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Monitoring trends in suppliers' expected costs

Consultation

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Overview:

To improve transparency around what is driving how much consumers pay for their energy, we publish regular information on trends in suppliers' costs. Historically, this has comprised both analysis of suppliers' realised costs as reported in their financial statements, and estimates of trends in expected costs over the coming year published as part of our supply market indicator (or SMI).

In May 2015, we suspended our monthly SMI publication to carry out a review of our approach. In this document we set out a proposal for a new indicator of suppliers' expected costs, based on that review. While we are committed to providing information on ongoing trends in suppliers' costs, at this stage, we have not decided how the SMI should be replaced. We are keen to collect stakeholders' feedback on what information we should publish on suppliers' costs and how they relate to prices before launching any replacement indicator.

Context

Our market monitoring and consumer research form a crucial part of our role as the regulator of the gas and electricity markets in Great Britain (GB). They provide insight into developments on the demand and supply side of the retail markets; inform how we develop new policy; and help us to assess the impact of existing regulation. Our monitoring publications serve as an authoritative source of information on different aspects of the energy markets, helping to build trust and confidence among consumers and investors (one of the strategic outputs that we aim to deliver). They help to track the contribution of the markets – including the way in which we regulate them – in achieving the outcomes for consumers set out in our strategy.[1]

One area that we prioritise in our monitoring work is tracking the different costs that make up consumers' energy bills. Trends in energy bills are a matter of considerable interest to stakeholders, and lower bills are one of the five consumer outcomes that we describe in our strategy.

The CMA's recently-concluded investigation has confirmed how important it is to provide transparency around trends in suppliers' costs. In its report, the CMA highlights the important role that we have in helping to promote a shared understanding of the factors driving changes in bills, and in particular the relative contribution of wholesale costs, network costs, policy costs and profits.

Associated documents

Supply Market Indicator – Methodology (April 2015)

Retail energy markets in 2015 (September 2015)

Retail energy markets in 2016 (August 2016)

Consolidated segmental statements - Guidelines

[1] Our strategy, 2015

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Executive Summary

Energy prices often move significantly from one year to the next, and although prices have fallen over the past two years, rising bills over the longer term have caused concern for consumers. We believe it is important that stakeholders can understand what is driving these trends, to help improve trust and confidence in the market.

We require the six large vertically-integrated energy companies to publish audited financial information every year (the consolidated segmental statements, or CSS). This information is a reliable guide to trends in suppliers' costs and profits over time and across different segments of the market. We have improved the reporting requirements over time and will continue to do so, including taking forward the CMA's recent recommendations for changes to how suppliers should prepare their statements.

The statements can provide only limited insight into recent movements in the costs facing suppliers because they relate to previous financial years. In order to help stakeholders understand what is behind the latest developments in energy prices, we are also committed to providing information on ongoing trends in suppliers' costs.

In the past, this has been achieved via our regular estimates of large domestic suppliers' expected costs and profit margins provided as part of our supply market indicator (SMI). In May 2015, as part of a wider review of the market information that we collect and publish, we temporarily suspended our monthly SMI publication to carry out a review of our approach. This document is the outcome of that review.

Supplier cost index

We propose to replace the SMI with a new 'supplier cost index' – an index showing trends over time in the expected cost of supplying a domestic customer for the coming year. The index would be used to provide a quarterly commentary on whether suppliers' costs are rising or falling, what is driving these trends, and any developments that are likely to affect costs looking further into the future.

The index would be included alongside the other retail energy market indicators on our website. These include charts showing trends in the prices of different types of domestic tariffs, as well as indicators relating to other aspects of the retail markets such as consumer engagement and market structure.

By providing stakeholders with information about ongoing trends in suppliers' expected costs, the index would help to increase transparency around what is driving recent price changes, as well as offering some insight into the pressures on prices that may be expected in the future. By comparing trends in the index with the price information we already publish, stakeholders would also be able to better understand the nature of the relationship between suppliers' prices and their costs.

We consider that the new index would allow stakeholders to understand what is behind recent price trends, while avoiding some of the challenges associated with a rolling forward-looking estimate of profit margins, which can be difficult to estimate reliably and to interpret. One advantage is that the index does not require rolling estimates of suppliers' revenue or operating costs, which are difficult to forecast. Our experience with the SMI showed that estimating suppliers' expected margins based on current prices, historic operating costs and seasonally normal consumption provides an uncertain guide to realised profits, which can be hard to compare with the information in suppliers' financial statements.

Information on suppliers' realised profits will, however, continue to be a key focus of our market monitoring. As is the case at present, we will provide information on trends in profits and profit margins on our website and as part of our annual assessments of the retail market (see our report on Retail energy markets in 2016). We envisage that, from 2017 onwards, we will enhance our analysis of supplier profits as part of our annual reporting, in line with the CMA's recommendations.

Methodology

The methodology that we propose to use to estimate trends in expected costs is broadly similar to that employed in the SMI. We would collect information on wholesale prices; network charges; and the costs of government obligations. This information would be combined with assumptions about, for example, consumption and customer numbers to estimate the different costs associated with supplying a typical domestic consumer.

There are some key differences, however. First, information from the suppliers' CSS would be used to weight the different elements of costs. For example, we would use this information to estimate how big an effect a given change in wholesale prices would have on the overall cost of supplying an additional domestic customer.

Second, we intend to base our estimate of wholesale costs used in the index on current, rather than historic, wholesale prices. This should provide a truer reflection of the current cost of supplying an additional household, distinct from the profits or losses that a supplier may have made by purchasing energy significantly in advance of any commitment to supply. This change follows a recommendation by the CMA.

Third, we propose to exclude from the cost index those costs that suppliers incur in relation to their own retail operations (for example, the costs of billing, metering and bad debt). Compared to the other categories of costs, these costs are more likely to be fixed, more difficult to forecast and are to a greater extent within suppliers' control. They also vary significantly between suppliers.

Next steps

We are keen to receive feedback on all aspects of the proposal, so as to reach a consensus on the best way of providing transparency around current trends in suppliers' costs. Responses should be sent to marketmonitoring@ofgem.gov.uk. The deadline for comments is 14 September 2016.

1. Introduction

Why monitor suppliers' expected costs?

1.1. Since 2009 we have required the large energy companies to publish historical information on their costs, revenues and profit margins every year in the form of their consolidated segmental statements (CSS). This information helps us to understand how suppliers' profits and costs have varied across time and between different segments of the market. We publish regular analysis of the key trends – most recently in our report on the Retail Energy Markets in 2016 – and the information is also used to produce charts on our website.

1.2. We have made various improvements to the reporting requirements over time, to make the CSS more comparable, reliable and useful. For example, in 2014 we introduced the requirement for the companies to have their statements audited, and to publish the statements within four (rather than six) months of the end of the financial year. We will continue to improve the reporting requirements during the coming months – including taking forward the recommendations of the CMA in its final report.

