph 28AD.32, the licensee must comply with such direction and must determine, at the end of each 28AD Charge Restriction Period, whether any Relevant 28AD Customer has in fact incurred Charges for Supply Activities in excess of the Relevant Maximum Charge. If the licensee determines that this is the case, the licensee must:

- (a) inform the Authority in Writing without delay; and
- (b) pay a rebate to, or credit the account of, each such Relevant 28AD Customer equal to the difference between the Charges for Supply Activities actually incurred (or, if the Tariff is a Multi-Register Tariff, the difference between the Charges for Supply Activities calculated on the basis of the Assumed Consumption Split) by Relevant 28AD Customers and the Relevant Maximum Charge within 30 days of the end of the relevant 28AD Charge Restriction Period.

Assumed Consumption Split where the Tariff varies by time of consumption or purpose (Multi-Register Tariffs)

28AD.34 For the purpose of assessing compliance of Multi-Register Tariffs with the Charge Restriction pursuant to paragraph 28A.4 in calculating the aggregate amount of all Charges for Supply Activities, consumption in different periods will be weighted using an Assumed Consumption Split determined in accordance with paragraph 28A.21.

28AD.35 For the purpose of the review to be carried out pursuant to paragraph 28AD.33, in calculating the Charges for Supply Activities incurred by Relevant 28AD Customers on any given Tariff, consumption in different peak and off-peak periods will be weighted using an Assumed Consumption Split determined in accordance with paragraph 28A.21.

28AD.36 The Assumed Consumption Splits shall apply across Great Britain, reflect annual consumption patterns, and be determined as follows:

- (a) in respect of each Economy 7 Tariff, off-peak and peak consumption levels of 42% and 58%, respectively, shall be the Assumed Consumption Split, subject to any direction from the Authority issued pursuant to paragraph 28AD.38;
- (b) in respect of each Multi-Register Tariff (other than an Economy 7 Tariff), the Assumed Consumption Split shall be based on historic consumption data or, in the absence of historic data, on a reasonable estimate of the

average consumption split, subject to any direction from the Authority issued pursuant to paragraph 28AD.38.

28AD.37 In respect of each Multi-Register Tariff (other than an Economy 7 Tariff), the licensee must:

- (a) notify the Authority in Writing of the Assumed Consumption Split with accompanying relevant data relating to the historic consumption of their customers:
 - (i). for the First Charge Restriction Period, on the date on which this condition will come into force for the purposes of paragraph 28AD.22; and
 - (ii). for each 28AD Charge Restriction Period that is not the First Charge Restriction Period:
 - A. no less than three months before the beginning of each relevant 28AD Charge Restriction Period, or on the date on which this condition will come into force for the purposes of paragraph 28AD.22 (whichever is later); or
 - B. if a Tariff is capable of being entered into for the first time at a date after the beginning of a 28AD Charge Restriction Period, two months before that date; and
- (b) when historic data are not available in relation to a particular Tariff, the licensee must:
 - (i). notify the Authority as per paragraph 28AD.37(a) its forecast of the average consumption split relevant to that Tariff (which shall be used as the Assumed Consumption Split), as well as evidence supporting this forecast, and
 - (ii). no later than three months after the last day of each 28AD Charge Restriction Period, notify in Writing to the Authority the actual average consumption usage split for that Tariff in the previous 28AD Charge Restriction Period.

28AD.38 The licensee must comply with any direction which the Authority may issue, having first sought representations from the licensee (to which the Authority will have regard), to use an alternative Assumed Consumption Split in relation to one or more Multi-Register Tariffs. This Assumed Consumption Split shall be notified:

- (a) in relation to a Multi-Register Tariff capable of being entered into for the first time at a date after the beginning of a 28AD Charge Restriction Period, no later than one month before the launch of that Tariff; and
- (b) in relation to any other Multi-Register Tariff, no later than the date on which the Benchmark Maximum Charges are published pursuant to paragraph 28AD.19.

28AD.39 The licensee must comply with any direction which the Authority may issue, after consultation with the licensee, to pay a rebate to Relevant 28AD Customers if, due to a discrepancy between the forecast and actual average consumption splits referred to in paragraph 28A.22(b), Relevant 28AD Customers either individually or collectively incurred Charges for Supply Activities materially in excess of the Relevant Maximum Charge.

Definitions for condition

28AD.40 In this condition:

'Act' means the Domestic Gas and Electricity (Tariff Cap) Act 2018 (as amended from time to time);

'Adjustment Allowance' means a sum of adjustments to the default tariff cap, 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*, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out in Annex 8.

'Assumed Consumption Split' means the assumed percentage consumption split between each rate relevant to a Multi-Register Metering Arrangement, determined pursuant to paragraph 28A.21;

'Baseline Value' means the values as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 or 28AD.17A, and in the format set out at Annex 1. These are the values of the Baseline Value for the Core Operating Cost Allowance, the Headroom Allowance Percentage, the Earnings Before Interest and Tax Margin Percentage, the Earnings Before Interest and Tax Margin Fixed Component, ~~the Payment Method Adjustment Additional Cost and Payment Method Adjustment Percentage and the Debt-Related Cost Allowance.~~

'Benchmark Annual Consumption Levels' means the benchmark annual consumption levels nil kWh and *m* kWh, where *m* shall respectively take the following values:

For Single-Register Metering Arrangements
m = 3,100 kWh;

For Multi-Register Metering Arrangements
m = 4,200 kWh.

'Benchmark Maximum Charge' means one of the benchmark maximum charge values (in pounds sterling and exclusive of value-added tax), which are unique to a specific Benchmark Annual Consumption Level, Charge Restriction Region, Benchmark Metering Arrangement and Payment Method, and are updated ~~on a semi-annual basis~~ by the Authority pursuant to paragraphs 28AD.18 to 28AD.19 or otherwise in accordance with paragraph 28AD.21A;

'Benchmark Metering Arrangement' means either a Single-Rate Metering Arrangement or a Multi-Register Metering Arrangement, to be used for the purpose of this licence condition pursuant to 28A.3 and 28A.4; for the purposes of applying Annexes 1 to 6 when determining the Benchmark Maximum Charge pursuant to paragraph 28AD.7, means using: (a) the values set out in the rows or columns (as applicable) headed 'Single-Rate Metering Arrangement' for determining the Benchmark Maximum Charge for Single-Rate Metering Arrangements; and (b) the values set out in the rows or columns (as applicable) headed 'Multi-Register Metering Arrangements' for determining the Benchmark Maximum Charge for Multi-Register Metering Arrangements;

'Charge Restriction' means the obligation set out in paragraph 28AD.1;

'28AD Charge Restriction Period' means a period, between 1 January 2019 and the end date specified by the Secretary of State, either:

- the First Charge Restriction Period;
- the Mid Charge Restriction Periods;
- a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 June of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 December of the same calendar year.

