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value for all customers*

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Dear Colleague

Revised licence fee cost recovery principles

In September 2008, Ofgem issued a consultation document setting out proposals for revising the licence fee cost recovery principles. Comments were invited on the proposals and we are grateful to those who responded. Details of non-confidential responses can be found on the Ofgem website.

Responses were generally supportive and welcomed the changes proposed to the principles, to accommodate the abolition of energywatch and costs relating to Consumer Direct and the National Consumer Council.

This letter deals with specific comments that were received through responses.

The use of the terminology “appropriate proportion”

Two respondents identified concerns over the use of “appropriate proportion” under paragraph 2.5 in relation to:

- the appropriate proportion of the expenses of the National Consumer Council (NCC), including expenses relating to its establishment;
- the appropriate proportion of the expenses of the Secretary of State which relate to the establishment of the NCC; and
- the appropriate proportion of expenses of the OFT on, or in connection with, the support of Consumer Direct

The use of “appropriate proportion” reflects the wording used in the Consumers, Estate Agents and Redress Act 2007 (CEAR Act 2007). A footnote has been added to the licence fee cost recovery principles document to clarify that appropriate proportion is those costs in respect of the gas and electricity industries as directed by the Secretary of State.

Additionally, one respondent questioned the use of the term “expenses”. The use of “expenses” is consistent with the CEAR Act 2007.

Return to licence fee payers of underspends

One respondent had concerns in relation to revisions to the drafting of the “Year End Flexibility (also known as Teem and Lade)” paragraph. It suggested that the revisions reduced the transparency of the document in respect of the treatment of underspends within year, and underspends at the end of the five-year regime.

The following paragraphs have been amended with the amendments bolded; to make the position on underspends clearer:

“Any underspends (anticipated or unplanned) **within year** are used to offset an overspend in subsequent years without affecting the reducing profile of the licence fee.

Any outstanding underspend **at the end of the five-year regime** would be returned to the licence fee payers”

Definition of electricity customers

One respondent identified that an incorrect SLC had been included in the definition of electricity customers. ‘Incentive Scheme and Associated Information’ is now SLC45. The principles document has been amended accordingly.

Drafting suggestions for the proposed cost recovery principles

Minor drafting suggestions for the proposed licence fee cost recovery principles were proposed by two respondents. Where possible these suggestions have been incorporated.

Yours faithfully,

Paul Heseltine
Associate Director, Finance