1.3. The CSS allow us to observe directly the different elements making up the costs that suppliers have incurred and the profits that they have made, and how these have changed over time. Nevertheless, because this information relates to previous financial years, it can provide only limited insight into the most recent developments in the costs facing suppliers, and any changes which are anticipated in the future given, for example, recent policy announcements.

1.4. Information about ongoing trends in costs is of interest to consumers and other stakeholders because it can help to provide transparency around what is behind recent price changes. Furthermore, where it is possible to forecast elements of the charges that suppliers will face in the future (with reference to, for instance, forecast network charges), this can help to offer insight into what pressures on prices may exist going forwards.

1.5. Information on trends in expected costs can also be helpful for building an understanding of the nature of the relationship between suppliers' prices and their costs. In particular, considered alongside other information, the extent to which suppliers' prices are observed to track movements in industry-wide costs can provide some insight into the strength of price competition in the market.

1.6. For these reasons, in addition to the historic data that we require suppliers to publish, we think an important role exists for Ofgem to provide additional reporting to improve transparency around ongoing developments in suppliers' costs.

Question 1.1: Do you agree that Ofgem should provide estimates of ongoing trends in suppliers' costs, in addition to the analysis we publish of realised costs for previous financial years?

Previous reporting on trends in suppliers' expected costs

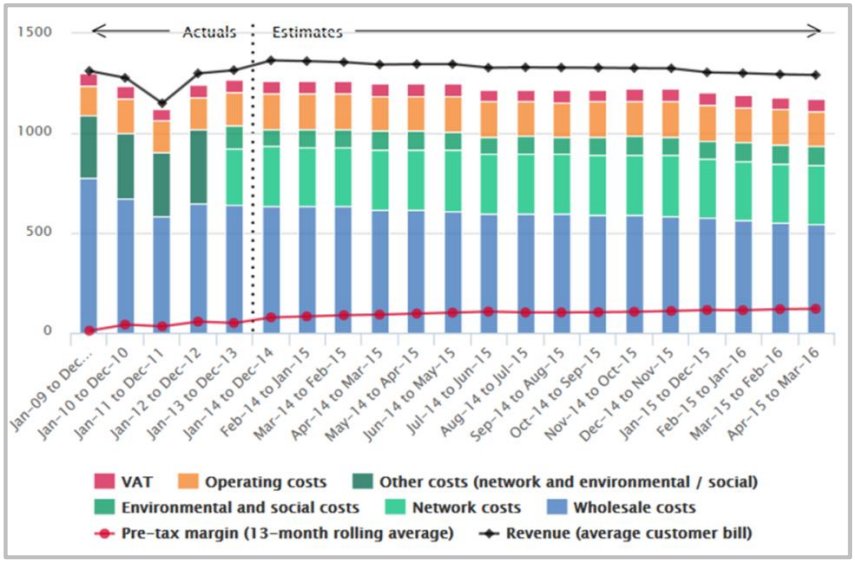
1.7. For a number of years, we have published estimates of suppliers' expected costs. Our publications have gone through various iterations, and have been published under a number of different titles including the 'Quarterly wholesale/retail price reports', the 'Electricity and Gas supply market reports', and – since 2012 – the 'Supply Market Indicator'.

1.8. At the centre of all of these publications has been an estimate of the expected cost of supplying energy to a domestic customer over the coming 12 months, regularly updated throughout the year. We have based these cost estimates on information on current and historic wholesale prices, current and future network charges, and the expected cost of environmental and social schemes. This information has then been combined with various assumptions and simplifications (relating to consumption patterns, for example) in order to derive an estimate of the expected costs faced by a representative large supplier.

1.9. As well as expected costs, the SMI also included an estimate of per-customer revenues, based on suppliers' current prices (and any announced upcoming changes to standard variable tariffs), which was combined with estimates of the proportion of customers on different categories of tariff. A profit margin was also reported, calculated by subtracting expected costs from this revenue estimate.

1.10. The SMI's primary output was a set of charts showing the trend over time in our estimates of expected costs, revenues and profit margins per customer. These monthly estimates were presented alongside information on historic costs, revenues and profit margins, based on CSS data. To give an example, Figure 1.1 shows the primary output of the SMI for a dual fuel bill as published in April 2015.

FIGURE 1.1: **Estimated bill breakdown, as published in SMI for April 2015**



Source: *Ofgem SMI as published April 2015*

Question 1.2: Did you use the SMI? What were its advantages and disadvantages?

Our review

1.11. In May 2015, we suspended the SMI and launched a review of the information that we publish relating to suppliers' expected costs, including the methodology used to estimate suppliers' costs and how the information is presented on our website. As described above, this was part of a broader review of the market information that we collect and publish, to ensure that it is meeting the objectives described in our corporate strategy.

1.12. As part of this review, we have paid particular attention to the findings of the CMA's market investigation, and the package of remedies that the CMA has chosen. The CMA's report includes a number of findings relating to financial reporting and the relationship between suppliers' costs and prices, which we have taken into account.

1.13. Although the SMI has helped to clarify the trends in the costs that suppliers face, we are concerned that in the past there were occasions where our estimates were misinterpreted and misrepresented. This has especially been the case for the forward-looking margin estimate, and how this relates to industry profitability. So another objective of this review has been to consider ways to ensure that the indicator helps improve transparency, rather than generating confusion.

1.14. In our view, there are three main criteria that any replacement for the SMI should meet:

a) Estimating suppliers' expected costs will be necessarily imperfect: our estimates will be inevitably based on simplifications and assumptions. Nevertheless, our reporting should provide a **reliable** guide to ongoing trends in the costs of supplying a typical domestic customer (based on the information available at that point in time).

b) Our approach should be **transparent**, so that as far as is possible stakeholders can understand the assumptions that have been made and the information that has been used. It should be based on publicly-available information where possible.

c) Our indicator should be **easy to understand** and accessible to a wide range of stakeholders. The make-up of suppliers' costs and the way that their prices are determined is complex: to be useful for stakeholders, the indicator should present the relevant information in as straightforward a way as possible and avoid unnecessary detail.

1.15. On the basis of these three criteria, we have put together a proposal for a new supplier cost index. This index, and the rationale behind it, is described in detail in the following chapters.

Question 1.3: Are there additional or alternative criteria that we should take into account in deciding on how to replace the SMI?

2. The supplier cost index

Chapter Summary

In this chapter, we provide an overview of the supplier cost index – the proposed replacement for the SMI, on which we are seeking your views. As well as describing how the index could be presented on our website, we highlight some of the key differences compared to the SMI.

2.1. Following our review, we propose to replace the SMI with a new supplier cost index – an index showing trends over time in the expected cost of supplying a domestic customer with gas and electricity for the coming year.

2.2. We would calculate the index by estimating trends in the different categories of suppliers' expected costs, and then combining to derive an estimate of the overall trend. The methodology behind our proposed index is described in section 3.

2.3. Box 2.1 gives some background to index numbers and how they can be interpreted. Using an index number focuses our reporting on the trends over time in which we are interested for the purpose of understanding trends in prices (are expected costs increasing or decreasing, by how much, and what is driving this?), and helps to simplify comparisons.