'Capacity Market Cost Component' means the component of the Wholesale Cost Allowance that is calculated to reflect suppliers' costs in relation to the capacity market scheme, in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 2;

'Charge Restriction Region' means a Distribution Services Area;

'Charges for Supply Activities' has the meaning given to that term in standard condition 22A;

'Core Operating Cost Allowance' means the amount calculated to reflect an efficient level of the costs associated with suppliers' own internal operating costs (~~including a normal level of profit~~) in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.11. For the avoidance of doubt, these costs do not include Debt-Related Costs and Industry Charges, which are set as separate allowances;

'Cost of Capital' means the percentage value of the nominal pre-tax cost of equity in 28AD Charge Restriction Period j , as used in the calculation of the Earnings Before Interest and Tax Margin Percentage;

'CPIH Index' has the meaning given to it at paragraph 28AD.11;

'28AD Default Fixed Term Contract' means any type or part of a Domestic Supply Contract or any other contractual arrangement which may apply or be deemed to apply to

a Domestic Customer, including by virtue of any law or enactment ("other contractual arrangement") which:

- (a) contains any terms and conditions which apply for a fixed term period; and
- (b) comes into effect automatically or at the discretion of the licensee after the expiry or termination of any type or part of a previous Domestic Supply Contract or, where applicable, other contractual arrangement ("previous contract") either:
 - (i) by virtue of the terms and conditions provided for in that previous contract (and, for the purposes of this definition, it is irrelevant whether or not the Domestic Customer originally agreed to any terms and conditions which purported to permit that automatic effect or discretion of the licensee); or
 - (ii) otherwise by the operation of the law or any provision of an enactment;

'Debt-Related Administrative Cost' means the amount calculated to reflect an efficient level of debt-related administrative costs of a notional supplier at Benchmark Annual Consumption Level *k*, for Payment Method *p*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17A and in the format set out in Annex 1;

'Debt-Related Bad Debt Cost' means the percentage amount calculated to reflect an efficient level of bad debt costs of a notional supplier for Payment Method *p*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17A and in the format set out in Annex 1;

'Debt-Related Cost Allowance' means the amount calculated to reflect an efficient level of the debt-related costs of a notional supplier in Charge Restriction Region *i*, 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.12.

'Debt-Related Working Capital Cost' means the percentage amount calculated to reflect an efficient level of debt-related working capital costs of a notional supplier for Payment Method *p*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17A and in the format set out in Annex 1;

'Direct Fuel Cost Component' means the component of the Wholesale Cost Allowance that is calculated to reflect the cost of wholesale electricity purchases in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out in Annex 2;

'Earnings Before Interest and Tax Allowance' means the amount to reflect a return on capital, calculated by the sum of

- a) the figure arrived at by applying the Earnings Before Interest and Tax Margin Percentage by the sum of the Wholesale Cost Allowance, the Network Cost

Allowance, the Policy Cost Allowance, the Adjustment Allowance, the Core Operating Cost Allowance, ~~and the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance and the Industry Charge Allowance in Charge Restriction Region i , 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p ; and

b) the Earnings Before Interest and Tax Fixed Component, which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.13;

‘Earnings Before Interest and Tax Fixed Component’ means the amount, expressed as a value as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 and in the format set out in Annex 1, in order to calculate part of the Earnings Before Interest and Tax Allowance;

‘Earnings Before Interest and Tax Margin Percentage’ means the value, expressed as a percentage as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 and in the format set out in Annex 1, by which the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Adjustment Allowance, the Core Operating Cost Allowance, ~~and the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance and the Industry Charge Allowance are to be multiplied in order to calculate part of the Earnings Before Interest and Tax Allowance;

‘Economy 7 Tariff’ means a Tariff whereby a Domestic Customer is charged on the basis of two separate Unit Rates, where in each period of 24 hours the peak electricity consumption level is recorded during 17 ‘day/normal’ hours and the off-peak electricity consumption level is recorded during seven ‘night/low’ hours;

‘First Charge Restriction Period’ means the period beginning on 1 January 2019 and ending on 31 March 2019;

‘Headroom Allowance’ means the amount which is additional to the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Core Operating Cost Allowance, ~~the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance, the Industry Charge Allowance and 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 Benchmark Metering Arrangement l , for Payment Method p , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.14;

‘Headroom Allowance Percentage’ means the value, expressed as a percentage as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 and in the format set out in Annex 1, by which the Wholesale Cost Allowance, the Policy Cost Allowance, the Core Operating Cost Allowance, ~~the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance, the Industry Charge Allowance and the Earnings Before Interest and Tax Allowance is to be multiplied in order to calculate the Headroom Allowance;

'Industry Charge Allowance' means:

- (a) an amount calculated to reflect the costs (if any) that the licensee is required to pay by way of charging statements for service charges to Smart DCC Ltd in accordance with condition 19 of the Smart Meter Communication Licence;
- (b) an amount calculated to reflect the costs (if any) that the licensee is required to pay to meet the capital costs and reasonably incurred costs of Smart Metering Communications Body Limited (trading as Smart Energy GB), being the body corporate carrying out the role of consumer engagement in relation to Smart Metering Systems, in accordance with (as applicable) standard condition 45.24 or condition 45A.36 of the Electricity Supply Licence; and
- (c) an amount calculated to reflect the costs (if any) that the licensee is required to pay for service charges to Elexon, in accordance with standard condition 11 of the Electricity Supply Licence;
- (d) an amount calculated to reflect the costs (if any) that the licensee is required to pay by way of charging statements for service charges to the Retail Energy Code Company (RECCo), in accordance with standard condition 11B of the Electricity Supply Licence; and
- (e) an amount calculated to reflect the costs (if any) that the licensee is required to pay for service charges to DCUSA Ltd in accordance with standard condition 11 of the Electricity Supply Licence,

in each case adjusted in the manner set out in Annex 5;

'Initial Value of the CPIH Index' means the initial value of the consumer prices index including owner occupiers' housing costs, series ID: L522, as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 or 28AD.17A, and in the format set out at Annex 1;

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

'Metering Arrangement' means, for the purpose of this licence condition, using one or more Electricity Meters for the purpose of a Tariff whereby a Domestic Customer is charged either on the basis of a Multi-Register Metering Arrangement or on the basis of a Single-Register Metering Arrangement;

'Mid Charge Restriction Periods' means the six-month periods beginning on 1 April 2019 and ending on 30 September 2022;

'Multi-tier Metering Arrangement' means using an Electricity Meter for the purpose of a Tariff whereby a Domestic Customer is charged on the basis of a Unit Rate which varies according to the Domestic Customer's electricity consumption over a defined period of time;

'Multi-tier Tariff' means a Tariff whereby a Domestic Customer incurs Charges for Supply Activities on the basis of a Multi-tier Metering Arrangement;

'Multi-Register Metering Arrangement' means using one or more Electricity Meters for the purpose of a Tariff whereby a Domestic Customer's electricity consumption at certain times, or for certain purposes (for example, heating), or both, is separately recorded - on one or more registers - and includes any contractual arrangement whereby the Domestic Customer is charged on the basis of Time of Use Rates (regardless of the metering equipment employed);

'Multi-Register Tariff' means a Tariff whereby a Domestic Customer incurs Charges for Supply Activities on the basis of a Multi-Register Metering Arrangement;

'Network Company' means any person holding a licence granted under section 6(1)(b) or 6(1)(c) of the Electricity Act 1989;

'Network Cost Allowance' means the amount calculated to reflect the costs associated with transmission, distribution and balancing charges in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 3;

'Other Payment Method' means any Payment Method that is not Standard Credit or Prepayment;

'Prepayment' means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Metering System running in Prepayment Mode;

'Payment Method' means:

(a) in relation to any Relevant 28AD Customer that is not a Relevant 28AD Warm Home Discount Customer, the method by which that Relevant 28AD Customer pays for Charges for Supply Activities, being either Standard Credit, Prepayment or Other Payment Method; or

(b) in relation to a Relevant 28AD Warm Home Discount Customer, Other Payment Method;

~~**'Payment Method Adjustment'** means the amount calculated to reflect any additional costs associated with the Payment Method p , in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 10345021.28AD.12;~~

'Payment Method Adjustment Additional Cost' means the amount of additional administrative costs allocated to each Payment Method p , as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 and in the format set out in Annex 1;

'Payment Method Adjustment Percentage' means the amount of additional bad debt and working capital costs allocated to the Payment Method p , for Benchmark Metering Arrangement l , expressed as a percentage as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 and in the format set out in Annex 1;

'Policy Cost Allowance' means the amount calculated to reflect the costs associated with electricity suppliers' environmental and social obligations in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 4;