BOX 2.1: **What is an index number?**

Index numbers are a way of displaying changes in a variable over time that help to simplify comparisons. A base time period is chosen, and the value of the index at that base is set to 100. At all other periods the value of the index number represents the change in the series from the base period. For example, our index of suppliers' expected costs for the coming 12 months might be set to 100 for 1 January 2015. If suppliers' expected costs increased by 2% in the following three months, then the index number on 1 April 2015 would be 102.

2.4. Note that information on suppliers' realised costs per customer measured in pounds will continue to be available from our analysis of suppliers' CSS. This annual data is also used to provide an estimate of the different costs making up a dual fuel bill, presented in an interactive chart on our website.

Question 2.1: Do you agree with our proposal to use a cost index? What do you see as the advantages and disadvantages of the alternative approach of calculating a £ estimate of costs per customer for a given level of consumption?

Presentation on our website

2.5. The index would be used to provide a regular commentary on recent trends in suppliers' expected costs. Each quarter, we would describe:

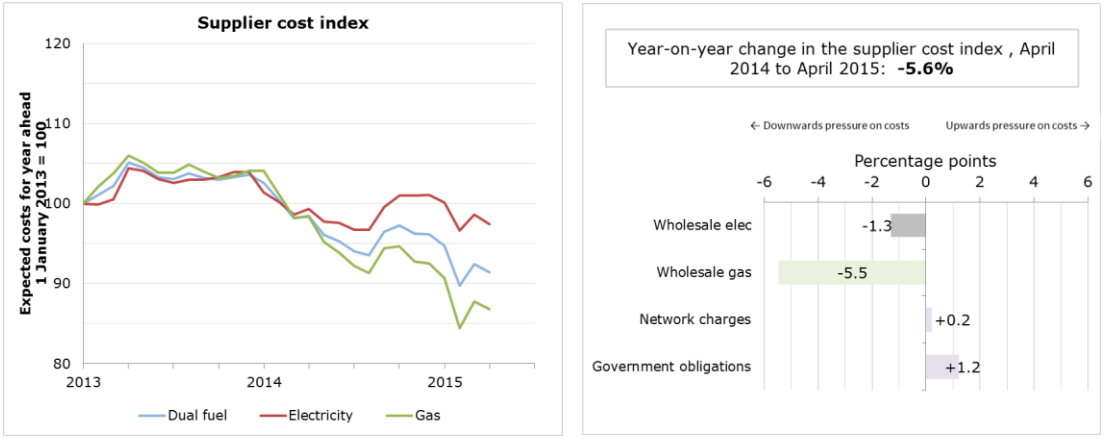
- Whether suppliers' costs are rising or falling, and by how much;

- What is driving these trends, including information on trends in the price of wholesale gas and electricity, as well as changes to network charges for domestic customers and to the obligations suppliers face relating to government policies;

- Any developments that are likely to affect costs looking further into the future (for example, following recent policy announcements).

2.6. Alongside the text, we would include charts to help stakeholders understand the latest trends in costs. For example, this might include a chart showing the trend in the supplier cost index over the previous two years, and charts breaking down what is driving the year-on-year change in the index (illustrative examples of how these charts might look are presented in Figure 2.1 below). These charts would be included alongside the other retail energy market indicators on our website.

FIGURE 2.1: **Illustrative examples of supporting charts to be presented alongside quarterly updates on trends in suppliers' expected costs**



***Note**: charts have been provided for illustrative purposes only. They should not be taken as a guide to estimated trends in suppliers' expected costs in the period to April 2015.*

2.7. We already publish regular information on trends in suppliers' prices as part of our retail energy market indicators. This includes a chart showing trends in the prices of different types of domestic tariffs. We propose to link between these price indicators and the new cost index, to allow stakeholders to put recent price changes in context. To assist comparisons, we could include a description of relative changes in prices and costs as part of our quarterly commentary. We would welcome views on whether we should also create a separate price index using this price information, to be presented directly alongside the cost index.

2.8. Charts and tables could be used to provide greater insight into the trends in the individual categories of costs. For example, these could show trends in the estimated weighted average cost of gas or electricity, or show estimated network charges for the current and future charging years, broken down by category.

2.9. As with the SMI, we propose to provide a supporting document describing the methodology used to calculate the cost index, including details on the data sources and assumptions underpinning the estimate.

2.10. We propose to rebase the index in January each year, bringing forward the date on which the index is set to 100 by one year. The new base period used would be the start of the year two years prior to that January. So, for example, in January 2017 the base would be set to 1 January 2015, and we would continue to present the index relative to this base until January 2018, at which point the base would be brought forward to 1 January 2016. Charts showing the evolution of the index would therefore cover a period of between two and three years.

Question 2.2: How can we present trends in expected costs in a way that is easiest for stakeholders to understand? What, if any, charts should be included on our website?

Question 2.3: Is quarterly an appropriate frequency for our updates?

Question 2.4: What information on trends in suppliers' prices should we provide alongside the cost index?

Question 2.5: What, if any, additional information should we provide about trends in the individual categories of suppliers' costs?

Question 2.6: How should we choose the base period relative to which the index is calculated, and how frequently should we update this?

Profit margins

2.11. By providing stakeholders with information about ongoing trends in suppliers' expected costs, the index would help to increase transparency around what is driving recent price changes, as well as offering some insight into the pressures on prices that may be expected in the future. By comparing trends in the index with the price information we already publish, stakeholders would also be able to better understand the nature of the relationship between suppliers' prices and their costs.

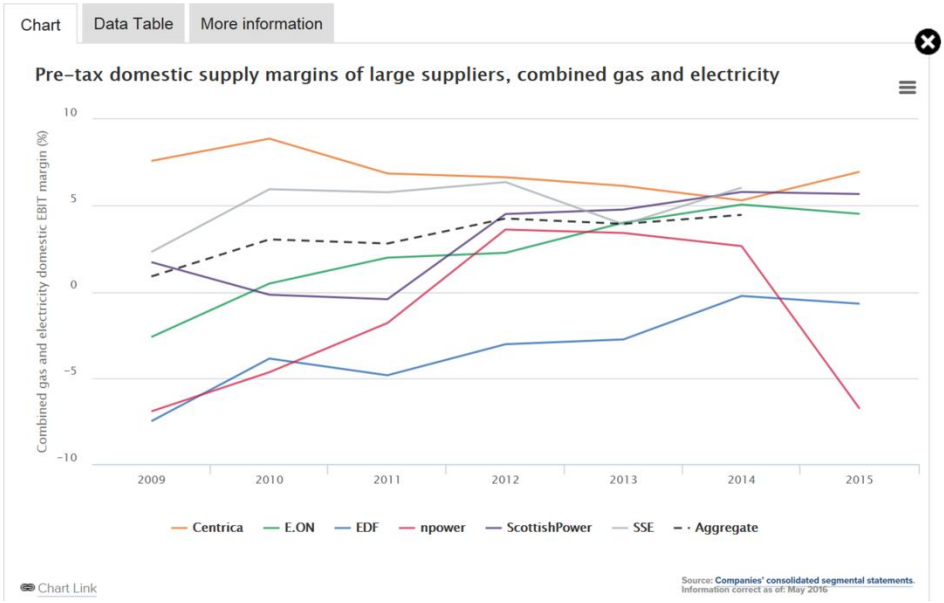
2.12. We consider that the new index would allow stakeholders to understand what is behind recent price trends, while avoiding some of the challenges associated with a rolling forward-looking estimate of profit margins, which can be difficult to interpret and to estimate reliably. Our experience with the SMI showed that estimating suppliers' expected margins would necessarily provide an uncertain guide to industry profits. One reason for this is that actual profit margins will depend heavily on consumption over the coming year, which will in turn depend significantly on the weather. Profits will also depend on suppliers' operating expenditure and their revenues – the latter of which will in turn depend on the prices that they set, and the

number of customers on different types of tariffs. All of these factors will be to some degree within the control of the suppliers themselves, uncertain 12 months in advance, and difficult to forecast.

2.13. We have found that, irrespective of the caveats that are provided, publishing an uncertain estimate of suppliers' margins based on current prices risks generating confusion. This risk is particularly significant given that a rolling estimate of expected margins will generally not be directly comparable to suppliers' realised margins, as reported in the CSS. This is because one is an expectation while the other is based on realised costs, but also because of differences in the period and customer groups covered.

2.14. Information on suppliers' realised profits will, however, continue to be a key focus of our market monitoring. As is the case at present, we will provide information on trends in profits and profit margins on our website and as part of our annual assessments of the retail market (see for example our report on Retail energy markets in 2016). The chart showing trends in suppliers' profit margins is replicated in Figure 2.2 below.

FIGURE 2.2: **Website indicator with supplier margins**



Source: *Retail market indicators*

2.15. Although the details are still be to confirmed, we envisage that from 2017 onwards, the analysis of supplier profits that we carry out on an annual basis will be enhanced, as we take forward the CMA's recommendations.

Question 2.7: Do you agree with our proposal to no longer estimate a rolling expected margin throughout the year? If you disagree, how should expected margins be calculated?

Links with the state of the market report and the prepayment price cap

2.16. In its final report, the CMA has recommended that we publish an annual 'State of the Market' report, which will provide analysis of issues such as the evolution of energy prices and bills over time, the profitability of key players in the market, and trends for the forthcoming year (among other topics).

2.17. The exact format and contents of any such report are still to be decided, although we have described our high level planning assumptions in our remedies implementation strategy. However, we envisage that the supplier cost index will provide a useful input in our annual reporting on the energy markets. It will complement information on historic costs by providing a potential source for analysis of long-term trends in bills and can be used as an input into analysis of the relationship between costs and prices.

2.18. The CMA also describes in its final report its decision to introduce a cap from April 2017 on how much suppliers can charge customers with prepayment meters. Once introduced, the cap is expected to be updated by Ofgem every six months, using a set of cost indices described in the suppliers' licence conditions. These indices are similar in nature to the methodology for estimating trends in suppliers' expected costs proposed in this document.

2.19. In our view, it remains important to report regularly on trends in suppliers' expected costs, despite the overlap with the new role that we will have in publishing regular updates to the level of the cap. We note that legitimate differences between the cost indices used to update the cap and the cost index may arise. For example:

- Because the price cap rules will be mechanistic and set out in advance, they will have to draw on predictable cost information. In contrast, the cost index can reflect the best available source of information at any given point in time (taking into account, for example, the latest policy announcements).

- The CMA currently envisages that the cap will be updated every six months, with a lag to allow suppliers to update their systems and notify customers of any price increases. Such a lag is not required for the cost index.

- The wholesale index used to update the level of the prepayment price cap must take into account potential impacts on wholesale market liquidity, while this is not required for the supplier cost index.

Question 2.8: What do you see as the implications of the prepayment price cap on how the SMI should be replaced? Would publishing the indices used to update the cap every six months be sufficient on its own to provide the necessary transparency around trends in suppliers' expected costs?

3. Detailed methodology

Chapter Summary

This chapter provides greater detail on how the proposed supplier cost index would be calculated. In many respects, the methodology that we propose to use to estimate trends in expected costs is unchanged from that used in the SMI, although there are some key differences.

Which costs would be included in the index?

3.1. We propose to base our cost index on trends in wholesale prices, network charges and the charges to suppliers associated with government programmes. These direct costs will form the bulk of the costs to a supplier of serving an additional household with gas and electricity over the coming 12 months – and so tracking how they move should provide a reasonable guide to trends in suppliers' expected marginal costs.

3.2. We would exclude from the cost index those costs that suppliers incur in relation to their own retail operations (for example, the costs of billing, metering and bad debt). Suppliers will set their price so as to try and cover these costs, which made up approximately 16% of an average dual fuel bill in 2015.[2] However, compared to the other categories of costs, they are more likely to be fixed, are more difficult to forecast, and are to a greater extent within suppliers' control. They also vary significantly between suppliers. As described above, a full analysis of trends in suppliers' costs and profits – including their operating costs – will be carried out on an annual basis using information from suppliers' financial statements.

3.3. We welcome views on this proposal. Possible alternative approaches would include assuming that operating costs remain unchanged from the level observed in the previous financial year when calculating the cost index, or seeking to forecast suppliers' operating costs for the coming year using information collected from suppliers.

Question 3.1: Should the supplier cost index include suppliers' operating costs? If so, how should these be estimated?

Treatment of consumption

3.4. For the purposes of preparing our estimates, we would assume that annual consumption is fixed at medium typical domestic consumption values (TDCVs) – currently 12,500kWh for gas and 3,100kWh for electricity. Using TDCVs will ensure

[2] Based on CSS of large suppliers excluding SSE for financial year 2015. See this page for further details of our estimates of the breakdown of a dual fuel bill.

comparability with price information that we publish, which we also generally calculate for typical consumption. As TDCVs are updated over time, so we would propose to recalculate the index (for both current and historic values) to reflect any new consumption levels.

Question 3.2: Do you agree with our proposal to hold consumption fixed over time at medium TDCVs in estimating trends in expected costs?

Calculating the supplier cost index

3.5. For a given month[3], the proposed cost index would be calculated as follows:

1. First, we estimate the percentage change relative to the base period in wholesale prices, expected network costs and the expected costs of government obligations. We explain how each of these elements of costs are estimated below

2. Second, we apply a weight to each of these percentage changes, according to the estimated share of that category of cost in suppliers' total costs (excluding operating costs).