'Relevant 28AD Customer' means a Domestic Customer supplied by virtue of the Electricity Supply Licence held by the licensee and which is subject to an Evergreen Supply Contract, a Deemed Contract or a 28AD Default Fixed Term Contract;

'Relevant 28AD Warm Home Discount Customer' means a Relevant 28AD Customer with a payment method of Standard Credit or Other Payment Method, excluding Prepayment, which falls into at least one of the categories listed at Annex 7 to this condition 28AD;

'Relevant Maximum Charge' means for each Relevant 28AD Customer the maximum charge amount (in pounds sterling, excluding value added tax) for any consumption level, calculated in accordance with paragraph 28AD.6;

'Single-Rate Metering Arrangement' means using one or more Electricity Meters for the purpose of a Tariff whereby a Domestic Customer is required to pay for the Charges for Supply Activities on the basis of a single Unit Rate;

'Single-Register Metering Arrangement' means any Metering Arrangement which is not a Multi-Register Metering Arrangement, and includes a Single-Rate Metering Arrangement (regardless of the metering equipment employed) and a Multi-Tier Metering Arrangement in which the Unit Rate does not vary according to the time of use;

'Single-Register Tariff' means a Tariff whereby a Domestic Customer is required to pay for the Charges for Supply Activities on the basis of a Single-Register Metering Arrangement;

'Smart Metering Net Cost Change Allowance' means the value of the Smart Metering Non-Pass-Through Net Cost Change Allowance calculated in accordance with the methodology set out at Annex 5, for the periods and within the timeframes specified in this condition 28AD, which is used to update the level of the Core Operating Cost Allowance and

~~which is comprised of the Smart Metering Pass Through Net Cost Change and the Smart Metering Non-Pass Through Net Cost Change;~~

'Smart Metering Non-Pass Through Net Cost Change Allowance' means the amounts that the licensee is required to pay in connection with a Smart Metering System as set out in Annex 5 ~~and which are not otherwise Smart Metering Pass Through Net Cost Change.~~ For the avoidance of doubt, these costs are distinct from the Smart Metering Pass-Through costs which are now included in the Industry Charge Allowance;

~~**'Smart Metering Pass Through Net Cost Change'** means:~~

- ~~(f) an amount calculated to reflect the costs (if any) that the licensee is required to pay by way of charging statements for service charges to Smart DCC Ltd in accordance with condition 19 of the Smart Meter Communication Licence;~~
- ~~(g) an amount calculated to reflect the costs (if any) that the licensee is required to pay to meet the capital costs and reasonably incurred costs of Smart Metering Communications Body Limited (trading as Smart Energy GB), being the body corporate carrying out the role of consumer engagement in relation to Smart Metering Systems, in accordance with (as applicable) condition 45.24 or condition 45A.36; and~~
- ~~(h) an amount calculated to reflect the costs (if any) that the licensee is required to pay in connection with the administration of the Smart Metering Installation Code of Practices, such administration being required pursuant to conditions 41 and 42,~~

~~in each case adjusted in the manner set out in Annex 5;~~

'Standard Credit' means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities, where electricity is not supplied through a Prepayment Meter, and such payment is not drawn automatically from a Domestic Customer's bank account by reason of a direct debit authorisation or otherwise;

'Subsequent Charge Restriction Period' means any 28AD Charge Restriction Period which is not the First Charge Restriction Period nor a Mid Charge Restriction Period;

'Tariff' means a Tariff in respect of any Domestic Supply Contract or Deemed Contract with a Relevant 28AD Customer;

'Wholesale Cost Allowance' means the amount calculated to reflect the cost of wholesale electricity in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , the components of which are the Direct Fuel Cost Component and the Capacity Market Component, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 2.

Annex 1 – Format for publishing Baseline Values and Initial Value of the CPIH Index

Baseline Values

Core Operating Cost Allowance

	<u>Single-Rate Metering Arrangement</u> (benchmark consumption per annum, k)		<u>Multi-Register Metering Arrangement</u> (benchmark consumption per annum, k)	
	<u>Single-Rate Metering Arrangement</u> (benchmark consumption per annum, k)	<u>Single-Rate Metering Arrangement</u> (benchmark consumption per annum, k)	<u>Multi-Register Metering Arrangement</u> (benchmark consumption per annum, k)	<u>Multi-Register Metering Arrangement</u> (benchmark consumption per annum, k)
Payment Method p	Nil kWh	m (3,100 kWh)	Nil kWh	m (4,200kWh)
$\Theta_{\theta,k,t}$ <u>Standard Credit</u>				
<u>Prepayment</u>				
<u>Other Payment Method</u>				

Headroom Allowance Percentage

HAP	
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Earnings Before Interest and Tax Margin Allowance

EBIT Fixed Component	
EBIT Percentage	

Payment Method Adjustment Percentage (PAP)

Payment Method p	<u>Single-Rate Metering Arrangement</u>	<u>Multi-Register Metering Arrangement</u>
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Standard Credit		
Prepayment		
Other Payment Method		

Debt-Related Cost Allowance

		<u>Single-Rate Metering Arrangement (benchmark consumption per annum, k)</u>	<u>Multi-Register Single-Rate Metering Arrangement (benchmark consumption per annum, k)</u>	<u>Single-Rate Multi-Register Metering Arrangement (benchmark consumption per annum, k)</u>	<u>Multi-Register Metering Arrangement (benchmark consumption per annum, k)</u>
	<u>Payment Method p</u>	<u>Nil kWh</u>	<u>m (3,100 kWh)</u>	<u>Nil kWh</u>	<u>m (3,100 4,200 kWh)</u>
<u>Debt-Related Administrative Cost (AC)</u>	<u>Standard Credit</u>				
	<u>Prepayment</u>				
	<u>Other Payment Method</u>				
<u>Debt-Related Bad Debt Cost (BDC)</u>	<u>Standard Credit</u>				
	<u>Prepayment</u>				
	<u>Other Payment Method</u>				
<u>Debt-Related Working Capital Cost (WCC)</u>	<u>Standard Credit</u>				
	<u>Prepayment</u>				
	<u>Other Payment Method</u>				

Payment Method Adjustment Additional Cost

<u>Payment Method p</u>	<u>PAAC_{0, p}</u>
<u>Standard Credit</u>	
<u>Prepayment</u>	
<u>Other Payment Method</u>	

Initial Values

Initial Value of the Cost of Capital

<u>CoC₀</u>	
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Initial Value of the CPIH Index for the Core Operating Cost Allowance

CPIH ₀	
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Initial Value of the CPIH Index for the Debt-Related Cost Allowance

<u>CPIH_d</u>	
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Annex 2 – Methodology for determining the Wholesale Cost Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 3 – Methodology for determining the Network Cost Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 4 – Methodology for determining the Policy Cost Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 5 – Methodology for determining the Smart Metering Net Cost Change and Industry Charge Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit

Region, <i>i</i>	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)		Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)	
	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)
	Nil kWh	<i>m</i> (3,100kWh)	Nil kWh	<i>m</i> (4,200kWh)
North West				
Northern				
Yorkshire				
Northern Scotland				
Southern				
Southern Scotland				
N Wales and Mersey				
London				
South East				
Eastern				
East Midlands				
Midlands				
Southern Western				
South Wales				

Other Payment Method

Region, <i>i</i>	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)		Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)	
	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)
	Nil kWh	<i>m</i> (3,100kWh)	Nil kWh	<i>m</i> (4,200kWh)
North West				
Northern				
Yorkshire				
Northern Scotland				
Southern				
Southern Scotland				
N Wales and Mersey				
London				
South East				
Eastern				
East Midlands				
Midlands				
Southern Western				
South Wales				

Prepayment

Region, <i>i</i>	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)		Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)	
	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)	Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>)
	Nil kWh	<i>m</i> (3,100kWh)	Nil kWh	<i>m</i> (4,200kWh)
North West				
Northern				
Yorkshire				
Northern Scotland				
Southern				
Southern Scotland				
N Wales and Mersey				
London				
South East				
Eastern				
East Midlands				
Midlands				
Southern Western				
South Wales				

Annex 7 - Categories of Relevant 28AD Warm Home Discount Customers

A7.1 The categories referred to in the definition of Relevant 28AD Warm Home Discount Customer are set out at paragraphs A7.2-A7.4 below.