3. Finally, these weighted percentage changes are combined to derive the percentage change in the overall cost index.

TABLE 3.1: **Proposed approach to calculating the cost index – illustrative example**

Cost	Percentage change since base period (a)	Weight (estimated share of that category in suppliers' overall costs, excluding operating costs) (b)	Weighted percentage change (c) = (a) x (b)
Wholesale gas	-10%	30%	-3.0%
Wholesale electricity	-10%	25%	-2.5%
Network charges	+10%	30%	+3.0%
Government obligations	+10%	15%	+1.5%
		Percentage change in supplier cost index	-1.0%

***Note**: Data is illustrative, and does not reflect actual trends in suppliers' costs or the actual share of different categories in suppliers' overall costs.*

3.6. A worked example is shown in Table 3.1. We propose to take the weights (column b in the table) from the most recent CSS data available. Using this

[3] While our proposal would see us publish quarterly updates on trends in suppliers' expected costs, we would calculate the value of the index at a monthly granularity, to provide greater insight into within-quarter trends in costs.

information has two limitations. First, the information relates to outturn costs rather than expected costs. Second, it will reflect the consumption profile of the customers of the large suppliers in a particular financial year (which will be affected by weather, among other factors). Despite these limitations, the CSS data provides the most reliable publically-available source of information on the breakdown of suppliers' costs.

Question 3.3: Do you agree with our proposal to rely on the most recent CSS to calibrate the relative importance of different elements of suppliers' costs?

Wholesale energy costs

3.7. The costs of buying energy is the largest element of suppliers' costs, accounting for around 43% of a dual fuel bill in 2015.[4]

3.8. Suppliers procure their energy by trading on the gas and electricity wholesale markets. Vertically-integrated suppliers can also procure energy internally from their upstream businesses. We propose to use information on movements in wholesale gas and electricity prices to estimate trends in suppliers' expected wholesale costs for the purposes of calculating the index.

3.9. Because wholesale gas and electricity prices can be volatile, suppliers typically buy much of their energy requirement in advance of delivery to manage their risk – a practice known as hedging. This raises the question of which wholesale price our estimate of trends in expected costs should be based on, both in terms of which products we should consider (eg energy for delivery the next day or the next month) and at which point in time (eg the price of energy at the time of our update or the price of energy six months prior to the update).

3.10. Approaches to hedging change over time and vary from supplier to supplier. Suppliers also tend to use different approaches for domestic customers on different types of tariffs. For example, energy for customers on standard variable tariffs (SVTs) is often bought on a rolling basis over a long period of time, as much as two or three years in advance of delivery. In contrast, suppliers are likely to purchase energy for customers signing up to a fixed-term tariff closer to the time that tariff is launched.

3.11. In the SMI, expected wholesale costs were estimated using a stylised set of assumptions to reflect how a supplier might purchase energy for a customer on a SVT. It was based on the assumption – designed to provide a rough approximation of observed industry practice – that suppliers purchased energy for delivery in the coming year on a rolling basis over the 18 months prior the delivery period.

[4] Based on CSS of large suppliers excluding SSE for financial year 2015. See this page for further details of our estimates of the breakdown of a dual fuel bill.

3.12. The CMA discusses the relationship between wholesale prices and suppliers' costs in detail in its final report. It draws a distinction between forward energy purchases made at the point at which a supplier becomes committed to supply a customer at a given price (eg at the time of launching a fixed-term contract) and forward purchases made before any such commitment exists (eg to reflect anticipated demand for a SVT in a year's time). It sets out its view that a prudent supplier would seek to forward purchase energy to meet its contractual commitments, so as to minimise its exposure to subsequent movements in wholesale prices. However, by purchasing in advance of any commitment to supply at a given price, a supplier risks paying more for wholesale energy than they could expect to recover in a highly competitive retail market.

3.13. As a result, the CMA concludes that "*historically incurred costs are not the relevant basis on which Ofgem could infer trends in the strength of the competitive pressure on retail prices including the SVT over time.*"[5] Instead, competitive prices should reflect the opportunity cost of gas and electricity: the prevailing wholesale prices of energy for future delivery at the point at which a supplier becomes contractually committed to supply a customer at a given price (plus any additional costs incurred closer to the point of delivery, for example in relation to shaping).

3.14. In the light of the CMA's recommendation, we propose to base the wholesale cost element of our cost index on the price of wholesale gas and electricity contracts for delivery in the coming 12 months as observed in the month prior to the date of the update. In doing so, we propose to use the following assumptions:

- Wholesale prices will be based on daily price data taken from ICIS Heren ESGM report for gas and EDEM report for electricity. Prices used would be the mid-points of close-of-day bid-offer ranges for a variety of different forward products. We would use the average of these prices in the month prior to the update.

- For gas, prices for delivery in the next one to six months would be based on the relevant monthly forward products. Prices for gas for delivery seven to 12 months ahead would be based on the prices of the relevant seasonal products.

- For electricity, prices for delivery in the next one to four months would be based on the relevant monthly forward products. Prices for electricity for delivery five to 12 months ahead would be based on the prices of seasonal products where available (ie if that season has not already begun) and the prices of the relevant quarterly products otherwise.

- Prices in each month would be weighted according to historic consumption in that month. For electricity, estimated quarterly consumption would be based on data from government's 'energy trends' publication[6] for the previous calendar year. For

[5] CMA Final report paragraph 18.132
[6] https://www.gov.uk/government/collections/energy-trends

gas, estimated monthly consumption would be based on Local Distribution Zone demand data from National Grid[7] for the same month in the previous calendar year.

- We propose to assume a split of 30% to 70% for peak to baseload volumes for electricity. This is the same as used in the old SMI, and as the CMA proposes to use in calculating the wholesale price index for the purposes of setting its prepayment price cap.

3.15. Calculated on this basis, the cost index would provide a guide to trends in suppliers' expected costs given prevailing wholesale prices, and so the current opportunity cost of supplying gas and electricity to a domestic customer.

3.16. We are interested in stakeholders' views on whether in addition to this we should seek to publish information as part of our quarterly output to help stakeholders understand what trends we might expect in suppliers' out turn wholesale costs, given their current purchasing strategies. Doing so would require us to collect periodic information from suppliers regarding their approach to purchasing energy. It would be important to take into account the commercial sensitivity of such information in determining what we published.

Question 3.4: Do you agree with our proposed approach to estimating trends in wholesale costs?

Question 3.5: What, if any, regular information should we provide on suppliers' purchasing strategies, and what these mean for suppliers' costs?

Network charges

3.17. Suppliers are charged for the costs of building, maintaining and operating the energy network and system infrastructure used to deliver energy to their customers. Because the networks are largely monopoly businesses, we regulate the prices that the network companies are able to charge by controlling the companies' allowed revenues. The network charges paid by suppliers vary depending on where their customers live, what type of electricity meter they have and how much energy they use. In total, these charges accounted for approximately a quarter of a dual fuel bill in 2015.[8]

3.18. Different charges apply for the high voltage/high pressure transmission networks (which take electricity and gas around Great Britain) and the lower voltage/lower pressure distribution networks (which connect customers to the national transmission networks). As well as the charges to suppliers that are

[7] http://www2.nationalgrid.com/uk/industry-information/gas-transmission-operational-data/data-item-explorer/

[8] Based on CSS of the large suppliers excluding SSE, for financial year 2015. See this page for further details of our estimates of the breakdown of a dual fuel bill.

considered here, electricity generators and gas producers will also face charges for using the networks: it is important to note that trends in network charges will therefore also affect suppliers' costs indirectly via their impact on wholesale prices.

3.19. We propose to use the same broad approach to estimating suppliers' expected network costs for our cost index as that used in the old SMI. This approach has been adopted by the CMA to determine how the network component of the prepayment price cap will be set for gas customers, and electricity customers with unrestricted electricity meters.[9] It involves combining publicly-available charging information published by the network companies with assumptions around domestic consumption.

Gas

3.20. Gas distribution charges in each Local Distribution Zone (LDZ) are set annually for the period April to March by the individual network companies. Gas transmission charges are set by National Grid twice a year, in spring and autumn. Indicative notices are provided in advance of the new charges coming into force.

3.21. For both transmission and distribution, the charges comprise a set of pence/kWh commodity charges and pence/kWh/day capacity charges:

a) To estimate total capacity charges per customer in each LDZ, we propose to combine information on total annual domestic consumption per customer with information on regional load factors (published by the gas distribution companies) to produce an estimate of peak daily load. This is then multiplied by capacity charges as reported in the most recent charging statements. For transmission, capacity charges in each LDZ are assumed to equal a simple average of the charges in each exit zone within that area (NTS exit capacity charges), as published by the gas distribution companies.

b) For commodity charges, we multiply total domestic consumption per customer with the published charges (for transmission, the transportation owner and system operator commodity charges published by National Grid and, for distribution, the LDZ system commodity charges published by the gas distribution companies).

3.22. The total annual charge per customer in each region is then calculated, before taking a weighted average across regions, weighting according to the number of domestic gas meter points in each region (based on data from Xoserve).

3.23. Our estimate of expected network costs is forward looking, covering the 12 month period from the time of the update. Where information on charges for future periods is available we will therefore use this to estimate future network charges (for

[9] See paragraphs 14.187 to 14.201 of the CMA's final report. Note that unlike the process used to set the prepayment price cap, rather than estimating £ charges per customer for each electricity distribution network operator (DNO) area, the cost index is based on trends in GB-wide average charges, weighted across gas and electricity distribution areas.

example, with estimated expected network costs in July 2016 being a weighted average of relevant charges for the current 2016-17 charging year, and for the 2017-18 charging year). Where forecasts of future network charges are not available (ie in the period between April and the end of October, when indicative charges for the coming year are published by the distribution companies), these will be assumed to be equal to current charges.

Electricity

3.24. Electricity distribution charges for each Distribution Network Operator (DNO) area are set by the distribution companies 15 months in advance of the charging period (which runs from April to March). They comprise a unit rate paid per kWh, and a fixed daily charge, which we propose to combine with annual consumption and the number of days in the year to derive an annual estimate of distribution charges per customer. Different charges apply to customers on different types of meters: our estimates are based on those for a customer with a standard, unrestricted meter (accounting for around 80% of all domestic electricity customers).

3.25. Electricity transmission charges are set annually by National Grid for the period April to March, with forecasts provided in advance of the final charges being published. They constitute an energy consumption tariff (p/kWh), which we multiply by an estimate of the proportion of annual consumption that takes place during peak times (derived using profile class 1 consumption profile estimates provided by Elexon) to estimate charges per customer. We scale up to account for regional losses in both the distribution and transmission system, estimated using National Grid's transmission losses report and the loss adjustment factors published by the DNOs respectively.

3.26. As with gas, we estimate total electricity network charges per customer by taking a weighted average of the distribution and transmission charges across each DNO. Weights would be based on the number of unrestricted meter points in each area less off-peak related meter points, taken from the DNOs' Common Distribution Charging Methodology models (see this page for further information).[10]

BSUoS

3.27. Balancing Services Use of System (BSUoS) charges cover the cost of services used to balance the electricity system and internal system operator operating costs. To calculate these charges, we use the latest annual £/MWh BSUoS charge data for the current and following year as provided by National Grid. A £ per customer figure is then calculated using total consumption, scaled up for distribution and transmission losses (again, estimated using National Grid's transmission losses report and the loss adjustment factors published by the DNOs respectively). The

[10] The assumption here is that all of those off-peak related meter points will also have an unrestricted meter point (although note that this is not necessarily always the case, as some may have two rate meter points).

BSUoS charge projections are sourced from National Grid's monthly balancing services summary, which includes projections of scheme outturn costs.

Question 3.6: Does our proposed approach accurately reflect the expected annual network charges faced by a supplier for a typical domestic customer?

Question 3.7: Are there additional information sources or alternative assumptions that we could use to improve our estimates?

Question 3.8: Should we also seek to provide information on trends in costs for customers with non-standard electricity meters?

Charges associated with government programmes

3.28. Charges to suppliers for government programmes made up about 7% of a dual fuel bill in 2015.[11] These charges fund schemes to support renewable generation, to support energy efficiency, and to help vulnerable customers. In the future, they will also include charges to ensure security of supply via capacity market payments.

3.29. It is important to note that the direct charges to suppliers to support government programmes do not reflect the totality of the impact of government policy on suppliers' costs or customers' bills. For example, government policies may also affect wholesale prices (if they, for instance, support renewable generation) and suppliers' operating costs (for example both costs and cost savings from the smart meter rollout). Policies such as the installation of energy efficiency measures may also influence levels of consumption, again with potentially significant implications for customers' bills.

3.30. Our proposed approach to estimating the forward-looking costs associated with government obligations varies from one scheme to the next. It is in all cases based on publically-available information on either suppliers' obligations under the scheme, or estimates of the overall scheme cost (often from published impact assessments). In what follows, we provide further details of the main programmes which currently impact upon the costs of large and medium-sized suppliers[12], and how we propose to estimate trends in the expected costs to suppliers of charges associated with the schemes for the coming 12 months.

3.31. The nature of government programmes evolves over time, and a number of suppliers' obligations are currently undergoing changes. Given this, we are committed to regularly reviewing our approach to estimating policy costs, ensuring that our methodology draws on the best information available at any given point in time. Therefore, while what we describe below is our current preferred approach to

[11] Based on CSS of large suppliers excluding SSE for financial year 2015. This excludes the impact of funding the warm home discount.
[12] Note that smaller suppliers are exempted from some of these schemes.

estimating the costs of the different programmes, our approach for specific schemes may change from one update to the next. In the event of such changes, our methodology note would be updated accordingly.

Renewables Obligation (RO)

3.32. The RO supports large-scale renewable electricity projects in the UK. It places an obligation on UK electricity suppliers to source an increasing proportion of the electricity they supply from renewable sources. The obligation is set annually by Government. The obligation period runs from 1 April to 31 March and the obligation level is published at least six months prior, by 1 October of the previous year. Renewables Obligation Certificates (ROCs) are issued to operators of accredited renewable generating stations for the eligible renewable electricity they generate. ROCs can be traded between parties.

3.33. Suppliers can meet their annual obligation by presenting ROCs, making a payment into a buy-out fund for each ROC that they do not present or a combination of the two. The 'buy-out' price-per-ROC is set annually by Ofgem. The administration cost of the scheme is recovered from the fund and the remainder is distributed back to suppliers in proportion to the number of ROCs they produced in respect of their individual obligation.