Relevant 28AD Customer Identified in Scheme Year 6

A7.2 Where the Relevant 28AD Customer was Identified in Scheme Year 6, that Relevant 28AD Customer is a Relevant 28AD Warm Home Discount Customer.

Relevant 28AD Customer Identified in Scheme Year 7

A7.3 Where the Relevant 28AD Customer was Identified in Scheme Year 7, that Relevant 28AD Customer is a Relevant 28AD Warm Home Discount Customer.

Relevant 28AD Customer Identified in Scheme Year 8

A7.4 Where the Relevant 28AD Customer was Identified in Scheme Year 8, that Relevant 28AD Customer is a Relevant 28AD Warm Home Discount Customer.

Definitions for Annex 7

A7.5 In this Annex 7:

"Identified" means

- (a) In respect of Scheme Year 8, either:
 - (i) the licensee has received a notice under regulation 6(1) of the Regulations which specifies the Relevant 28AD Customer
 - (ii) the licensee has determined that the Relevant 28AD Customer is to receive the prescribed rebate (as defined in the Regulations) pursuant to Chapter 2 of the Regulations; or
 - (iii) the Relevant 28AD Customer has received the prescribed rebate from the licensee (as defined in the Regulations)
- (b) In respect of Scheme Year 6 and Scheme Year 7, where the Relevant 28AD Customer has received the prescribed rebate from the licensee (as defined in the Regulations);

"Regulations" means the Warm Home Discount Regulations 2011 (SI 2011/1033) (as amended from time to time);

"Scheme Year 6" has the meaning given to that term in paragraph 2 of the Regulations, being the period from 23 July 2016 to 31 May 2017;

"Scheme Year 7" has the meaning given to that term in paragraph 2 of the Regulations, being the period from 1 June 2017 to 31 March 2018;

"Scheme Year 8" has the meaning given to that term in paragraph 2 of the Regulations, being the period from 15 August 2018 to 31 March 2019.

Annex 8 – Methodology for Adjustment Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/decision-potential-impact-covid-19-default-tariff-cap> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 9 – Methodology for determining the Levelisation Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications/changes-prepayment-meterstanding-charges-and-other-debt-costs> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

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

Deletions are denoted with a *strike-through* and new text is denoted with a *double underlining*.

Condition 28AD of the Gas Supply Licence – Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts

Requirement to adhere to a Charge Restriction

- 28AD.1 In respect of each Relevant 28AD Customer and in accordance with the requirements of this condition, the licensee must ensure that at all times the aggregate amount of all Charges for Supply Activities applicable to each Relevant 28AD Customer does not exceed the Relevant Maximum Charge within each 28AD Charge Restriction Period.
- 28AD.2 Unless a direction has been issued by the Authority pursuant to paragraph 28AD.31, in order to comply with paragraph 28AD.2, the licensee must ensure that for each of its Tariffs the aggregate Charges for Supply Activities applicable to any Relevant 28AD Customer at any consumption level (x kWh) in respect of a 28AD Charge Restriction Period do not exceed the Relevant Maximum Charge.
- 28AD.3 The licensee must ensure that each of its Multi-tier Tariffs complies with the Charge Restriction for all possible divisions of consumption between the different months within the 28AD Charge Restriction Period.

Scope of condition 28AD

- 28AD.4 This condition 28AD does not apply in relation to:
- (a) a Domestic Customer in respect of any periods of time during which that Domestic Customer benefits from the requirements of condition 28A; or
 - (b) a Tariff chosen by a Domestic Customer in respect of which the Authority has issued a direction to the licensee under paragraph 28AD.24 to the effect that this condition 28AD does not apply to that Tariff by reason of section 3(2)(b) of the Act

Determination of Relevant Maximum Charge

- 28AD.5 For each Payment Method (denoted p), 28AD Charge Restriction Period of length t months (denoted j), and for each of the 14 Charge Restriction Regions (denoted i), the Relevant Maximum Charge for a given level of consumption x shall be determined by reference to the Benchmark Maximum Charges applicable during a 28AD Charge Restriction Period at two Benchmark Annual Consumption Levels denoted below as nil and m , as follows:

$$ChargeMax_{i,j,p}(x) =$$

$$\left[ChargeMax_{i,j,p}(nil) \times \frac{t}{12} \right] + \left[\frac{ChargeMax_{i,j,p}(m) - ChargeMax_{i,j,p}(nil)}{m} \times x \right]$$

ChargeMax(m) and ChargeMax(nil) are defined as described in paragraph 28AD.6.

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:

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

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 <u>28AD</u> Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.10A;
$\underline{CO_{j,k,p}}$ $OC_{j,k,p}$	means the <u>Core</u> 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;

$DRC_{i,j,k,p}$ means the ~~Payment Method Adjustment~~ Debt-Related Cost 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.11;

$SMNCC_{j,k,p}$ means the Smart Metering Net Cost Change Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , calculated in accordance with paragraph 28AD.11A;

$IC_{j,k}$ means the Industry Charge Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , calculated in accordance with paragraph 28AD.11B;

$E_{i,j,k,p}$ 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.14A.

Wholesale Cost Allowance

28AD.7 For the purposes of paragraph 28AD.6 the Wholesale Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , shall be the Direct Fuel Cost Component calculated, subject to paragraphs 28AD.14 and 28AD.15 below, in accordance with the methodology and data sources set out in Annex 2. The value of the Wholesale Cost Allowance at nil consumption will be zero.

Network Cost Allowance

28AD.8 For the purposes of paragraph 28AD.6, 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 , shall be calculated based on the data within the published charging statements of the Network Companies and, subject to paragraphs 28AD.14 and 28AD.15 below, in accordance with the methodology and data sources set out in Annex 3.

Policy Cost Allowance

28AD.9 For the purposes of paragraph 28AD.6, the Policy Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , is the cost of the environmental and social schemes set out in Annex 4 and, subject to paragraphs 28AD.14 and 28AD.15 below, calculated in accordance with the methodology and data sources set out in Annex 4.

Core Operating Cost Allowance

28AD.10 For the purposes of paragraph 28AD.6, the Core Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k and for Payment Method p shall be calculated as follows:

$$\underline{\underline{CO_{j,k,p}}} = (\underline{\underline{CO_{0,k,p}}} \times \frac{CPIH_j}{CPIH_0}) + SMNCC_{j,k,p}$$

where:

$\underline{\underline{CO_{0,k,p}}}$ means the Baseline Value for the Core Operating Cost Allowance at Benchmark Annual Consumption Level k and for Payment Method p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A;

$CPIH_j$ means the value of the consumer prices index including owner occupiers' housing costs, series ID: L522 (the 'CPIH Index'), published by the Office for National Statistics. The value used shall be chosen as follows:

- For the First Charge Restriction Period the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a Mid Charge Restriction Period beginning on 1 April of each year and ending on 30 September of the subsequent calendar year the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a Mid Charge Restriction Period beginning on 1 October of each year and ending on 31 March of the subsequent calendar year, the value of $CPIH_j$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 June of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 July of each

year and ending on 30 September of the same calendar year, the value of CPIH_j shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 December of the same calendar year and a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year, the value of CPIH_j shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

$CPIH_0$ is the Initial Value of the CPIH Index for the Core Operating Cost Allowance, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.

~~$SMNCC_{j,k,p}$~~ is the value of the Smart Metering Net Cost Change in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p comprising:

- ~~the Smart Metering Pass Through Net Cost Change, which the Authority will, subject to paragraphs 28AD.14 and 28AD.15 below, determine and publish semi-annually in accordance with paragraph 28AD.18 or otherwise in accordance with paragraph 28AD.20A and in the format set out in Annex 5; and~~
- ~~the Smart Metering Non Pass Through Net Cost Change, which the Authority will publish in the format set out in Annex 5 and:~~
 - ~~following consultation, re-publish in the format set out in Annex 5 following a review of the Smart Metering Non-Pass Through Net Cost Change which the Authority will undertake during the course of 2019, such re-publication to take effect for the 28AD Charge Restriction Period starting on 1 October 2019; and~~
 - ~~otherwise, and subject to paragraphs 28AD.14 and 28AD.15 below, re-publish in the format set out in Annex 5 where it appears to the Authority that it is necessary to do so, such re-publication not to take effect before the first day of the 28AD Charge Restriction Period immediately following the date on which it is published.~~

Adjustment Allowance

28AD.10A For the purposes of 28AD.6 the Adjustment Allowance in ~~28AD~~ 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 a sum of adjustments to the default tariff cap, subject to paragraph 28AD.15, calculated in accordance with the methodology set out in Annex 8.

Payment Method Adjustment Debt-Related Cost Allowance

28AD.11 For the purposes of paragraph 28AD.6, the Payment Method Adjustment Debt-Related Cost Allowance in Charge Restriction Region *i*, 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k* and for Payment Method *p* shall be calculated as follows:

$$\begin{aligned}
 PA_{i,j,k,p} &= \left(PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0} \right) \\
 &+ [PAP_p \times (WC_{j,k,p} + NC_{i,j,k,p} + PC_{j,k} + AA_{i,j,k,p} + OC_{j,k,p})] \\
 DRC_{i,j,k,p} &= \left(AC_{0,k,p} \times \frac{CPIH_j}{CPIH_d} \right) \\
 &+ \frac{[BDC_{p=c} \times (WC_{j,k,p=c} + NC_{i,j,k,p=c} + PC_{j,k} + AA_{i,j,k,p=c} + CO_{j,k,p=c} + SMNCC_{j,k,p=c} + IC_{j,k})]}{+ \frac{[BDC_{p=ppm} \times (WC_{j,k=m,p=ppm} + NC_{i,j,k=m,p=ppm} + PC_{j,k=m} + AA_{i,j,k=m,p=ppm} + CO_{j,k=m,p=ppm} + SMNCC_{j,k=m,p=ppm} + IC_{j,k=m})]}{+ \left[\left(WCC_p \times \frac{CoC_j}{CoC_0} \right) \times (WC_{j,k,p} + NC_{i,j,k,p} + PC_{j,k} + AA_{i,j,k,p} + CO_{j,k,p} + SMNCC_{j,k,p} + IC_{j,k}) \right]}}
 \end{aligned}$$

where:

k=m means Benchmark Annual Consumption Level *m* as defined in 28AD.5.

p=c means Payment Methods Standard Credit and Other Payment Method.

p=ppm means Payment Method Prepayment.

*PAAC*_{0,p} *AC*_{0,k,p} means the Baseline Value for the Payment Method Adjustment Additional Cost Debt-Related Administrative Cost at Benchmark Annual Consumption Level *k*, for Payment Method *p*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.

*PAP*_p *BDC*_{p=c} means the Baseline Value for the Payment Method Adjustment Percentage Debt-Related Bad Debt Cost for Payment Method *p* where *p equals to c* denoting Payment Methods Standard Credit and Other Payment Method, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.

<u>$BDC_{p=ppm}$</u>	<u>means the Baseline Value for the Debt-Related Bad Debt Cost, for Payment Method p where p equals to ppm denoting Payment Method Prepayment, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.</u>
<u>WCC_p</u>	<u>means the Baseline Value for the Debt-Related Working Capital Cost, for Payment Method p, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.</u>
$CPIH_j$	has the meaning given to in paragraph 28AD.10.
<u>$CPIH_{0d}$</u>	<u>has the meaning given to in paragraph 28AD.10 is the Initial Value of the CPIH Index for the Debt-Related Cost Allowance, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.</u>
<u>CoC_j</u>	<u>means the Cost of Capital in 28AD Charge Restriction Period j, as used in the calculation of the Earnings Before Interest and Tax Margin Percentage.</u>
<u>CoC_0</u>	<u>is the Initial Value of the Cost of Capital for the 28AD Charge Restriction Period, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A.</u>

Smart Metering Net Cost Change Allowance

28AD.11A For the purposes of paragraph 28AD.6, the Smart Metering Net Cost Change Allowance in 28AD Charge Restriction period j , at Benchmark Annual Consumption Level k , for Payment Method p is the value of the Non-Pass Through Net Cost Change Allowance, which the Authority will publish in the format set out in Annex 5; and, subject to paragraphs 28AD.14 and 28AD.15 below, re-publish in the format set out in Annex 5 where it appears to the Authority that it is necessary to do so, such re-publication not to take effect before the first day of the 28AD Charge Restriction Period immediately following the date on which it is published.

Industry Charge Allowance

28AD.11B For the purposes of paragraph 28AD.6, the Industry Charge Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k is the sum of pass-through industry charges set out in Annex 5 and, subject to paragraphs 28AD.14 and 28AD.15, determined and published semi-annually in accordance with paragraph 28AD.18 or otherwise in accordance with paragraph 28AD.20A and with the methodology and data sources set out in Annex 5.

Earnings Before Interest and Tax Allowance

28AD.12 For the purposes of paragraph 28AD.6, 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 , shall be calculated as follows:

$$E_{i,j,k,p} = \text{EBIT Fixed Component}_j + ((\text{EBIT Percentage}_j \times (WC_{i,j,k,p} + NC_{i,j,k,p} + PC_{i,j,k,p} + AA_{i,j,k,p} + \cancel{OC_{i,j,k,p}} + \cancel{PA_{i,j,k,p}} + CO_{j,k,p} + DRC_{i,j,k,p} + SMNCC_{j,k,p} + IC_{j,k,p}))$$

where:

EBIT Fixed Component means the Baseline Value for the Earnings Before Interest and Tax Margin Fixed Component, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

EBIT Percentage means the Baseline Value for the Earnings Before Interest and Tax Margin Percentage, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

Headroom

28AD.13 For the purposes of paragraph 28AD.6, the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , shall be calculated as follows:

$$H_{i,j,k,p} = HAP \times (WC_{j,k,p} + PC_{j,k} + AA_{i,j,k,p} + \cancel{OC_{i,j,k,p}} + \cancel{PA_{i,j,k,p}} + CO_{j,k,p} + DRC_{i,j,k,p} + SMNCC_{j,k,p} + IC_{j,k} + E_{i,j,k,p})$$

where:

HAP means the Baseline Value for the Headroom Allowance Percentage as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

~~*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

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.

Data sources

28AD.14 If the external data sources referred to in Annexes 2, 3, 4 or 5 are no longer available, the Authority may replace the data sources set out in Annexes 2, 3, 4 or 5 (as applicable) with any suitable successor data sources. If the Authority cannot identify a suitable successor data source, it may, following consultation, either replace the data with an alternative data source, or amend the form of the model to reflect the change in data availability.

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, 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, 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 Allowance~~, Industry Charge Allowance, ~~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, Annex 8 or Annex 9 such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

Determination and publication of Benchmark Maximum Charges and other values

28AD.16 No later than 1 January 2019, the Authority will publish by way of a statement in Writing the Baseline Values and the Initial Value of the CPIH Index, calculated in the format specified in Annex 1.

28AD.16A No later than 1 July 2025, the Authority will publish by way of a statement in Writing the Baseline Values, and the Initial Values of the CPIH Index for the Core Operating Cost Allowance and the Debt-Related Cost Allowance, and the Initial Value of the Cost of Capital for the Debt-Related Cost Allowance, calculated in the format specified in Annex 1.