3.34. We propose to estimate the cost of the RO scheme using the final buy-out price as a proxy of the cost of a ROC faced by a supplier[13]. This buy-out price is multiplied by the obligation level, to obtain a £/MWh cost[14]. This is then multiplied by typical electricity consumption to arrive at a £/customer figure.

3.35. Our estimates of suppliers' expected costs relate to the coming 12 months, and so will generally comprise a weighted average of estimated RO costs for the current and subsequent obligation periods. In the period before the following charging year's obligation level is set (ie between April and September), we propose to base our forecast of next year's RO charges on the year-on-year change in the projections for the total costs of the scheme as set out in the supplementary fiscal tables of the Office for Budget Responsibility's (OBR) 'Economic and Fiscal outlook'[15]. In the period after the following year's obligation has been determined but before the buy-out price is set (ie September to February), we propose to use RPI forecasts prepared by the OBR to project the following year's buy-out price.

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[13] Note that this will be an imperfect measure, as ongoing trading of ROCs can mean that the costs incurred by a supplier in obtaining the appropriate number of ROCs may not be equal to the equivalent buy-out payment at the end of the obligation period. Additionally, the proportion of the buy-out fund that a supplier receives will affect their final cost. Nevertheless, comparing the large suppliers' realised RO costs per domestic customer with this approach suggests that using the buy-out price and obligation level provides a reasonable guide to trends in costs associated with the scheme.

[14] DECC has recently consulted on exempting energy intensive industries from the RO and FiT schemes – if this proposal is taken forward, the RO obligation level for domestic customers will be scaled up to reflect the greater part of the obligation that they will take on.

[15] http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2016/

Question 3.9: Do you agree with our proposed approach to estimating the cost to suppliers of the Renewables Obligation scheme? Is there additional or alternative information that we should use to estimate these costs?

Energy Company Obligation (ECO)

3.36. ECO is a government scheme that requires suppliers with more than 250,000 domestic customers to deliver energy efficiency measures. The scheme was launched in January 2013, with ECO running from January 2013 to March 2015. ECO2 is due to end on 31 March 2017. The government has recently launched a consultation on the future of the scheme up to 2022[16].

3.37. Within ECO and ECO2, suppliers are given targets for delivering energy efficiency measures to domestic premises. These include the installation of insulation and heating measures, a proportion of which must be delivered in rural areas or to low income and vulnerable households. The size of a supplier's obligation under the scheme depends on its share of the domestic market.

3.38. We propose to estimate the expected cost of charges associated with the ECO scheme for gas and electricity using information on the total projected scheme cost taken from government impact assessments, divided by the total number of gas and electricity customers in the market. This estimated cost for a single-fuel customer is then doubled to derive a corresponding figure for a dual-fuel customer.

3.39. We note that suppliers have discretion over the timing of when they meet their obligations during the obligation period. However, this will vary from supplier to supplier, and is not something that we seek to reflect in our estimate of the trend in charges associated with the ECO scheme.

Question 3.10: Do you agree with our proposed approach to estimating the expected costs associated with the ECO scheme? Is there additional or alternative information which we should use to estimate these costs?

Question 3.11: What are the pros and cons of using information collected from suppliers on their forecast ECO costs to estimate the expected costs of the programme?

Feed-in Tariffs (FiTs)

3.40. Under the FiT scheme, owners of small-scale renewable and low-carbon electricity generation technologies are eligible to receive payments for the energy that they generate and the electricity that they export back to the grid. To fund the scheme, all licensed electricity suppliers are required to make payments,

16 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531964/ECO_Help_to_Heat_Consultation_Document_for_publication.pdf

proportionate to their share of the electricity supply market. These payments take into account any payments the supplier has made to accredited installations under the scheme.

3.41. As with ECO, to estimate the expected costs of this programme to suppliers, we propose to use the projected costs of the FiT programme as published in the most recent government impact assessment, multiplied by the proportion of domestic consumption in total electricity consumption[17], divided by the total number of electricity customers.

Question 3.12: Do you agree with our proposed approach to estimating the expected costs associated with the FiT scheme? Is there additional or alternative information which we should use to estimate these costs?

Warm Home Discount (WHD)

3.42. The WHD scheme came into effect on 1 April 2011. It requires energy suppliers with over 250,000 customers to provide direct and indirect support to fuel poor customers over a four year period to 31 March 2015. The government recently committed to extending it beyond that to 31 March 2021.

3.43. We propose to estimate the cost of the WHD to customers of participating suppliers by dividing the total anticipated cost of the scheme for each year[18] by the number of those domestic gas and electricity customers, as submitted to Ofgem[19], giving a £/customer figure for a single-fuel customer. We then double this to derive a corresponding figure for a dual-fuel customer.

Question 3.13: Does our proposed methodology accurately reflect the expected costs faced by customers relating to the WHD scheme? Is there additional or alternative information which we should use to estimate these costs?

Contracts for Difference (CFDs)

3.44. CFDs are designed to give greater certainty and stability of revenues to low carbon electricity generators by reducing their exposure to volatile wholesale prices, while protecting consumers from paying for higher support costs when electricity prices are high. The contracts are between generators and the Low Carbon Contracts Company (LCCC). LCCC obtains the monies to make the required payments to CFD

[17] Based on government DUKES data. If government takes forward its proposed exemption of energy-intensive industries from the indirect costs of the FiTs scheme, these costs would be calculated based on domestic electricity consumption as a proportion of total consumption *excluding* energy-intensive industries.

[18] https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/whd_supplier_guidance_sy5_0.pdf

[19] Annual supplier submissions to Ofgem E-Serve indicating customer numbers as of 31st December.

generators via a compulsory levy on electricity suppliers. LCCC pays generators the "difference" when the "reference price" for electricity is lower than the agreed "strike price" set out in the CFD, and receives difference payments from CFD generators when the reference price is higher than the strike price. The reference price is calculated on the basis of the market price.

3.45. Suppliers are required to pay both a daily applicable Interim Levy Rate (ILR) per MWh, as well as quarterly reserve payments to make up the Total Reserve Amount (TRA). The ILR is determined by LCCC by dividing the total expected net payments to generators in a given quarter by the total expected eligible supply[20] in that quarter. As the realised value of the payments to generators and eligible supply may differ to the expected values, suppliers may make under- or over-payments, which are then reconciled via a quarterly process. As supplier payments can be subject to this uncertainty, the TRA is set and used to ensure that 19 times out of 20, LCCC has sufficient resources to make payments to generators.

3.46. We propose to use the ILR to estimate the ongoing costs of the scheme. In particular, in addition to the current quarter's ILR, LCCC prepares forecasts of the ILR for the coming three quarters. These rates can be multiplied by an estimate of individual consumption for each obligation period to provide a £/customer figure of the charges suppliers face in that period. This is then totalled for the following 12 months to derive the total per-customer charge. Estimated consumption in each month can be estimated by pro-rating total annual consumption across the year, using historic information on quarterly electricity consumption taken from government's Energy Trends Statistics[21].