28AD.17 No later than 1 January 2019, the Authority will:

- (a) determine the Benchmark Maximum Charges which shall apply for the First Charge Restriction Period *j* by calculating such values in accordance with paragraph 28AD.6; and
- (b) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

28AD.18 For each Subsequent Charge Restriction Period, subject to paragraphs 28AD.19, 28AD.20 and 28AD.20A, the Authority will, at least 25 working days before the start of a forthcoming 28AD Charge Restriction Period:

- (a) determine the updated Benchmark Maximum Charges which shall apply for any forthcoming 28AD Charge Restriction Period *j* by calculating such values in accordance with paragraph 28AD.6 ;
- (b) in so determining the updated Benchmark Maximum Charges which shall have effect from the first day of any forthcoming 28AD Charge Restriction Period *j*, 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.18(c), provided that any such modification has come into effect by no later than the first date of any forthcoming 28AD Charge Restriction Period *j*; and
- (c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

28AD.19 If the information that is required to calculate one or more of the values referred to at paragraph 28AD.17(a) or paragraph 28AD.18(a) is unavailable at the time of the calculation, the Authority may use an alternative source to set the values to determine the Benchmark Maximum Charges. In that event, the Authority will publish the alternative value(s) it has used to determine the Benchmark Maximum Charges at the same time as publishing the Benchmark Maximum Charges.

28AD.20 If, owing to a technical issue, the Authority is unable to publish the Benchmark Maximum Charges or the values referred to at paragraph 28AD.17(a) or paragraph 28AD.18(a) within the timetable set out in paragraph 28AD.17 or paragraph 28AD.18, it will publish such Benchmark Maximum Charges or values without delay following resolution of the technical issue.

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, 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.

Duration of the Charge Restriction

28AD.21 This condition will come into force on 1 January 2019 and will cease to have effect on a date specified by the Secretary of State.

28AD.22 Not Used

Direction for the purposes of section 3(2)(b) of the Act (Renewable Tariff Exemption)

28AD.23 The licensee may apply to the Authority to request a direction that a particular Tariff complies with section 3(2)(b) of the Act such that this condition 28AD does not apply pursuant to paragraph 28AD.4(b).

28AD.24 The Authority may issue a direction following an application made pursuant to paragraph 28AD.23, where the licensee can provide evidence to the reasonable satisfaction of the Authority that all of the following conditions are met:

- (a) the Domestic Customer has chosen an Evergreen Supply Contract;
- (b) the Tariff relating to that Evergreen Supply Contract supports the production of gas from renewable sources to an extent that is materially greater than that which may otherwise be brought about as a result of subsidies, obligations or other mandatory mechanisms; and
- (c) the cost to the licensee of supplying gas by virtue of the particular Tariff relating to that Evergreen Supply Contract is materially greater than the Relevant Maximum Charge for reasons that are directly attributable to the support that Tariff provides to the production of gas from renewable sources.

28AD.25 The Authority may refuse to issue a direction pursuant to paragraph 28AD.24 where it is not satisfied that the materially greater cost referred to at paragraph 28AD.24(c) reflects an efficient level of the costs associated with licensee's supply of gas by virtue of the particular Tariff.

- 28AD.26 The licensee must comply at all times with the terms of any direction issued pursuant to paragraph 28AD.24.
- 28AD.27 The licensee must ensure that any information provided to the Authority pursuant to paragraph 28AD.23, 28AD.24 and/or 28AD.28 is accurate, and must immediately notify the Authority upon becoming aware that any such information is false and/or misleading.
- 28AD.28 The licensee must give the Authority any information that it reasonably requests about the licensee's compliance with any direction issued pursuant to paragraph 28AD.24 as soon as reasonably practicable after receiving a request.
- 28AD.29 The Authority may at any time revoke any direction issued pursuant to paragraph 28AD.24 where:
- (a) it appears to the Authority that any information provided by the licensee pursuant to paragraph 28AD.24 is inaccurate; and
 - (b) the licensee is unable promptly to provide information which the Authority considers is evidence to its reasonable satisfaction that each of the conditions set out at paragraphs 28AD.24(a)-(c) are met.
- 28AD.30 The Authority may issue a direction pursuant to paragraph 28AD.24 in accordance with guidance issued by the Authority from time to time.

Direction for alternative compliance assessment

- 28AD.31 The licensee may apply to the Authority to request a direction concerning the compliance of a particular Tariff with the Charge Restriction where, due to the structure of the relevant Tariff, the Charges for Supply Activities at certain consumption levels would exceed the Relevant Maximum Charge, but the licensee can provide evidence to the reasonable satisfaction of the Authority that it is unlikely that Relevant 28AD Customers subject to such Tariff will have a consumption level which would cause them to incur Charges for Supply Activities in excess of the Relevant Maximum Charge.
- 28AD.32 If the Authority has issued a direction to the licensee pursuant to paragraph 28AD.31, the licensee must comply with such direction and must determine, at the end of each 28AD Charge Restriction Period, whether any Relevant 28AD Customer has in fact incurred Charges for Supply Activities in excess of the Relevant Maximum Charge. If the licensee determines that this is the case, the licensee must:
- (a) inform the Authority in Writing without delay; and
 - (b) pay a rebate to, or credit the account of, each such Relevant 28AD Customer equal to the difference between the Charges for Supply Activities actually incurred by Relevant 28AD Customers and the Relevant Maximum Charge within 30 days of the end of the relevant 28AD Charge Restriction Period.

Definitions for condition

28AD.33 In this condition:

'Act' means the Domestic Gas and Electricity (Tariff Cap) Act 2018 (as amended from time to time);

'Adjustment Allowance' means a sum of adjustments to the default tariff cap, 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*, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out in Annex 8.

'Baseline Value' means the values as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 ~~or 28AD.16A~~, and in the format set out at Annex 1. These are the values of the Baseline Value for the Core Operating Cost Allowance, the Headroom Allowance Percentage, the Earnings Before Interest and Tax Margin Percentage, the Earnings Before Interest and Tax Margin Fixed Component, ~~the Payment Method Adjustment Additional Cost and Payment Method Adjustment Percentage and the Debt-Related Cost Allowance~~;

'Benchmark Annual Consumption Levels' means the benchmark annual consumption levels nil kWh and *m* kWh, where *m* shall take the following value:

$$m = 12,000 \text{ kWh}$$

'Benchmark Maximum Charge' means one of the benchmark maximum charge values (in pounds sterling and exclusive of value added tax), which are unique to a specific Benchmark Annual Consumption Level, Charge Restriction Region and Payment Method, and are updated ~~on a semi-annual basis~~ by the Authority pursuant to paragraphs 28AD.17 to 28AD.18 or otherwise in accordance with paragraph 28AD.20A;

'Charge Restriction' means the obligation set out in paragraph 28AD.1 ;

'28AD Charge Restriction Period' means a period, between 1 January 2019 and the end date specified by the Secretary of State, either:

- the First Charge Restriction Period;
- the Mid Charge Restriction Periods;
- a Subsequent Charge Restriction Period beginning on 1 January of each year and ending on 31 March of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 June of the same calendar year; or
- a Subsequent Charge Restriction Period beginning on 1 July of each year and ending on 30 September of the same calendar year; or

- a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 December of the same calendar year.

'Charge Restriction Region' means a Distribution Services Area;

'Charges for Supply Activities' has the meaning given to that term in standard condition 22A;

'Core Operating Cost Allowance' means the amount calculated to reflect an efficient level of the costs associated with suppliers' own internal operating costs ~~(including a normal level of profit)~~ in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k* for Payment Method *p* which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.10. For the avoidance of doubt, these costs do not include Debt-Related Costs and Industry Charges, which are set as separate allowances;

'Cost of Capital' means the percentage value of the nominal pre-tax cost of equity in 28AD Charge Restriction Period *j*, as used in the calculation of the Earnings Before Interest and Tax Margin Percentage;

'CPIH Index' has the meaning given to it at paragraph ~~29~~28AD.10;

'28AD Default Fixed Term Contract' means any type or part of a Domestic Supply Contract or any other contractual arrangement which may apply or be deemed to apply to a Domestic Customer, including by virtue of any law or enactment ("other contractual arrangement") which:

- (a) contains any terms and conditions which apply for a fixed term period; and
- (b) comes into effect automatically or at the discretion of the licensee after the expiry or termination of any type or part of a previous Domestic Supply Contract or, where applicable, other contractual arrangement ("previous contract") either:
 - (i) by virtue of the terms and conditions provided for in that previous contract (and, for the purposes of this definition, it is irrelevant whether or not the Domestic Customer originally agreed to any terms and conditions which purported to permit that automatic effect or discretion of the licensee); or
 - (ii) otherwise by the operation of the law or any provision of an enactment;

'Debt-Related Administrative Costs' means the amount calculated to reflect an efficient level of debt-related administrative costs of a notional supplier at Benchmark Annual Consumption Level *k*, for Payment Method *p*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A and in the format set out in Annex 1;

'Debt-Related Bad Debt Costs' means the percentage amount calculated to reflect an efficient level of bad debt costs of a notional supplier for Payment Method *p*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A and in the format set out in Annex 1;

'Debt-Related Cost Allowance' means the amount calculated to reflect an efficient level of the debt-related costs of a notional supplier in Charge Restriction Region i , 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.11;

'Debt-Related Working Capital Costs' means the percentage amount calculated to reflect an efficient level of debt-related working capital costs of a notional supplier for Payment Method p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16A and in the format set out in Annex 1;

'Direct Cost Fuel Component' means the component of the Wholesale Cost Allowance that is calculated to reflect the cost of wholesale gas purchases in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for payment method p , and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out in Annex 2;

'Earnings Before Interest and Tax Allowance' means the amount to reflect a return on capital, calculated by the sum of

- a) the figure arrived at by applying the Earnings Before Interest and Tax Margin Percentage by the sum of the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Adjustment Allowance, the Core Operating Cost Allowance, ~~and the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance and Industry Charge Allowance in Charge Restriction Region i , 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p ; and
 - b) the Earnings Before Interest and Tax Fixed Component,
- which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.12 ~~28AD.13~~;

'Earnings Before Interest and Tax Fixed Component' means the amount, expressed as a value as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out in Annex 1, in order to calculate part of the Earnings Before Interest and Tax Allowance;

'Earnings Before Interest and Tax Margin Percentage' means the value, expressed as a percentage as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out in Annex 1, by which the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Adjustment Allowance, the Core Operating Cost Allowance, ~~and the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance and the Industry Charge Allowance are to be multiplied in order to calculate part of the Earnings Before Interest and Tax Allowance.

'Distribution Services Area' has the meaning given in and is to be interpreted in accordance with standard condition 2 (Application of Section C ('Distribution Services Obligations')) of the distribution licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989;

'First Charge Restriction Period' means the period beginning on 1 January 2019 and ending on 31 March 2019;

'Headroom Allowance' means the amount which is additional to the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Core Operating Cost Allowance, ~~the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance, the Industry Charge Allowance and 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*, which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.13;

'Headroom Allowance Percentage' means the value, expressed as a percentage as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out in Annex 1, by which the Wholesale Cost Allowance, the Policy Cost Allowance, the Core Operating Cost Allowance, ~~the Payment Method Adjustment~~ the Debt-Related Cost Allowance, the Smart Metering Net Cost Change Allowance, the Industry Charge Allowance and the Earnings Before Interest and Tax Allowance is to be multiplied in order to calculate the Headroom Allowance;

'Industry Charge Allowance' means:

- (a) an amount calculated to reflect the costs (if any) that the licensee is required to pay by way of charging statements for service charges to Smart DCC Ltd in accordance with condition 19 of the Smart Meter Communication Licence;
- (b) an amount calculated to reflect the costs (if any) that the licensee is required to pay to meet the capital costs and reasonably incurred costs of Smart Metering Communications Body Limited (trading as Smart Energy GB), being the body corporate carrying out the role of consumer engagement in relation to Smart Metering Systems, in accordance with (as applicable) standard condition 39.24 or 39A.36 of the Gas Supply Licence;
- (c) an amount calculated to reflect the costs (if any) that the shipper passes on to the supplier to pay for Central Data Service Provider services;
- (d) an amount calculated to reflect the costs (if any) that the licensee is required to pay by way of charging statements for service charges to the Retail Energy Code Company (RECCo), in accordance with standard condition 11 of the Gas Supply Licence.

in each case adjusted in the manner set out in Annex 5;

'Initial Value of the CPIH Index' means the initial value of the consumer prices index including owner occupiers' housing costs, series ID: L522, as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 ~~or 28AD.16A~~, and in the format set out at Annex 1;

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

'Mid Charge Restriction Periods' means the six-month periods beginning on 1 April 2019 and ending on 30 September 2022;

'Multi-tier Metering Arrangement' means using a Gas Meter for the purpose of a Tariff whereby a Domestic Customer is charged on the basis of a Unit Rate which varies according to the Domestic Customer's gas consumption over a defined period of time;

'Multi-tier Tariff' means a Tariff whereby a Domestic Customer incurs Charges for Supply Activities on the basis of a Multi-tier Metering Arrangement;

'Network Company' means any person holding a licence granted under section 7 of the Gas Act 1986;

'Network Cost Allowance' means the amount calculated to reflect the costs associated with transmission and distribution charges in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for payment method p , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 3;

'Other Payment Method' means any Payment Method that is not Standard Credit or Prepayment;

'Payment Method' means:

- (a) in relation to any Relevant 28AD Customer that is not a Relevant 28AD Warm Home Discount Customer, the method by which that Relevant 28AD Customer pays for Charges for Supply Activities, being either Standard Credit, Prepayment or Other Payment Method; or
- (b) in relation to a Relevant 28AD Warm Home Discount Customer, Other Payment Method;

~~**'Payment Method Adjustment'** means the amount calculated to reflect any additional costs associated with the Payment Method p , in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.11;~~

~~**'Payment Method Adjustment Additional Cost'** means the amount of additional administrative costs allocated to each Payment Method p , as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out in Annex 1;~~

~~'Payment Method Adjustment Percentage'~~ means the amount of additional bad debt and working capital costs allocated to the Payment Method p , as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out in Annex 1;

'Policy Cost Allowance' means the amount calculated to reflect the costs associated with gas suppliers' environmental and social obligations in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 4;

'Prepayment' means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Metering System running in Prepayment Mode.