Question 3.14: Does our proposed methodology accurately reflect the expected costs faced by suppliers in meeting the supplier obligation with respect to Contracts for Difference? Is there additional or alternative information which we should use to estimate these costs?

Question 3.15: Do you agree that reserve payments to the TRA should be excluded for the purposes of calculating the cost index?

Capacity market

3.47. The government has established the Capacity Market (CM) as part of its Electricity Market Reform policy. It is intended to ensure that there is sufficient capacity to meet the government's reliability standard, by incentivising investment in generation or demand-side response. This is needed to help secure electricity supplies for the future.

3.48. Under the CM, the capacity needed in a given delivery year (running from 1st October – 30th September) is secured through an auction four years ahead (T-4) and

[20] Eligible supply refers to total electricity supply following the exemption of supply to electricity intensive industries.
[21] https://www.gov.uk/government/statistics/energy-trends-december-2015

another auction one year ahead (T-1) of the delivery year. In the auctions, parties bid the price for which they would be willing to guarantee a given amount of capacity in the event that the system is tight. The first T-4 CM auction was held in December 2014, for delivery in 2018/19. An auction for securing the entire capacity for delivery in 2017/18 – the first year – will be held in January 2017.

3.49. The aggregate payments for each delivery year are determined by the clearing price of the auction multiplied by the agreed capacity. The regulations require electricity suppliers to pay monthly charges to meet the cost of making these payments to capacity providers, subject to a weighting factor outlined in The Electricity Capacity Regulations 2014[22]. The agreements for each auction are published within 8 working days of auction closing by the delivery body, National Grid[23].

3.50. To estimate the expected costs to suppliers of the capacity market scheme, we propose to use the aggregate payment amount for a given delivery year as published by National Grid. We would derive the proportion of these payments falling to domestic customers using an estimate of domestic electricity demand out of total demand in peak demand periods during winter[24], based on National Grid's latest Future Energy Scenarios[25]. We would then calculate a monthly amount by dividing by 12 and adjusted to reflect historic demand in each month, based on the monthly weighting factors published by the settlement body. Finally, we would divide by the total number of domestic customers to derive a monthly £ per customer estimate of the expected costs associated with the programme.

Question 3.16: Does our proposed methodology accurately reflect the expected costs that suppliers will face in meeting the supplier obligation with respect to capacity market payments? Is there additional or alternative information which we should use to estimate these costs?

[22] http://www.legislation.gov.uk/uksi/2014/2043/schedule/1/made
[23] https://www.emrdeliverybody.com/CM/CMDocumentLibrary.aspx
[24] We use the period of 17:30-18:00 on weekdays between November and February – as described in National Grid's Future Energy Scenarios – as a proxy for the use of 16:00-19:00 on the same days as described in the CM regulations.
[25] http://fes.nationalgrid.com/fes-document/

Appendix - Consultation Response and Questions

1.1. We would like to hear from anyone interested in the issues set out in this document. We would especially welcome responses to the specific questions throughout each chapter, and which are replicated below.

1.2. Responses should be received by 14 September 2016 and should be sent to marketmonitoring@ofgem.gov.uk, or by post to

Amar Kadri
Ofgem
9 Millbank
London
SW1P 3GE

1.3. We will publish all responses on our website unless you have marked it confidential. If you want your response to be confidential, you should clearly mark your response to that effect and include the reasons for confidentiality. We will respect this unless we are required to disclose the information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. If you are including any confidential material in your response, please put it in the appendices.

CHAPTER: One

Question 1.1: Do you agree that Ofgem should provide estimates of ongoing trends in suppliers' costs, in addition to the analysis we publish of realised costs for previous financial years?

Question 1.2: Did you use the SMI? What were its advantages and disadvantages?

Question 1.3: Are there additional or alternative criteria that we should take into account in deciding on how to replace the SMI?

CHAPTER: Two

Question 2.1: Do you agree with our proposal to use a cost index? What do you see as the advantages and disadvantages of the alternative approach of calculating a £ estimate of costs per customer for a given level of consumption?

Question 2.2: How can we present trends in expected costs in a way that is easiest for stakeholders to understand? What, if any, charts should be included on our website?

Question 2.3: Is quarterly an appropriate frequency for our updates?

Question 2.4: What information on trends in suppliers' prices should we provide alongside the cost index?

Question 2.5: What, if any, additional information should we provide about trends in the individual categories of suppliers' costs?

Question 2.6: How should we choose the base period relative to which the index is calculated, and how frequently should we update this?

Question 2.7: Do you agree with our proposal to no longer estimate a rolling expected margin throughout the year? If you disagree, how should expected margins be calculated?

Question 2.8: What do you see as the implications of the prepayment price cap on how the SMI should be replaced? Would publishing the indices used to update the cap every six months be sufficient on its own to provide the necessary transparency around trends in suppliers' expected costs?

CHAPTER: Three

Question 3.1: Should the supplier cost index include suppliers' operating costs? If so, how should these be estimated?

Question 3.2: Do you agree with our proposal to hold consumption fixed over time at medium TDCVs in estimating trends in expected costs?

Question 3.3: Do you agree with our proposal to rely on the most recent CSS to calibrate the relative importance of different elements of suppliers' costs?

Question 3.4: Do you agree with our proposed approach to estimating trends in wholesale costs?

Question 3.5: What, if any, regular information should we provide on suppliers' purchasing strategies, and what these mean for suppliers' costs?

Question 3.6: Does our proposed approach accurately reflect the expected annual network charges faced by a supplier for a typical domestic customer?

Question 3.7: Are there additional information sources or alternative assumptions that we could use to improve our estimates?

Question 3.8: Should we also seek to provide information on trends in costs for customers with non-standard electricity meters?

Question 3.9: Do you agree with our proposed approach to estimating the cost to suppliers of the Renewables Obligation scheme? Is there additional or alternative information that we should use to estimate these costs?

Question 3.10: Do you agree with our proposed approach to estimating the expected costs associated with the ECO scheme? Is there additional or alternative information which we should use to estimate these costs?

Question 3.11: What are the pros and cons of using information collected from suppliers on their forecast ECO costs to estimate the expected costs of the programme?

Question 3.12: Do you agree with our proposed approach to estimating the expected costs associated with the FiT scheme? Is there additional or alternative information which we should use to estimate these costs?

Question 3.13: Does our proposed methodology accurately reflect the expected costs faced by customers relating to the WHD scheme? Is there additional or alternative information which we should use to estimate these costs?

Question 3.14: Does our proposed methodology accurately reflect the expected costs faced by suppliers in meeting the supplier obligation with respect to Contracts for Difference? Is there additional or alternative information which we should use to estimate these costs?

Question 3.15: Do you agree that reserve payments to the TRA should be excluded for the purposes of calculating the cost index?

Question 3.16: Does our proposed methodology accurately reflect the expected costs that suppliers will face in meeting the supplier obligation with respect to capacity market payments? Is there additional or alternative information which we should use to estimate these costs?