'Relevant 28AD Customer' means a Domestic Customer supplied by virtue of the Gas Supply Licence held by the licensee and which is subject to an Evergreen Supply Contract, a Deemed Contract or a 28AD Default Fixed Term Contract;

'Relevant 28AD Warm Home Discount Customer' means a Relevant 28AD Customer with a payment method of Standard Credit or Other Payment Method, excluding Prepayment which falls into at least one of the categories listed at Annex 7 to this condition 28AD;

'Relevant Maximum Charge' means for each Relevant 28AD Customer the maximum charge amount (in pounds sterling, excluding value added tax) for any consumption level, calculated in accordance with paragraph 28AD.5;

'Smart Metering Net Cost Change Allowance' means the value of the Smart Metering Non-Pass-Through Net Cost Change Allowance calculated in accordance with the methodology set out at Annex 5, for the periods and within the timeframes specified in this condition 28AD, which is used to update the level of the Core Operating Cost Allowance and which is comprised of the Smart Metering Pass-Through Net Cost Changes and the Smart Metering Non-Pass-Through Net Cost Changes;

'Smart Metering Non-Pass Through Net Cost Change Allowance' means the amount that the licensee is required to pay in connection with a Smart Metering System as set out in Annex 5 and which are not otherwise Smart Metering Pass-Through Net Cost Changes. For the avoidance of doubt, these costs are distinct from the Smart Metering Pass-Through costs which are now included in the Industry Charge Allowance;

~~'Smart Metering Pass-Through Net Cost Change'~~ means:-

- ~~(a) an amount calculated to reflect the costs (if any) that the licensee is required to pay by way of charging statements for service charges to Smart DCC Ltd in accordance with condition 19 of the Smart Meter Communication Licence;~~
- ~~(b) an amount calculated to reflect the costs (if any) that the licensee is required to pay to meet the capital costs and reasonably incurred costs of Smart Metering Communications Body Limited (trading as Smart Energy GB), being the body corporate carrying out the~~

~~role of consumer engagement in relation to Smart Metering Systems, in accordance with (as applicable) condition 39.24 or 39A.36; and~~

~~(c) an amount calculated to reflect the costs (if any) that the licensee is required to pay in connection with the administration of the Smart Metering Installation Code of Practices, such administration being required pursuant to conditions 35 and 36,~~

~~in each case adjusted in the manner set out in Annex 5.~~

'Standard Credit' means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities, where gas is not supplied through a Prepayment Meter, and such payment is not drawn automatically from a Domestic Customer's bank account by reason of a direct debit authorisation or otherwise;

'Subsequent Charge Restriction Period' means any 28AD Charge Restriction Period which is not the First Charge Restriction Period nor a Mid Charge Restriction Period;

'Tariff' means a Tariff in respect of any Domestic Supply Contract or Deemed Contract with a Relevant 28AD Customer;

'Wholesale Cost Allowance' means the amount calculated to reflect the cost of wholesale gas in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for payment method p , the component of which is the Direct Fuel Cost Component, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 2.

Annex 1 – Format for publishing Baseline Values and Initial Value of the CPIH Index

Baseline Values

Core Operating Cost Allowance

Payment Method p	Benchmark consumption per annum, k – Nil kWh	Benchmark consumption per annum, k – m (12,000 kWh)
$\Theta C_{\theta,k}$ Standard Credit		
Prepayment		
Other Payment Method		

Headroom Allowance Percentage

HAP	
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Earnings Before Interest and Tax Margin Allowance

EBIT Fixed Component	
EBIT Percentage	

~~Payment Method Adjustment Percentage & Payment Method Adjustment Additional Cost~~

Payment Method p	$-PAP_p$	$PAAC_{\theta,p}$
Standard Credit		
Prepayment		
Other Payment Method		

Debt-Related Cost Allowance

	Payment Method p	Benchmark consumption per annum, k – Nil kWh	Benchmark consumption per annum, k – m (12,000 kWh)

<u>Debt-Related Administrative Cost (AC)</u>	<u>Standard Credit</u>		
	<u>Prepayment</u>		
	<u>Other Payment Method</u>		
<u>Debt-Related Bad Debt Cost (BDC)</u>	<u>Standard Credit</u>		
	<u>Prepayment</u>		
	<u>Other Payment Method</u>		
<u>Debt-Related Working Capital Cost (WCC)</u>	<u>Standard Credit</u>		
	<u>Prepayment</u>		
	<u>Other Payment Method</u>		

Initial Values

Initial Value of the Cost of Capital

<u>CoC₀</u>	
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Initial Value of the CPIH Index for the Core Operating Cost Allowance

<u>CPIH₀</u>	
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Initial Value of the CPIH Index for the Debt-Related Cost Allowance

<u>CPIH_d</u>	
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Annex 2 – Methodology for determining the Wholesale Cost Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 3 – Methodology for determining the Network Cost Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 4 – Methodology for determining the Policy Cost Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 5 – Methodology for determining the Smart Metering Net Cost Change and Industry Charge Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit

Region, <i>i</i>	Benchmark consumption per annum, <i>k</i> – Nil kWh	Benchmark consumption per annum, <i>k</i> – <i>m</i> (12,000 kWh)
North West		
Northern		
Yorkshire		
Northern Scotland		
Southern		
Southern Scotland		
N Wales and Mersey		
London		
South East		
Eastern		
East Midlands		
Midlands		
Southern Western		
South Wales		

Prepayment

Region, <i>i</i>	Benchmark consumption per annum, <i>k</i> – Nil kWh	Benchmark consumption per annum, <i>k</i> – <i>m</i> (12,000 kWh)
North West		
Northern		
Yorkshire		
Northern Scotland		
Southern		
Southern Scotland		
N Wales and Mersey		
London		
South East		
Eastern		

Other Payment Method

Region, <i>i</i>	<u>Benchmark</u> <u>consumption per</u> <u>annum, $k -$</u> Nil kWh	<u>Benchmark</u> <u>consumption per</u> <u>annum, $k -$</u> <i>m</i> (12,000 kWh)
North West		
Northern		
Yorkshire		
Northern Scotland		
Southern		
Southern Scotland		
N Wales and Mersey		
London		
South East		
Eastern		
East Midlands		
Midlands		
Southern Western		
South Wales		

Annex 7 - Categories of Relevant 28AD Warm Home Discount Customers

A7.1 The categories referred to in the definition of Relevant 28AD Warm Home Discount Customer are set out at paragraphs A7.2-A7.4 below.

Relevant 28AD Customer Identified in Scheme Year 6

A7.2 Where the Relevant 28AD Customer was Identified in Scheme Year 6, that Relevant 28AD Customer is a Relevant 28AD Warm Home Discount Customer.

Relevant 28AD Customer Identified in Scheme Year 7

A7.3 Where the Relevant 28AD Customer was Identified in Scheme Year 7, that Relevant 28AD Customer is a Relevant 28AD Warm Home Discount Customer.

Relevant 28AD Customer Identified in Scheme Year 8

A7.4 Where the Relevant 28AD Customer was Identified in Scheme Year 8, that Relevant 28AD Customer is a Relevant 28AD Warm Home Discount Customer.

Definitions for Annex 7

A7.5 In this Annex 7:

"Identified" means

- (a) In respect of Scheme Year 8, either:
 - (i) the licensee has received a notice under regulation 6(1) of the Regulations which specifies the Relevant 28AD Customer;
 - (ii) the licensee has determined that the Relevant 28AD Customer is to receive the prescribed rebate (as defined in the Regulations) pursuant to Chapter 2 of the Regulations; or
 - (iii) the Relevant 28AD Customer has received the prescribed rebate from the licensee (as defined in the Regulations);
- (b) In respect of Scheme Year 6 and Scheme Year 7, where the Relevant 28AD Customer has received the prescribed rebate from the licensee (as defined in the Regulations);

"Regulations" means the Warm Home Discount Regulations 2011 (SI 2011/1033) (as amended from time to time);

"Scheme Year 6" has the meaning given to that term in paragraph 2 of the Regulations, being the period from 23 July 2016 to 31 May 2017;

"Scheme Year 7" has the meaning given to that term in paragraph 2 of the Regulations, being the period from 1 June 2017 to 31 March 2018;

"Scheme Year 8" has the meaning given to that term in paragraph 2 of the Regulations, being the period from 15 August 2018 to 31 March 2019.

Annex 8 – Methodology for Adjustment Allowance

.xlsx file available at <https://www.ofgem.gov.uk/publications-and-updates/decision-potential-impact-covid-19-default-tariff-cap> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

Annex 9 – Methodology for Levelisation Allowance

.xlsx file available at <https://www.ofgem.gov.uk/consultation/changes-prepayment-meter-standing-charges-and-other-debt-costs> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>